# New Challenges in Accounting, Auditing and Taxation – Report on the VII János Bosnyák International Commemorative Conference

**Éva Gulyás – Kíra Martin**
**DOI:** https://doi.org/10.35551/PFQ_2025_1_7

On 14 February 2024, the VII János Bosnyák[1] International Commemorative Conference was held at the Corvinus University of Budapest. The event traditionally provides an opportunity for academics and PhD students from higher education institutions to present the results of their research, to discuss the conclusions in the context of practical experience, and to jointly reflect on the challenges and possible solutions for the problems identified. Following is a summary of the key ideas and messages from a selection of the speakers at the conference.

## Was the transformation of accounting a paradigm shift or an evolutionary process?

The first speaker of the plenary session, *László Péter Lakatos*[2], focused his presentation on the key question of whether the changes in modern accounting thinking and practice, as a result of accelerating economic and technological development, have been a paradigm shift or an evolutionary development. The theoretical framework for the

1 Dr. János Bosnyák, Associate Professor, Deputy Vice Rector for Strategy at Corvinus University of Budapest, member of the University Senate, Director of the Institute of Finance and Accounting, Head of the Department of Financial Accounting, died suddenly at work on 13 February 2012 at the age of 45.
2 Director of the Institute of Accounting and Law at Corvinus University of Budapest.

lecture was provided by the approaches of Thomas Kuhn and Imre Lakatos, who had different interpretations of the nature of scientific change. Following the examination of the theoretical basis for each theory, the lecturer contrasted Kuhn's concept of paradigm shift, according to which scientific revolutions were transformative, as if „we had awakened on another planet", with Lakatos' concept of evolution, according to which science progressed not by the death of old theories but by the birth of new ones. The challenges currently facing the accounting profession potentially signal a paradigm shift. These challenges include the problem of off-balance-sheet assets as illustrated by the significant discrepancy between the market capitalisation and stockholder equity value of leading technology and pharmaceutical companies. For some companies (such as Nvidia or Apple), this ratio was extremely high, suggesting that accounting methods are failing to capture a significant part of the value of the company. Particular attention was paid in the presentation to the potential accounting applications of blockchain technology compared to traditional distributed ledger systems. The decentralised nature of blockchain-based solutions, the immutability of past transactions and the possibility of real-time auditing could fundamentally change accounting practices. Did these technological changes represent evolutionary steps or paradigm shifts?

The integration of sustainability into accounting has broadened the scope of traditional financial reporting, adding a new dimension to the assessment of corporate performance and giving accountants a new and very different task.

The concept of the reporting unit has been transformed and the amount of data has exploded, which have had a major impact on accounting practice, but these can be seen as evolutionary developments rather than paradigm shifts in the traditional sense. Indeed, the basic objectives and principles of accounting have remained valid, but the tools, methods and focus have undergone constant adaptation.

## Trends in international taxation

According to *Gabriella Erdős*[3], the second speaker during the plenary session, legislation in the European Union in international taxation has accelerated significantly. New directives and proposals increasingly link accounting and taxation, which places increasing obligations on auditors. The most important recently adopted directive introduced a system of global minimum taxation (GloBE), but there are also several directive proposals on the Commission's table. Hungary implemented the global minimum taxation directive (2022/2523/EU) before the implementation deadline. The companies concerned had to register by the end of 2024, while the first tax declaration, covering the tax year 2024, is due in the summer of 2026. This also meant that companies had to make decisions regarding the options provided by law (e.g., QDMTT allocation, de minimis test) for 2024, assess the feasibility of introducing deferred taxation, and amend their accounting policies accordingly. The

3 Head of the Law Department at Corvinus University of Budapest

first book entries related to the global minimum tax were already made in 2024, and an advance tax payment obligation could arise as early as 20 November 2025. The audit of the 2024 business year is the first time for auditors to verify whether the company is affected by the global minimum tax and, if so, whether the accounting and reporting system for the new tax type is correct. Hungary has also introduced new incentives that can be chosen instead of the old tax breaks, such as the new refundable R&D allowance – which, according to the legislator, should be presented in the books as investment cash subsidies – or the new profit-related cash grant.

From the auditors' point of view, the most important feature of the global minimum tax is that the tax liability is calculated based on the reporting of the individual companies included in the consolidated financial statements. Although there are adjustments related to the accounting result, these have nothing to do with the traditional tax incentives of the corporate tax law. The effective tax rate must be determined by aggregating the tax liabilities and the adjusted accounting profits (GloBE profits) of all Hungarian group members. Tax liabilities are not affected by the accounting treatment; the amount of tax liabilities recorded as other expenses must simply be added back to the GloBE profit. The major tax liabilities are also specifically listed in the Hungarian law. Still, it may be questionable whether other HIPA-based taxes not mentioned in the law can also be included in the calculation. When calculating GloBE profits, the deferred tax adjustments should be paid special attention to since they may deviate from the accounting rules. For example, a deferred tax expense accrued but not paid within five years must be recaptured. DTL-s shall be measured at the tax rates expected to apply to the period when the asset is realized, or the liability is settled. The GloBE tax liability first applies to the business year 2024. Therefore, an overview of this year is particularly important in terms of both the processes and the specific calculation.

The European Union also plans additional tax information exchanges as part of the 9th amendment to the Directive on International Cooperation in Tax Matters (DAC 9). In addition, other significant amendments are on the agenda, such as the proposal for a transfer pricing directive, changes to VAT reporting obligations (ViDA), tests for passive holding companies (ATAD3), as well as some simplification proposals. The EU tax harmonization has accelerated significantly and is expected to continue, requiring increasingly close cooperation between tax authorities, group members, and auditors.

## Current trends and challenges in auditing in Hungary

According to the third speaker of the plenary session, *Tibor Pál*[4], changes in auditing are continuous and accelerating. Trends are driven by responses to challenges and there is a need to balance opportunities and constraints. The expectation gap is

4 President of the Hungarian Chamber of Auditors.

widening, and substantially different organisational structures are in place at the same time. The impact of economic and technological developments is significant, new technologies are emerging and ownership is becoming more complex. In the current practice in developed countries, auditing follows a set of rules based on globally established standards and applies a methodology framed by expectations and opportunities to assess the credibility and appropriateness of the profile created by companies and included in their published financial reports. Although overall expectations are broadly the same at the level of each country related to companies of different sizes in terms of the outputs of audit opinions, various options exist in the various national economies regarding the companies audited, the professional bodies, the audit firms and the auditors. This is no different in Hungary, where in recent years some of the factors affecting auditing – the characteristics of the domestic firm structure, ownership expectations, the audit threshold, the digital shift, electronic signatures and archiving, the emergence of artificial intelligence, the ESG reporting and audit reporting requirements, the general state of the accounting profession, the status, demographic composition and professional quality of auditors – have generated important questions of principle and practice.

In Hungary, it is particularly important to take professional and regulatory steps to simplify and clarify the rules, which can help those members who are able to comply with the proportionately designed rules to remain in the chamber. The characteristics of the structure of Hungarian companies and the high proportion of small and medium-sized enterprises justify the need to define the required audit tasks in the regulatory framework, taking into account the level of risk in the companies under review and drawing on available international experience. This could be done – with varying chances of a positive outcome – by interpreting the requirements of international auditing standards, by creating new domestic standards, by adapting the international auditing standard for Less Complex Entities (LCE) to the domestic context, or by incorporating into domestic legislation the obligation to carry out audits in accordance with the requirements of non-legally binding audit procedures for companies of a given size that are classified according to the level of risk. In this context, it is also necessary to review and, where necessary, revise the content of the Chamber's regulations in order to ensure the quality of audit work and to make the professional activities of its member auditors much easier by clarifying, simplifying and ensuring transparency.

## Bankruptcy and risk forecasting in the Visegrad 4 countries

On the occasion of the award of a Visegrad Fund grant to the Department of Accounting of the Corvinus University of Budapest – in consortium with Czech, Polish and Slovak universities – for the development of an audit software to support auditors in the region to comply more easily and efficiently with the requirements of ISA 570 (going concern), the conference dedicated a special Audit session to present the partial results of the research. Here, the Hungarian participants of the joint research – *Éva Gulyás, Renáta Szilágyi and Anett Zanócz*[5] – first examined the reliability of 378,241 audit reports covering the last ten years in terms of raising awareness of the going concern principle, looking for a correlation between the publication of such reports and the going concern principle, and examining whether the unclear audit opinions are influenced by the characteristics of the auditors, or by the non-accounting characteristics of the audited companies.

*Csaba Adorján*[6] presented the Altman Z-model using data from two companies. The Z-scores of one company in the two years under consideration show a secure future: 3.573 and 3.724, while the other one clearly indicates bankruptcy: 0.453 and 0.592. In reality, however, both companies are continuing their activities and their operations are uninterrupted. Although the use of bankruptcy prediction models can be useful for different stakeholders, as they can help to identify and manage financial risks, they do not necessarily lead to the right conclusion on their own.

*Błażej Prusak*[7] presented models of bankruptcy prediction research and their effectiveness in the Visegrad countries, comparing them with global trends. In developing bankruptcy prediction methods, he mentioned traditional multivariate discriminant analysis and logit techniques, as well as machine learning and the ensemble approach. Regarding the applicability of bankruptcy prediction models, it was noted that many researchers still use foreign models to assess the bankruptcy risk of domestic firms, which is not always efficient. Research sampling methods included the use of paired sampling, random sampling, and balanced and unbalanced samples. The development of bankruptcy prediction models is dominated by financial ratios and measures derived from financial statements. In some situations, the addition of other measures, such as macroeconomic indicators, firm age, sector of activity, gender diversity of board members and ownership structure, has increased the efficiency of the models. Researchers in the V4 countries have used both traditional and new methods to predict corporate failure, taking into account recent global trends, but many studies are still dominated by the traditional approach. Researchers relatively rarely use market-based variables and structural approaches in bankruptcy forecasting. The differences between the V4 countries are significant and it is therefore recommended to develop separate models for each country.

*Michal Karas*[8] also spoke about risk forecasting possibilities in the Visegrad 4 countries. The going concern principle assumes that the entity will continue to do business for the foreseeable future. Verification of this is particularly important for auditors. However, as auditing is a time and resource consuming process, the researchers aim to provide a publicly available tool to help predict the likelihood of bankruptcy, i.e., a breach of the going concern principle, by analysing financial

5 A Master Lecturer and two PhD students at the Department of Accounting, Corvinus University of Budapest.

6 Assistant Professor at the Department of Accounting, Corvinus University of Budapest.

7 Lecturer at the Technical University of Gdańsk.

8 Lecturers at the Technical University of Brno.

data. This will require the creation of a new model, as existing models based on US specifications (e.g., Altman) do not work effectively with V4 data, and most existing models are generic and lack industry-specific requirements. However, as the capital structure of industries differs significantly, industry-specific effects need to be addressed more thoroughly. Another problem is that the terms used by researchers are not consistent, e.g., bankruptcy, insolvency, financial distress. According to him, bankruptcy occurs when EBIT is lower than interest costs for two consecutive years. This is a reliably measurable and much less stringent condition than bankruptcy, which entails legal action. The models use simple accounting concepts, such as „current assets, current liabilities", without guaranteeing that the definition used by the author of the model is the same as the definition used by the user of the model, i.e., the models do not test the identity of the content of the data used for the analysis or the impact of different accounting rules systems. A new model needs to be developed based on data from the V4 countries, for each industry separately. The use of the Orbis database will ensure comparable data content and a detailed description of the software to be published will be prepared for different national users. The research on which this presentation is based analysed data from 65,000 SMEs from the V4 countries (CZ, HU, PL, SK) between 2012 and 2023. The focus is on data that predict the occurrence of bankruptcy one year in advance. The research used 16 financial indicators which are traditionally used to predict the risk of bankruptcy of SMEs. A binary logistic regression was used (output = probability of bankruptcy), as well as indicators assessed by ISA 570 as a breach of the going concern principle (negative equity, negative operating cash flow, etc.). The preliminary results are for one economic sector – manufacturing (NACE code C). The process of building the model includes univariate testing, multicollinearity checking, stepwise regression and model testing. Microeconomic aspects are also examined, which potentially allows the model to better reflect the situation of SMEs (market concentration and economies of scale). The correct classification rate – i.e., the prediction of the occurrence of actual financial distress – ranges from 86.6% to 93%. The next phase of the research will involve the creation of a web-based tool that will incorporate the model and allow easy use by potential users.

*Jiří Luňáček*[6] discussed the importance of examining the effects of market concentration and economies of scale on bankruptcy risk. The approach is essentially specific to microeconomics, which underpins other disciplines. The failure of firms is an integral part of the functioning of the market and is desirable for the market in certain circumstances. In examining this, market concentration and economies of scale are commonly known approaches. Market concentration is reduced when there are many firms. Lower concentration can also lead to a significant proportion of firms failing. There are a number of models for measuring market concentration, such as the HHI, Hall-Tideman Index, Rosenbluth Index, Hause Index and Entropy Index. The input data is market share, measured by sales data. In the presentation, the author used the Entropy Index, which has a value of 100% in the perfect competition model. Economies of scale imply that the average cost per unit of output decreases as the volume of output increases. In the presentation, sales (TR) and total cost

(TC) were examined for multiproduct firms. The results show that increasing costs indicate decreasing economies of scale. Inactive firms show decreasing economies of scale in all countries, while active firms show increasing economies of scale in Poland and Slovakia. The results are less significant for Hungary and the Czech Republic. The assessment of market concentration shows that Poland is the most competitive and that concentration is decreasing over time, i.e., an improving trend in terms of competition. Based on the effect of economies of scale, bankrupt firms in all countries show decreasing economies of scale, while non-bankrupt firms in Poland and Slovakia show increasing economies of scale.

## Preparing for the Sustainability Report

In the ESG session, *Ákos Veisz*[9] presented a survey conducted by BDO among its clients in 9 countries in the Central and Eastern European region, which assessed companies' attitudes towards sustainability, their knowledge of legal requirements, their awareness, their ESG maturity and the barriers they face. Almost 80% of the companies surveyed considered sustainability to be very or extremely important to their future operations, with the most cited motivating factors for integrating this aspect into corporate decision-making being regulatory requirements, ownership expectations and stakeholder demand for information, in addition to reputation enhancement. Survey respondents identified three barriers they face in preparing this report: complex and time-consuming methodologies, lack of capacity and lack of information on reporting. These were illustrated by the fact that 33% of responding companies did not know that they were covered by the legislation.

*Tünde Szabóné Veres*[10] drew a parallel between the tasks of sustainability reporting and the obligation to prepare transfer pricing documentation. She examined areas where sustainability may have an impact on transfer pricing practices and thus on transfer pricing documentation. The impact may affect the transfer pricing model through possible changes to the business model due to sustainability considerations, the content of transfer pricing records, functional analysis and even the method of determining the transfer price.

*Lilla Kovács and Anett Zanócz*[11] presented the results of their research using qualitative content analysis to investigate the role of sustainability-related indicators in the vesting conditions of share-based payments in Hungary. They found that there is no direct link between sustainability objectives and share-based payments, which are most often based on the development of sales, share price and various profitability indicators. ■

9 Managing Director of BDO Hungary, ESG consultant.
10 Assistant Professor at the Department of Accounting, Corvinus University of Budapest.
11 PhD students at the Department of Accounting, Corvinus University of Budapest.