



NEWSLETTER 03/2017

Topics covered in this newsletter are following:

1. **Audit of Annual Financial Statements** Error! Bookmark not defined.
2. **Our Services** Error! Bookmark not defined.
3. **Application of Standards in Financial Reporting** Error! Bookmark not defined.
4. **Preparation of Transfer Pricing Documentation File** 2

1. Audit of Annual Financial Statements

In accordance with the current regulations in the Republic of Serbia, audit of regular annual financial statements is mandatory for:

- Legal entities classified as large and medium,
- All public companies (as defined by Law on Capital Market) regardless of their size,
- All legal entities (regardless of their size) whose operating income from the preceding business year exceeds EUR 4,400,000 in dinar equivalent, and
- Parent companies (legal entities that have control of one or more legal entities) that prepare consolidated financial statements.

The deadline for signing an engagement letter for audit of financial statements for 2017 is:

- **30 September 2017** (for legal entities whose business year is the same as the calendar year);
- **Three months before end of business year to which the audit is related** (for legal entities whose business year is different from the calendar year).

Classification of legal entities

Legal entities are classified depending on the

- average number of employees,
- operating income, and
- average value of operating assets.

NEWSLETTER 03/2017

Size 1	Criteria 2	From 3	To 4
Micro legal entity	Average number of employees		10
	Operating income		700.000 EUR
	Average value of operating assets		350.000 EUR
Small legal entity	Average number of employees	10	50
	Operating income	700.000 EUR	8.800.000 EUR
	Average value of operating assets	350.000 EUR	4.400.000 EUR
Medium legal entity	Average number of employees	50	250
	Operating income	8.800.000 EUR	35.000.000 EUR
	Average value of operating assets	4.400.000 EUR	17.500.000 EUR
Large legal entity	Average number of employees	250	
	Operating income	35.000.000 EUR	
	Average value of operating assets	17.500.000 EUR	

- Legal entities shall be classified as **micro** entities if they **do not exceed two** criteria listed in column 4 of the table.
- Legal entities shall be classified as **small** and **medium** entities if they **exceed two criteria** listed in column 3 of the table, but **do not exceed two** criteria listed in column 4 of the table.
- Legal entities shall be classified as **large** entities if they **exceed two criteria** listed in column 3 of the table.

For calculation of the amount in the table, official middle exchange rate for Euro of the National Bank of Serbia, that was valid on 31 December, is used.

Newly established legal entities shall be classified on the basis of data from financial statements for the year in which they were established and the number of months in business, and determined data shall be used for that and the following financial year.

In order to help legal entities, the Serbian Business Registers Agency put a free [Calculator for classification of legal entities](#) on its web site.

In accordance with the Law on Accounting, the following legal entities are not being classified each year, but are considered to be **large legal entities**, regardless of above mentioned criteria:

- The National Bank of Serbia (NBS),
- Banks and other financial institutions supervised by the NBS,
- Insurance companies,
- Financial leasing providers,



NEWSLETTER 03/2017

- Voluntary pension funds,
- Companies managing voluntary pension funds,
- Open- and closed-ended investment funds,
- Investment funds' management companies,
- Stock exchanges and broker-dealer companies,
- Factoring companies.

2. Our Services

In addition to the audits and reviews of financial statements and special audits, TPA Serbia offers you expert knowledge in business consultancy. We also wish to point out our engagements in audits of projects implemented by non-government organizations and companies.

Project audits

There are more and more non-government organization and companies in Serbia that are implementing projects financed by domestic and foreign donors. In most cases, donors request that those organizations and companies engage independent auditors who will audit those projects and/or financial statements of those organizations/companies. In this regard, project audit implies that auditor issues an opinion (or, in some cases, factual findings report) stating whether the funds were spent, during project implementation, in accordance with the predetermined donors' rules and requirements.

TPA has extensive knowledge and vast experience in performing project audits financed by domestic and foreign donors, especially by EU donors (i.e. through IPA Funds, EXCHANGE Program, etc.).

Some of our biggest clients in this area are:

- Catholic Relief Services – CRS
- Save the Children
- Forum Ziviler Friedensdienst – ForumZFD
- Danube Competence Center – DCC
- International Rescue Committee – IRC
- Center for research, transparency and responsibility – CRTA
- Sitel SBA d.o.o. Beograd
- .A.S.A. International Environmental Services
- Foundation Fond B92
- Center for Development of Non-Profit Sector – CRNPS
- Philanthropy, the charitable foundation of the Serbian Orthodox Church
- YUROM Center



NEWSLETTER 03/2017

Our other services

Our wide range of services is as follows:

Audit

- [Annual Audit](#)
- [Audit of projects \(of non-government organizations and companies\)](#)
- [Specific Audits and Other Assurance Services](#)
- [Group reporting packages](#)
- [Fraud Investigation & Forensic Audit](#)

Advisory

- [Financial Due Diligence](#)
- [Valuation](#)
- [Merger / Acquisition](#)
- [CFO Consultancy & Interim Management](#)
- [Corporate Finance](#)
- [Financial Restructuring](#)
- [Controlling](#)
- [Organisation & IT](#)
- [Risk Management](#)
- [Subsidy Advisory](#)
- [Corporate Governance and Compliance](#)
- [International Accounting Standards Consultancy](#)

3. Application of Standards in Financial Reporting

In accordance with the provisions of the Law on Accounting, large entities, parent companies (legal entities that have control of one or more legal entities), public companies, or companies that prepare to become public, in accordance with the Law on the Capital Market, shall apply **International Financial Reporting Standards (IFRS)**, whereas small and middle entities shall apply **International Financial Reporting Standard for Small and Medium-Sized Entities (IFRS for SMEs)**.

Micro and other legal entities, regardless of their size, shall apply **Rules on the Manner of Recognition, Valuation, Presentation and Disclosure of positions in the individual financial statements of Micro and Other Legal Persons**.

The law provides the possibility of choice in some cases, as shown in the following table:



NEWSLETTER 03/2017

Subjects	IFRS	IFRS for SMEs	Rules for Micro and Other Legal Persons
Large legal entity	✓	✗	✗
Medium legal entity	✓	✓	✗
Small legal entity	✗	✓	✗
Micro legal entity	✗	✓	✓

Standards must be applied continuously. Thus, should a medium-sized legal entity decide to apply IFRS, it must apply IFRS until it becomes a small legal entity.

4. Preparation of Transfer Pricing Documentation File

In the case that a legal entity had transactions with related parties during the fiscal year, it would be obliged to prepare transfer pricing documentation file, as follows:

- Full report,
- Simplified report.

In order to qualify for preparation of, and submission simplified transfer pricing documentation file to the Tax Authorities, one of two conditions should be fulfilled, as follows:

- Specific related party transaction is regarded to be one-off transaction and does not exceed **RSD 8 million** in total, in a fiscal year (cca. EUR 65,000),
- Total value of all transactions with specific related party during a fiscal year does not exceed **RSD 8 million** (cca. EUR 65,000).

Tax legislation envisages that the transfer pricing documentation file is to be submitted to the Tax Authorities together with the corporate income tax calculation i.e. within **180 days** from the last date of a tax period.

Contents of a Transfer Pricing Documentation File

The transfer pricing analysis should cover the following areas:

- General description of organizational, legal and operational structure of the group,
- General description of business model, business strategy and policies of the group,
- Overview of the legal entity's business,
- Market and industry information in which the legal entity belongs,
- Functional analysis of the legal entity's activities (based on the assessment of functions performed and risks assumed by each party to the transaction, as well as tangible and intangible assets used),
- Economic analysis of the legal entity's activities includes determination of the appropriate transfer pricing



NEWSLETTER 03/2017

method and identification of the benchmarking transfer pricing per type of transaction subject to our analysis.

In determining market prices i.e. in analysis of transfer prices used in transactions between related parties the comparability analysis of the transactions with related parties (the benchmarking analysis) could be prepared by using commercial database Amadeus. Amadeus database contains financial information of about 20 million companies in Europe. The data in the Amadeus database are collected by the Company Bureau van Dijk from various official local sources and are standardized to allow the search of companies and their comparison by number of criteria.

TPA has broad expertise in preparing transfer pricing documentation files and in performing benchmarking analysis via Amadeus database.



NEWSLETTER 03/2017



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