

MAIN ASPECTS RELATING TO ACCOUNTING REGULATIONS

WWW.SPRI.EUSWWW.SAYMA.COM

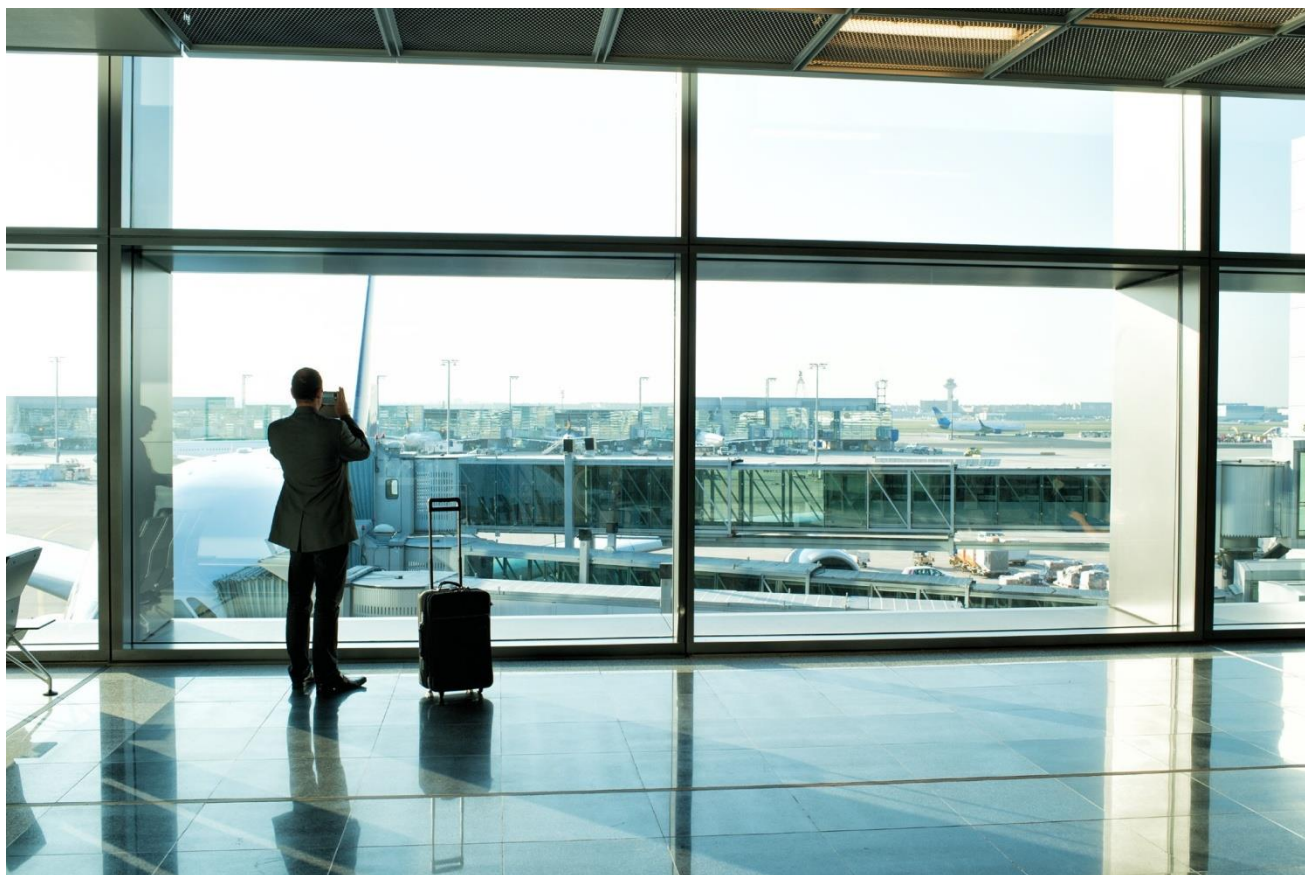


Sayma.

LEGAL FRAMEWORK AND SCOPE OF APPLICATION

The basic regulations governing accounting law in Spain are closely linked to the country's commercial legislation and have been amended in recent years to conform to the accounting regulations of other EU countries and the International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS).





In Spain and the Basque Country there is a **General Chart of Accounts (GCA)** which applies to all companies, and also a specific Chart of Accounts for **small and medium-sized enterprises (SMEs)**, which simplifies the accounting treatment of transactions carried out with respect to the GCA.

The GCA for SMEs may be applied by those companies which meet at least two of the following requirements on the closing date of two consecutive financial year:

- a) The total of the asset items does not exceed 4,000,000 euros.
- b) The net amount of the annual turnover does not exceed 8,000,000 euros.
- c) The average number of workers employed during the year does not exceed 50.

Under no circumstances may companies in any of the following circumstances apply this **GCA for SMEs**:

- a) When they are considered public interest entities.
- b) When they are part of a group of companies that prepares or should prepare consolidated annual accounts.
- c) When their functional currency is not the euro.
- d) When they are financial institutions that raise funds from the public and assume obligations with respect to these funds and entities that assume the management of the foregoing.

Consolidated Annual Accounts (Royal Decree 1159/2010 of September 17)

Every parent company of a group of companies shall be obliged to prepare consolidated annual accounts for the group when, on the closing date of two consecutive financial years, all the companies in the group exceed two of the following limits:

| Total Assets | I. Net Turnover | No. of workers |
|---------------|-----------------|----------------|
| €11.4 million | €22.8 million | 250 |

The rules for preparing consolidated annual accounts shall be mandatory for groups of companies, including subgroups, with a Spanish parent company.

The application of all these accounting standards is mandatory for all companies, whatever their legal form, both individuals and corporate entities (natural persons or legal entities).



ACCOUNTING BOOKS AND REQUIREMENTS

In accordance with the regulations in force in the region, all entrepreneurs must keep an orderly accounting system, appropriate to the activity of their company, which makes it possible to monitor their transactions chronologically and prepare balance sheets and inventories periodically.

This means that companies must keep a journal in which to record the accounting details of their economic and financial transactions. As a consequence of recording these economic and financial transactions, they will obtain ledgers for inventories and balance and subsequently be able to prepare the entity's annual accounts. The frequency of these annual accounts shall be understood as the company's financial year, which shall, as a general rule, be twelve months, usually coinciding with the calendar year, although not necessarily.



All accounting books and records must be kept clearly, regardless of the procedure used, in date order, with no empty spaces, interpolations, crossings out or deletions. Abbreviations whose meaning is not precise under the Law or general commercial practice may not be used.

The accounting shall be done by expressing values **in euros**.

In accordance with the provisions of Article 30 of the Commercial Code, entrepreneurs shall keep books, correspondence, documentation and supporting documents that relate to their business, duly ordered, for **SIX YEARS**, starting from the last entry made in the books, except as established by general or special provisions.

Company directors are required to prepare their annual accounts within a maximum period of **three months** after the end of the financial year.

Trading companies are also obliged to keep a book of minutes, in which all the resolutions adopted by the general and extraordinary meetings and the other constituent bodies of the company will be recorded.

Legalisation of books.

The commercial legislation, in articles 25 to 41 of the Commercial Code, obliges all companies, whether they are companies, individual entrepreneurs or communities of goods, to legalise their registered office (which may not be the same as the address for tax purposes) and the accounting books in the Mercantile Register.

Entrepreneurs must submit the books to be kept by the Mercantile Register from the place where they have their registered office for legalisation, and, obligatorily by telematic means, within a maximum of four months following the closing date of the financial year. **In general, the deadline shall be April 30.**

» Accounting journal

» Inventory and Annual Accounts

- Trial Balance (Inventory) Balance Sheet
- Profit and Loss Account
- Annual Report
- Statement of Changes in Equity (*)
- Cash Flow Statement (*)
- (*) Voluntary for SMEs and Abridged Accounts.

Non-accounting books (minutes book, register of shareholders, register of nominal shares, etc.) must also be legalised by telematic means.



Filing the annual accounts

A company's annual accounts include: the balance sheet, the profit and loss account, the statement of changes in equity, the cash flow statement and the annual report. The statement of changes in equity and the statement of cash flows are voluntary in those cases in which the GCA for SMEs is applied or, in those cases in which, by applying the GCA, the company has opted to present its annual accounts in abridged form. In order to be able to present them in this abridged format, companies must comply with the same limits in terms of the amount of total asset items, annual turnover and average number of employees as for the SMEs mentioned above.

In accordance with the provisions of art. 279 of the revised text of the Law on Capital Companies, the company's directors shall submit the annual accounts for **filing at the Mercantile Register**, and, where appropriate, the consolidated accounts of the group, **within one month** of their approval by the Shareholders' Meeting. The directors shall also present the Management Report, if mandatory, and the auditor's report, when the company is obliged to audit its accounts.

AUDIT OBLIGATIONS

The obligation to audit accounts for companies is established in the aforementioned commercial regulations and in the legislation on auditing accounts, i.e. Law 22/2015 of July 20 on auditing accounts and its implementing regulations.

Firstly, and in accordance with the provisions of article 263 of Legislative Royal Decree 1/2010, of July 2, approving the revised text of the Law on Capital Companies, “the annual accounts and the management report must be audited by the auditors”, the exception to this obligation being “companies which meet at least two of the following requirements on the closing date of two consecutive financial year:

- a) The **total** of the **asset** items does not exceed **two million eight hundred and fifty thousand euros**.
- b) The **net amount of the annual turnover** does not exceed five million seven hundred thousand euros.
- c) The average number of workers employed during the year does not exceed fifty.

Companies will lose this faculty if they fail to meet two of the circumstances referred to in the previous paragraph for two consecutive financial years.

Companies may prepare abridged balance sheets and statements of changes in net assets in the first financial year after their incorporation, transformation or merger, if, at the close of said financial year, they meet at least two of the three circumstances expressed in the previous section.

In companies that do not need to be audited because they do not meet the limits defined in the preceding paragraphs, shareholders that represent at least five per cent of the share capital may apply to the company registrar responsible for the registered office of the company to appoint an auditor, at the expense of the company, to audit the annual accounts for a given financial year, provided that three months have not elapsed since the closing date of that financial year.

In addition to the provisions of the preceding paragraphs, the auditing of accounts is **mandatory** for entities in the cases mentioned below, regardless of their legal nature:

- a) Those that issue securities which can be traded on official secondary securities markets or multilateral trading systems.
- b) Those that issue publicly offered bonds.
- c) Those that habitually engage in financial intermediation and, in any event, credit institutions, investment service companies, companies governing official secondary markets, entities governing multilateral trading systems, the Central Securities Depository for the Register of Securities and Clearing & Settlement of Trades, central counterparties, the Sociedad de Bolsas, investment guarantee funds management companies and other financial institutions, including collective investment institutions, securitisation funds and their managers, registered in the corresponding Registers of the Bank of Spain and the Spanish National Securities Commission.
- d) Those whose corporate purpose is any activity subject to the revised text of the Law on the Management and Supervision of Private Insurance, approved by Royal Legislative Decree 6/2004 of October 29, within the limits established by regulation, as well as pension funds and their managing entities.
- e) Those that, being obliged to prepare annual accounts in accordance with the regulatory framework of financial reporting that applies to them, have received subsidies or public aid during a financial year for a cumulative amount in excess of 600,000 euros. They must audit the annual accounts for that financial year.
- f) Those that, being obliged to prepare annual accounts in accordance with the regulatory framework of financial reporting that applies to them, have entered into agreements with the public sector during a financial year for a cumulative amount in excess of 600,000 euros and this represents more than 50% of their turnover. They must audit the annual accounts for that financial year.

TABLE SUMMARISING THE COMPANY'S COMMERCIAL OBLIGATIONS

| | Period since year end close | Comments |
|--|--|---|
| Preparation of the Annual Accounts | 3 months | The preparation is carried out by the directors. |
| Legalisation of the accounting | 4 months | At the Mercantile Register that presides over the registered office |
| Approval of the annual accounts by the Annual General Meeting | 6 months | Ordinary Shareholders' Meeting |
| Presentation of Corporation Tax | 6 months + 25 days | At the tax authorities in each region |
| Filing of: Annual accounts, certificate from the Ordinary Shareholders' Meeting and, where applicable, audit, etc. | 1 month after the approval of the accounts by the Annual General Meeting | The Register can be publicly accessed for 6 years. Anyone may request a copy of this documentation. |

