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GUIDELINE FOR THE DETERMINATION OF THE SIZE CATEGORY OF AN ENTITY

Disclaimer: This is an unofficial translation and provided for reference only



The Guideline is an explanatory document and does not have binding legal effect. The Service will not be responsible to third parties for any type of loss or damage. In the case of discrepancy between the content of this guideline and the legislation, the provisions of the legislation shall prevail.



The aim of this guideline is to describe the process of the determination of the size category of an entity and to showcase relevant examples. The guideline concerns the determination of the size category for entities defined by the Law of Georgia on Accounting, Reporting and Auditing.



DETERMINATION OF THE SIZE CATEGORY

The size category of an entity shall be determined according to three criteria – the total value of assets, the revenue, and the average number of persons employed – **starting from the reporting period of 2016 and in the following periods**, since the Law of Georgia on Accounting, Reporting and Auditing (henceforth – the Law) entered into force in 2016. If at the end of the reporting period of 2016 an entity meets at least two of the three criteria mentioned above, it shall be considered a relevant size category entity* .

The size category of an entity shall be first determined for the reporting period ending on December 31, 2016. If the reporting period of an entity does not coincide with the calendar year, its size category shall be first determined as of the last day of the first reporting period ended after June 24, 2016, while if an entity was founded in the periods following the reporting period ended on December 31, 2016, its size category shall be first determined according to the data of the very first ended reporting period of the foundation.

SIZE CATEGORY CHANGE IN THE FOLLOWING REPORTING PERIODS:

If an entity does not meet at least two of the three criteria provided for determining the size category of an entity by the end of two consecutive periods, the size category of the entity shall be changed. In other words, if by the end of two reporting periods the size category of an entity no longer corresponds with the size category according to which the most recent financial statement was submitted, the size category of the entity shall be changed and the entity shall be obliged to submit the financial statement in accordance with the requirements of the category determined by the data of the most recently ended reporting period. .

The above-mentioned principle does not apply to the entity whose size **increased by two or more categories** compared to the previous reporting period. In such case, the size category of the entity shall be changed in the current reporting period and it shall submit the financial statement in accordance with the requirements of the category determined by the data of the most recently ended reporting period.

* The criteria of the size categories of entities determined by the Law and the requirements established for those categories apply to the consolidated financial statements of the first-, second- and third-category groups.

DETERMINATION OF THE SIZE CATEGORY FOR 2017

An enterprise would like to know which size category requirements it is obliged to follow when submitting the 2017 financial statement to the Service in 2018:

Example N1.1:

An enterprise first determined its size category in 2016 and with its data met the requirements of the IV category, while in 2017 – those of the III category. In such case, the size category of the entity shall not be changed compared to the previous reporting period and the entity will remain a IV-category entity. The entity shall therefore submit its 2017 financial statement to the Service as a IV-category entity, because:

- The change in the size category happened only once: the size category changed in 2017 compared to the category of 2016.
- The enterprise did not increase by two or more size categories compared to the previous reporting period.

	2016	2017
Size category calculated based on the reporting period data	IV	III
Size category according to which the financial statement should be submitted to the Service	IV	? = IV

Example N1.2:

An enterprise first determined its size category in 2016 and with its data met the requirements of the IV category, while in 2017 – those of the II category. In such case, the size category established in 2016 shall be changed and the entity shall be considered a II-category entity, even though the category change happened only once. The entity shall therefore submit its 2017 financial statement to the Service as a II-category entity, because:

- The enterprise increased by two size categories compared to the previous reporting period.

	2016	2017
Size category calculated based on the reporting period data	IV	II
Size category according to which the financial statement should be submitted to the Service	IV	? = II

DETERMINATION OF THE SIZE CATEGORY FOR 2018

An enterprise would like to know which size category requirements it is obliged to follow when submitting the 2018 financial statement to the Service in 2019:

Example N2.1:

An enterprise was a III-category entity in 2017 and a II-category entity in 2018, and in addition it submitted the financial statement in 2017 as a III-category entity. In such case, the size category of the entity shall not be changed and it shall submit its 2018 financial statement to the Service as a III-category entity, because:

- The change in the size category happened only once: the size category changed in 2018 compared to the category of 2017 (according to the requirements of which the entity was obliged to submit a 2017 financial report)
- The enterprise did not grow by two or more categories compared to the previous reporting period.

	2017	2018
Size category calculated based on the reporting period data	III	II
Size category according to which the financial statement should be submitted to the Service	III	? = III

Note: In the original image, a red 'X' is placed over the 'III' in the 2017 column of the second row, and a green checkmark is placed over the 'III' in the 2018 column of the second row. A green arrow points from the 'III' in the 2017 column of the second row to the 'III' in the 2018 column of the second row.

Example N2.2:

If the size category of an enterprise was II in 2017 and 2018, and the enterprise submitted the financial statement in 2017 as a III-category entity (based on the size category first determined in 2016), the enterprise shall submit its 2018 financial report in 2019 as a II-category entity, because:

- The change in the size category happened twice: the size category of the enterprise differs both in 2017 and 2018 from the category according to the requirements of which it was obliged to submit the financial statement in 2017.

	2017	2018
Size category calculated based on the reporting period data	II	II
Size category according to which the financial statement should be submitted to the Service	III	? = II

Note: In the original image, a green checkmark is placed over the 'II' in the 2017 column of the second row, and another green checkmark is placed over the 'II' in the 2018 column of the second row. A green arrow points from the 'II' in the 2017 column of the second row to the 'II' in the 2018 column of the second row.

Example N2.3:

If the size category of an enterprise was III in 2017, as calculated by the criteria determined by the Law, I in 2018 and in addition, the enterprise submitted its financial statement in 2017 as a III-category entity, the enterprise shall submit its 2018 financial statement in 2019 as a I-category entity, because:

- The enterprise increased by two size categories (in 2018 compared to the (III) category submitted in 2017)

	2017	2018
Size category calculated based on the reporting period data	III	I
Size category according to which the financial statement shall be submitted to the Service	III	? = I

Note: In the original image, a red 'X' is placed over the 'III' in the 2017 column of the second row, and a green checkmark is placed over the 'I' in the 2018 column of the second row. Arrows point from the 'X' to the 'I' and from the 'I' to the '? = I'.

Example N2.4:

If the size category of an enterprise was II in 2017, I in 2018 and in addition, the enterprise submitted its financial statement in 2017 as a III-category entity (based on the category first determined in 2016), the enterprise shall submit its 2018 financial statement in 2019 as a I-category entity, because:

- The change in the size category happened twice: the size category of the enterprise differs both in 2017 and 2018 from the category according to the requirements of which it was obliged to submit the financial statement in 2017.
- The enterprise increased by two size categories in 2018 compared to the III category submitted in 2017.

	2017	2018
Size category calculated based on the reporting period data	II	I
Size category according to which the financial statement shall be submitted to the Service	III	? = I

Note: In the original image, a green checkmark is placed over the 'II' in the 2017 column of the second row, and another green checkmark is placed over the 'I' in the 2018 column of the second row. An arrow points from the first checkmark to the second.



CHANGE FOR DEVELOPMENT



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