

## **A plea for SME specific european accounting standard. The case of Romania**

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### **Abstract**

The present paper intends to open a discussion on accounting standards as a consequence of globalization, tackling the issue of their economic relevance at regional and national level, which entails the need to increase their quality in order to meet the demands of the users. The discussion focuses on SMEs' needs, which are crucial to economic development, and can be found in every sector of industry and services, having the capacity to quickly adapt to economic and social changes.

The future of SMEs is an growing concern of the IASB and of accounting normalizers in European states. We include in this series our country as well, considering the fact that Romania has become a member of the European Union on 1 January 2007.

The paper reviews the current situation in the field of SME specific accounting normalization, in the international, the European and the Romanian environment.

In the end of the analysis, starting from the Romanian accounting model currently in force, which is based on regulations in conformity with the European Directives, we support the initiative of designing

a SME specific standard at European level, and we put forward several solutions concerning its most suitable form and content.

**Keywords:** SME, national and regional economy, European Directives, IFRS, Romanian accounting standards, IASB project for SMEs, simplification of accounting standards.

## 1. Accounting and SMEs: their role in national economies

It is our opinion that accounting plays a significant role within the new coordinate of international trade represented by globalization. This is due to the fact that the accounting norms that are currently operating seek to provide investors and stock exchange markets with common, normalized and exact standards concerning the activity of enterprises. The involvement of accounting professionals in the provision of the above categories of information and in the day-to-day transactions continues to increase. The accountant is now part of the project team also comprising the finance specialist, the legal advisor, and/or other consultants.

*What role do theoreticians and researches play in the field of accounting?* We believe that these specialists contribute to the delineating, the understanding and the improving of accounting objectives. These objectives result from:

- Accounting theory;
- The interests of the main groups of users;
- Regional and international accounting standards (against the background of economic globalization).

The accounting objectives valid at a certain time have a determining influence on the definition of various accounting systems and on content and structure of financial statements, including the measurement method and the recognition of their components. From here emerges the contribution accounting has to the real economy, in practice, in the process of decision-making by information users.

The accounting researchers have as primary interest to uphold and develop the theory of accounting, as it represents a framework of reference for the understanding and the evaluation of practice, and a guide for its development. The outcome of such research is applied accounting.

Secondly, the accounting researcher can and does get involved in the process of normalization, the third pillar in delineating the objectives of accounting.

Normalization deals with financial accounting as branch of accounting. It can be interpreted as [Pop A., 2002] the process of standardization of synthesis accounting documents periodically reported by enterprises (financial statements), by means of the definition of accounting terminology, objectives, and methodology (principles, procedures, instruments) as well as by means of working out contradictory interests concerning the content and structure of financial statements.

A consequence of normalization is the harmonisation of accounting techniques of gathering, processing, grouping, evaluating, and presenting accounting information. Accounting harmonisation consists of ensuring compatibility among national accounting systems in a regional and/or international context, by the full or partial implementation of common norms.

Accounting normalization is a wide-scope process, with substantial economic effects, both in terms of the number and quality of the users of its information package, and of the direct influence on the accounting theory and practice.

Thus, the social partners which play a part in accounting normalization are enterprises and their managers, who are willing to provide information, the accountants who produce and check it and the users who need it in order to make informed economic decisions. Concerning its influences, normalization affects the regulations of accounting practice and the development of accounting theory through research, through the clarification and improvement of concepts, procedures, and terminology.

#### *What is the role SMEs play in national economies?*

SMEs have been, in the last years, the economy backbone for most of the important countries in the world, and particularly, in the countries which are members of the European Union. These enterprises are characterized by a unique flexibility and adaptability to change, constituting themselves as a remarkable force pushing for economic progress in the state where they operate. Undoubtedly, SMEs can continue to play a decisive role in the near future. Hence, as accounting has proved its effectiveness for the public interest, it will be capable, by conceptualizing accounting norms that meet the demands of the SMEs and of the users of the accounting information of these enterprises, to stimulate their development, as well as global development.

We take as fact that these norms or standards, which must not be mistaken for accounting theory, are influenced in their turn by the political and by the social field, and subjected to the pressure of interest groups concerned with the redistribution of wealth, as accounting information is a good available on the information market. Or, any market needs to be regulated and controlled. As a consequence, the people who operate with the norms as well as the main groups of users should be involved in their design, in order to make them accepted.

## **2. The beginning of the plea – Europe and accounting convergence**

In the last few years, the specialists have begun a debate on the alternative between convergence and compatibility. As a term, ‘to converge’ means to reach the same point or the same result, while the word ‘compatibility’ signifies something that can tune to or coexist with other things.

The global trend is accomplishing convergence, seen as aligning to, without fully taking over, widely spread accounting norms, such as international accounting standards, IFRS. National accounting systems should adapt their own norms to the international ones, or even adopt the international ones, while making a few minor adjustments.

Convergence is essential for the development and the good functioning of the international capital market. The key participants on these markets (enterprises, users of financial information such as financial analysts, investors, regulatory bodies) argue for its accomplishment. More and more flows cross borders, mergers are more and more numerous, external investment continues to increase substantially. Thus, accounting norms have to be coherent with international markets.

The only geopolitical region that has already made the decision to implement international accounting standards (IFRS) drawn up by the International Accounting Standards Board (IASB) is Europe, one of the possible reasons for this choice being that it did not reach the expected outcomes in the process of accounting harmonisation.

Following this decision, the European Union has planned to act so that, on the one hand, to apply the current international standards in European countries, and on the other hand, to ensure that it has an influence on the standards to be drawn up in the years to come.

Chronologically speaking, a real legal process was carried out within the European Union with a view to implementing IFRS in Europe which was termed “The new European strategy” [Deaconu A., 2003]. The process resulted in the drawing up of the Regulation nr. 1606/19 July 2002, according to which, starting with 2005, listed European enterprises have to present their consolidated accounts, in keeping with IFRS.

Besides the statements concerning the listed enterprises and their consolidated accounts, the Regulation contains provisions regarding the possibility member states have to authorize or compel listed enterprises to apply IFRS for their individual accounts as well, and to authorize or compel unlisted enterprises to apply the above international standards.

In parallel with the above-mentioned regulation, the European Commission drew up a project to modify the fourth and the seventh directives within the framework of a new ‘modernizing’ directive, in order to allow for the complete convergence (either by force of law, either by option, as fact of practice) of international solutions with the ones set forward in the old directives. Thus, by European Parliament and European Council Directive no.. 2003/51/CE of 18 June 2003, the fourth (1978), and the seventh (1983) accounting directives as well as other two directives concerning banks and insurance are modified. The new European directive is applied to member states starting with 1 January 2005, for the enterprises which were targeted by the old fourth and seventh directives. We feel that these changes lead to an important point of convergence between European standards and IFRS.

If we follow these international and European evolutions, we can see a junction in specific accounting standards, with a view to ensuring global accounting convergence. Nevertheless, there still are a series of problems for which no solution was found. One of these problems is whether IFRS can only be applied to large unlisted enterprises or it is applicable to SMEs as well?

### **3. The position of the international accounting experts in normalizing concerning SME standards**

In June 2004 IASB published a discussion paper concerning its proposals to develop a distinct set of standards for SMEs. In accordance with IASB, the IFRS objectives for SMEs are:

- To provide quality standards which are easy to understand and apply and which are adequate for all SMEs (throughout the world);
- To target the specific needs of SMEs;
- Not to exit the IASB conceptual framework;
- To reduce the burden of financial reporting for the SMEs willing to apply the IASB standards;
- To facilitate the passage to complete IAS/IFRS if the SME opts to be listed, has developed and has expanded and decides on the use of these standards.

After the launching of the project of SME standards, following the analysis of answers received to the discussion paper, the IASB Council added to the requirements for SME specific standards the following:

- To address entities which lack public interest but whose accounting information has external users;
- To allow for the existence of differences between these and full IFRS;

- To supplement their application with the full IFRS provisions, when SME specific standards do not address a particular issue; in order to ensure the principle of comparability, the entity does not have the option of choosing the convenient features from both sets of standards;
- To be arranged thematically ( e.g., in the order of the balance sheet and the profit and loss account) and not following the standards, in order to identify the origin of the requirements that have to be met;
- To reflect the needs of the users and to observe the cost-benefit ratio.

In what follows, we briefly present our conclusions resulted from analysing the content of the IASB project for SMEs, in a logical sequence [Deaconu A., 2006].

*a) the SME concept and criteria for recognition*

The SME is defined as an entity which does not have public accountability and which publishes general purpose financial statements for external users. No conditions regarding size have been set up, this matter being left to the decision of individual jurisdictions, even though mention is often being made of the fact that the project addresses entities having no more than 50 employees. The definition excludes entities with shares and liabilities on the market, as well as those with economic relevance.

Five indicators of public accountability are mentioned. Taking into account the lack of a quantitative (size) indicator in the definition, the criteria, and indicators of delineating a SME, IASB asked its members to identify a term other than SME to designate them.

Concerning the content of the SME specific standard, it will be based on the highlighted paragraphs in the IFRS and on additional documents, if necessary. Should the situation of the lack of a SME specific treatment arise, the entity that applies the standards can make reference of an existing individual IFRS, which does not entail the obligation to observe each and every IFRS.

*b) the entities that will use SME specific standards*

Despite the provision of a IASB definition for SMEs, national jurisdictions will be able to opt for the application of the specific standard for other entities that they consider that belong to the same category, e.g., if there is a statutory requirement of reporting despite the fact that their main users are the stakeholder managers, and not other external users. Another issue for discussion is the case of the listed SMEs. For these, IASB recommends using the full IFRS, but allows the domestic jurisdictions to decide whether or not to enforce the SME specific standards.

Moreover, there can be such entities which choose out of their own free will to observe the IFRS for the drawing up of their financial statements.

Against this background, without making precise recommendations, the IASB could nevertheless indicate the entities for which the SME specific standards are inadequate

*c) the content of the SME specific standards*

Concerning this topic, two approaches were put forward, according to which the SME specific standards should be:

- A reorganizing of all principles of measurement and recognition provided for in the IFRS, mention being made of the fact that in the case that some of them hold no relevance for a SME, they should be omitted from reporting or reported in the Notes to financial statements. These standards will make reference of IFRS;
- A condensed version of the IFRS, which should include those principles of measurement and recognition that are relevant for most SMEs. In this case, it will not be possible to make reference of, or opt to return to full IFRS.

It follows that any of these two approaches is based on, and makes use of IFRS principles.

*d) Simplifying full IFRS*

The project takes into account the prospect of making a series of simplifications for SMEs concerning measurement and recognition, as well as the simplification of presentations and descriptions, based on the needs of the users and on the assessment of the cost-benefit ratio, in keeping with the IASB General Framework (which can either be taken over as it is or it can be used as a point of reference).

The action has as main objective the identification of the principles of every existing IFRS, their compatibility with SMEs, and the taking into account of additional requirements necessary for adapting these standards to SMEs. Besides these simplifications, the discussions carried out with regard to the project argue for still other simplifications than those connected to recognition and measurement, such as: the elimination of difficult treatments or the elimination of exceptions which require complex calculation and reasoning.

Currently, the IASB project for SMEs is reaching the stage where an exposure draft is expected to be published in the next few months. It is estimated that it will enter into force on 1 January 2008.

#### **4. The position of the European Commission concerning SME specific standards**

European experts are not willing to simply take over in member countries and their accounting systems the SME specific standard which will be drawn up by IASB. The project is controversial enough and gave rise to heated discussion among member states, Parliament, and European stakeholders. The main inconsistencies between the unofficial variant of the IASB project and the European directives are: as a difference from the provisions of the IASB project, the requirement for all European entities to publish financial statements; the fact that the IASB project focuses on the needs of external users is not consistent with the objectives of the Directives for SMEs, if they have less than 50 employees and do not normally have external users.

The European Commission, through the committee for accounting regulations, lunched for debate in its meeting of November 2006 the topic of simplifying accounting regulations for SMEs and possible amendments to the fourth and seventh European Directives. Mention must be made of the fact that most of the enterprises that are addressed by these directives are the small and medium-sized ones. As the committee sees it, the simplification of accounting regulations means the decrease of administrative expenses incurred in the drawing up of financial statements. This can be achieved by implementing more relevant regulations, which would replace the old ones, which are more complex and more difficult to put into practice.

The main points in the discussion were: the identification of accounting information which is relevant for SMEs, the decision concerning the increase of the size threshold for classifying an entity as a SME, the extension of exceptions in applying the current directives for SMEs, the amendment or the elimination of options, the simplification of accounting regulations for SMEs, the decrease of publishing requirements. All these issues are put forward for the examination of accounting experts in normalizing in member states, by means of a questionnaire, and the answers received will lead to a new stage in the process of drawing up a SME specific European standard.

A similar exercise was carried out by the European Commission concerning the auditing of SMEs accounts, the precise objective of the initiative and of the questionnaire addressed to member states being the simplification of administrative procedures for European companies in general and SMEs in particular.

We look forward to the results of the comments to the issues put forward by European Commission committees of accounting regulation and of audit, and we try to anticipate some of the answers in the analysis of the experience and of the needs of our country in the respective field.

## 5. Romania at crossroads

### a. The Romanian accounting system

Currently, the Romanian accounting system can be characterized as it is summarized in the following table, according to a number of environmental variables which influence, to varying degrees, any accounting system [Deaconu A., Groșanu A., 2004]:

Table no. 1

<i>Variable</i>	<i>Romania</i>
Means of financing	Multiple: banks, state, other creditors, shareholders
Legislation	Rigid legislation
Political and economic ties with other countries	European countries, USA
Inflation rate	Average
The dimension and complexity of business, the degree of development of management, of the business community, the level of education	Average
Culture - Individualism - Incertitude	Low Strong

We estimate that the accounting model that would best suit Romania is a hybrid model. We take into account both the accounting regulations currently in force (which represent a combination of international and European standards, by applying since 1 January 2006 of OMFP no. 1752/2005 which ensure compliance with European standards) as well as the situation of accounting practice.

IFRS follows the model of a fair view adopted by IASB. This system does not fully suit Romania, as it is based on customs, on recognised practices, and on capital market financing.

The Romanian accounting system has as fundamental features the ones that also characterize the judicial model. Thus, this model is not designed with a view to it being used by external investors, but in order to meet the demands of the financial authorities concerning taxation, or to appreciate the activity of the enterprise against the background of the macroeconomic state policy. Banks provide the main source of financing which promotes conservative, conventional accounting practices. Enterprises also keep strong links with their main clients and suppliers, and with the employees.

In order to ensure full convergence, the following main directions should be approached:

- The separation of accounting and fiscal norms, at the level of standards and in practice
- The adaptation of international/European standards to Romanian economic and financial statement
- The simplifying of accounting standards applicable to small and medium-sized enterprises, even if these will still be part of a single accounting system

### b. The evolution of SME specific accounting standards in Romania

The first differentiation among enterprises from an accounting perspective was done in the year 2002, the thresholds being increased three years after, as indicated in the following table:

Table no. 2

<b>Criteria</b>	<b>Turnover</b>	<b>Balance sheet total (gross assets)</b>	<b>Number of employees</b>
OMFP nr. 306/2002 (two from three criterias)	Up to 5 mil euro	Up to 2,5 mil euro	Up to 50
OMFP nr. 1752/2005 (two from three criterias, two consecutive exercices)	Up to 7,3 mil euro	Up to 3,65 mil euro	Up to 50

Comparatively, the Accounting Directives define „small” and „medium-sized” companies where a company meets two of the following criteria ( thresholds after amendment by Directive 2006/46/EC):

Table no. 3

<b>Criteria</b>	<b>Turnover</b>	<b>Balance sheet total (gross assets)</b>	<b>Number of employees</b>
Small companies	Up to 8,8 mil euro	Up to 4,4 mil euro	Up to 50
Medium-sized companies	Up to 35 mil euro	Up to 17,5 mil euro	Up to 250

In Romania, small and medium-sized enterprises (including micro enterprises – a distinction being made only insofar result taxation is concerned) applied, starting with the year 2002 OMFP no. 306. The act of law was concretized, as in the case of large enterprises, in a blending of international and European standards, focusing on the latter, in association with the above mentoned category of enterprises. Thus, it is our opinion [Deaconu A., 2006] that in fact, international standards were adopted for SMEs, in a so-called simplified form, with several interferences from European accounting standards (the possibility of activation of company settlement costs, the lack of explicit implementation of the principle of substance over form and the above materiality level principle; the preservation of depreciation accounts).

Regulations for SMEs in Romania did not meet the following objectives: simplicity and intelligibility, accuracy, adaptability to the specifics of the enterprise. There were elements which were characteristic of large enterprises and which did not match the other ones: group specific procedures, consolidating accounts procedures (including the recognition of the goodwill), financial instruments (including derivative elements), the use of the fair value (historical cost could have sufficed as measurement attribute), segmented informing, the stating of the Statement of cash flow – even as an optional activity – as component of SMEs financial statements .

Accounting regulations currently in force no longer differentiate between large and small enterprises. As a consequence, in keeping with OMFP no. 1752/2005 for the approval of accounting regulations in compliance with European directives, starting with the year 2006, the Romanian accounting system adopted the European accounting directives (updated, in their turn, to IAS/IFRS).



Although we emphasise the fact that no distinction is made, from the accounting point of view, between large enterprises and SMEs, there are still some cases in which SMEs, explicitly classified according to quantitative criteria, can apply simplified variants of reporting, as shown succinctly in the table no. 4, which also lists some specifics of SMEs accounting.

The following table presents the image of the current Romanian accounting system, as compared with the international and European provisions, by means of several characteristic elements which we consider to be most relevant:

Table no. 4

	<i>International standards: IFRS</i>	<i>European Directives</i>	<i>Romanian standards</i>	
			<i>Large enterprises</i>	<i>Small and medium-sized enterprises</i>
Accounting periods	Do not necessarily match the calendar year	Do not necessarily match the calendar year	All financial years are usually based on calendar year.	
Accounting plan or conceptual framework	Conceptual framework	Accounting plan	Accounting plan required by the law	
Accounting principles /conventions	IAS 1 - continuity of operation (going concern) - stability of methods (consistency) - independence of exercise (accrual) - prudence - prevalence of reality over appearance - relative importance	- continuity of operation - stability of methods - prudence - accrual accounting - no offset - intangibility of the opening balance sheet - monetary nominalism or historical cost	- continuity of activity - stability of methods - prudence - independence of exercise - separate evaluation of assets and liabilities - intangibility of the opening balance sheet - no offset - the principle of reflecting the economic substance of events and not merely the legal form (SMEs only use it for consolidated accounts) - level of significance (it is optional for SMEs)	
Bases for measurement	Conceptual framework - historical cost - current cost - realisable value - present value	- historical cost - other bases for measurement	- historical cost - other bases for measurement	
Financial statements - format	recommended format	recommended format	Format set by the law	Permission to use a simplified format
- components	-balance sheet -profit and loss account -statement of changes in financial position (own capital)	- balance sheet - profit and loss account - notes to financial statements It is possible to	- balance sheet - profit and loss account - statement of changes in own capital - cash flow statement	-short balance sheet - short profit and loss account -statement of changes in own capital

	-cash flow statement -notes to financial statements	include other statements as well in the annual accounts.	- notes to financial statements	(optional) -cash flow statement (optional) - notes to financial statements
- publication	Publication is required for the enterprises which apply these standards	Required for all companies	Mandatory for all companies	
- auditing	There are auditing requirements	There are auditing requirements	Financial audit mandatory	Non-mandatory auditing. Can be audited according to specific legal provisions.
Consolidation	IAS 22, 27, 28 These standards comprise specific provisions	There are specific provisions concerning consolidated accounts	There are consolidation standards	
Fair value	Required in several standards, among which IAS 32, 39, 16, 40, IFRS 3, 5	Recommended in case of: reevaluation of fix assets, valuation of fix assets with limited duration and of inventories, as well as in other cases	Required for - the reevaluation of tangible assets - the evaluation of financial instruments, in consolidated accounts; normally, it is the result of the period that gets influenced, and only as an exception does it influence own capital - tangible contribution to registered capital - donations	
Accounting for deferred taxation	IAS 12 Presents expenses, revenues, liabilities and accounts expenses specific for deferred taxation	Not required	Not explicitly required	
Adjustments to the effects of inflation	IAS 29, SIC 19, SIC 30 Describe the methods of adjustment to the effects of inflation and the conditions where they apply.	Methods of adjustment to inflation are applicable to financial statements, as described in the notes.	Not required	
Reassessment of fix assets	Provided for as alternative treatment	Allows for the reassessment of fix assets	It is allowed only for tangible assets, for which the just value is calculated at the end of the accounting period. Once the option manifested, reassessment must be done yearly.	

Amortisation (irreversible depreciation)	IAS 16 Takes into account the useful lives and residual value	Required to be done systematically, throughout the assets' economic duration	Accounting regulations comprise depreciation on useful lives. From a taxation point of view, minimal and maximal limits are stipulated in what concerns duration.	
Adjustments for reversible depreciation	IAS 36 Depreciation is calculated as difference between accounting value and the largest value between net selling price and utility value respectively	Allows for adjustments for depreciation, by choosing the smallest value attributed at the end of the accounting period.	The prudence principle applies, which requires the writing down of some adjustments for depreciation, by choosing the smallest value attributed at the end of the accounting period. As a rule, the market value is used as reference point.	
Distribution of profit	IAS 34 The distribution of interim dividends is allowed, provided that net result and own capital can handle this distribution	The distribution of interim dividends is allowed	Only the distribution of current profit or of the result reported in the previous years is allowed, according to shareholders Annual General Meeting decision at the end of the year	
Dividends per share	Explicit presentation are required for the enterprises whose common stocks or potential common stocks are publicly traded	Not required	Not required	
Contingency disclosure	IAS 37 Presents the treatment of contingent assets and liabilities	It is required to present in the notes the commitments not included in the balance sheet.	It is required to present in the notes the commitments not included in the balance sheet.	
Events subsequent to the date of the balance sheet	IAS 10 In a case by case approach, they can either be reported in the balance sheet or only in the notes to the financial statements	It is mandatory to take into account the events subsequent to the end of the accounting period and prior to the date of the balance sheet	They are required for reporting, under the same conditions as IFRS	
Segmented reporting	IAS 14 The entities are compelled to present information on segments (according to activities and geographic regions)	It is required to present information on segments (according to activities and geographic	It is required to present information on segments (according to activities and geographic regions)	Not required

		regions)		
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\* The legal provisions stipulate that the exemptions granted to SMEs are not applicable for listed SMEs.

\*\* Romanian regulations do not provide a definition of SMEs from an accounting perspective, they only stipulate the quantitative criteria which are resorted to when deciding exemption conditions for certain entities

### c. The evolution and expectations of SMEs in Romania

In Romania, as in many other central and eastern European countries, the transition to a free market economy meant the evolution of two components: the transfer of enterprise ownership from state to private legal entities (privatization process), as well as the establishment of new private enterprises, as a result of private, independent initiatives, which emerged as a consequence of the changes undergone in enterprises which were still state-owned. These two paths of evolution had great repercussions on the labour market. While privatization led to job cutbacks, thus increasing unemployment, especially long term, the new private sector was responsible for the creation of most new jobs. Considering the fact that most new private enterprises are small and medium-sized ones, it follows that this sector took in most of the workforce which was made redundant, and contributed to the establishment of a new generation of entrepreneurs and employees.

The result of these SMEs initiatives was impressive, and led many decisional factors and institutions to reconsider the basic principles of their conceptions on economic reforms, and to think that besides the top-down reforms implemented by the state, focusing on privatization and on ownership transfer, a bottom-up reform should also be encouraged, focusing on the true entrepreneurship spirit, thus encouraging the establishment of a strong and dynamic sector of small and medium-sized enterprises.

The development of SMEs in Romania was also upheld by European perspectives that opened to our country when, on 15 February 2000, it started negotiations for joining EU. Until now, when Romania was accepted as EU member (1 January 2007), a new production framework was consolidated, based on private property, by applying adequate policies, which allowed for the establishment of new enterprises and encouraged small and medium-sized enterprises. These new companies, which will continue to receive European support, including financial support by means of structural funds, will represent the force capable of bringing about a better allotment of resources, and the creation of jobs for those made redundant as a consequence of restructuring.

The SMEs weight in the total of romanians companies (up to 50 employees) is approximately 97% in 2002-2004 period, as it is shown in the next table:

Table no. 5

Year	Total	Of which, on size classes by number of employees			
		0-9	10-49	50-249	250 and up
2002	327.712	284.756	32.433	8.493	2.030
2003	363.086	316.786	35.436	8.817	2.047
2004	410.383	362.457	36.670	9.197	2.059

Other semnificative information regarding the evolution of SMSs are presented in the lower down table, which groups the companies by size classed and by type of ownership:

Table no. 6

million euro-

<i>Size classes, by average number of employees</i>	<i>Turnover</i>	<i>Direct exports</i>	<i>Gross value added at factors cost</i>	<i>Gross result Of exercise</i>
<i>Year 2004</i>				
<i>0-49</i>	39850	1722	5594	2184
of which: private property ownership	39791	1721	5585	2329
<i>50-99</i>	11063	753	1766	616
of which: private property ownership	10950	752	1728	623
<i>100-249</i>	12562	1483	2518	661
of which: private property ownership	12190	1468	2383	671
<i>250-499</i>	9765	1596	2064	407
of which: private property ownership	9144	1571	1861	408
<i>500 and up</i>	37991	7705	10080	1615
of which: private property ownership	25880	6967	6829	1246
<i>Total</i>	<i>111231</i>	<i>13259</i>	<i>22022</i>	<i>5483</i>
of which: private property ownership	97955	12479	18386	5277

Note: The figures has been converted in euro using the average exchange rate for year 2004.

Though the figures shown above refers to the year 2004, the trend was maintaining in the next years too. We notice the great importance of SMEs in the national economy

In what concerns the present situation and the prospects for the future of Romanian SMEs, against the background of European Union accession, we find the results of a survey carried out in 2006 by the National Agency for SMEs to be relevant:

- from a demographic point of view, the density of SMEs rose to 26 SMEs/1000 inhabitants, but is still much lower than the EU average of 50 SMEs/1000 inhabitants;
- a slight decrease in number of local companies is foreseeable in the first stage, which is not as much a consequence of the invasion of foreign companies, but more a result of the implementation of new conditions in the daily activity of companies, to which it may be difficult to adapt (increase in company capital, raise of wages, European health and environment standards, etc.);
- qualifications became in over 80% of the cases the main criterion for employment of staff in the SME sector;
- over 50% of SMEs were interested in bringing in innovative elements, either in the structure of the product/service, or in equipment, or in the management of the company;
- there is a weak interest (below 1%) in designing an own computerised programme, for research and development or for the implementation of innovative results;
- a lack of mobility of companies can be noticed, as there are few business transfers, few location changes, and few changes in the field of activity;
- among the economic sectors, commerce is the one that sets as objective, in a 60% proportion, to invest in modernising and in development; the other sectors of activity (80% of the total number of SMEs) consider various forms of investment (technological, training of personnel, development, etc);
- the first stage of EU integration is characterised by competitiveness at the level of SMEs, in either price or the quality/price ratio.

## **d. Opinions concerning a SME specific accounting standard**

### **d.1. The appropriateness of designing a SME specific standard**

As it can be seen in the tables previously presented, the overwhelming majority of Romanian enterprises (97%) are SMEs. The same applies to the entire European area, where SMEs represent 95% of accounting subjects. As it has been emphasised before, the existence of SMEs is crucial for economic development, and can be found in every sector of industry and services, having the capacity to quickly adapt to economic and social changes. Even if, in general, SMEs operate at national level, they are influenced by European legislation concerning taxation and charges, competition, customs procedures, and others. As a consequence, national policies, combined with European ones, must promote their interests and facilitate their access to the market. Among the policies of stimulating economic growth we can find the accounting policies as well, and among the latter, a central position is taken by the design of a SME specific accounting standard. In this way, the SMEs' financial statements will be comprehensible in other countries, and will facilitate access to financing, connections with business partners, the carrying out of mergers and acquisitions.

For now, the problem of a SME specific accounting has not found definitive solutions, in the international, the European, or the Romanian area.

The IASB project for SMEs does not fully meet the European, and implicitly the Romanian accounting objectives, for at least the following reasons:

- It focuses on not very small companies, which have investors who are not directly involved in the management of the company (but who are external users, separate from management);
- It is based, to a significant extent, on the integral set of IFRS, which are specially designed for listed companies .

With reference to the current situation of accounting standards in force in Romania, we conclude that at the level of normalization, there is the intention to bring Romania closer to Europe from an accounting perspective as well, as all enterprises are compelled to apply regulations in conformity with European Directives, starting with 1 January 2006. In fact, European Directives, following the changes they underwent in the last years, have taken over the spirit of international accounting standards. As the latter are not designed for SMEs but for large listed enterprises which belong to a group, it becomes obvious that a SME specific standard must be designed for Europe and its member states.

### **d.2. Issues regarding form in what concerns a SME specific standard**

As shown in the present paper, we believe that a SME specific standard should:

- Provide information to any user for any purpose;
- Take into account, as do all other accounting standards, the cost/benefit ratio ;
- Address separately those who have needs other than the full use of IFRS;
- Be based on the identification – at regional level – of users of financial reports and of their specific needs; hence, be flexible enough so as to allow for a national adjustment /tuning ;
- Arbitrate between the principle of information confidentiality with direct effects on competitiveness, and the principle of transparency and of enough published information in order to be of real help in the decisions made by specific users .

The enterprises which will be targeted by these standards must not be selected on size criteria exclusively, but should also take into account their characteristic features. Thus, we argue in favour of a combination of the quantitative and the qualitative criteria. Concretely, we have in mind unlisted enterprises, which do not belong to any financial group, do not have national importance, and have less than 100 employees. We think that the other two size criteria, turnover and total assets, do not assess correctly the contribution SMEs have to economic and social development. As a replacement, we suggest using the added-value indicator, which renders more accurately the national importance of such entities.

It follows that SMEs defined in the above way should have as external users: financial creditors, fiscal authorities, institutes of macroeconomic statistics, and shareholders who get involved in the management of the company. We take into account the influence of the European environment variables have on the accounting systems, variables among which we mention the means of financing (excluding those on the capital market, especially in what concerns SMEs), legislation and culture. The variables in the case of Romania have been presented in this paper in Table nr. 1.

In what concerns the organization of the SME specific standard, we think that it must be independent, separated from the standards for other types of enterprises, that it must ensure classification of elements according to their nature or to the subject. Within this classification, the IFRS model can be adopted: recognising, derecognising, initial measurement, subsequent measurement, publication.

The toughest challenge for the creation of a SME specific standard is represented by the attempt to meet the needs of informing different types of users, who, even if they are not numerous, still have slightly different interests in what concerns SMEs. The situation will differ from that specific to IFRS, which, although they claim to address all information users, serve in fact the interests of shareholders who are not involved in the management of the entity. The European accounting normative bodies (the European commission and national authorities) should present a satisfactory number and content of amendments, in such a way as to ease the SMEs' administrative burden.

### **d.3. Issues regarding content in what concerns a SME specific standard**

In the ensuing presentation, we will put forward suggestions based on the current situation of SME accounting in Romania, making reference to the European context.

Thus, we approve of the few simplifications Romanian accounting regulations contain starting with the year 2006, which are presented in Table nr.4 and which are: the possibility to draw up simplified financial statements, the principle of reflecting the economic substance of events and not merely the legal form, which only applies to the consolidated accounts of these entities, the possibility to report in the explicatory notes less information than large enterprises, optional application of the principle of above materiality level, optional auditing of financial statements. Nevertheless, it is our opinion that these simplifications are insufficient.

As examples of elements that demand a special treatment in the case of SMEs, we have already, in previously published work [Deaconu A., 2006], put forward the following suggestions:

- Changes in accounting policies and correction of fundamental errors, which should be dealt with in such a way as not to be in opposition to the principle of intangibility of the opening balance sheet; concretely, they should be reported in the result of the current accounting period;
- Development costs, for which capitalisation conditions should be more permissive than in the case of large enterprises, in order to facilitate their growth;

- Interest costs, for which capitalization should be allowed not only in the case of fixed assets obtained in a long period of time, but also for the rest of fixed assets;
- Fair value, a very complex concept, with multiple practical solutions which are time-and money-consuming, should not be required for SMEs; in the same context, we do not see the benefit in having these entities re-evaluate their fixed assets.

In the light of the current concerns of the European Commission to design a SME specific standard, we believe that the European requirements currently in force can be simplified for this particular type of enterprise. The same provisions were taken over in Romania as well, so we will concisely present our proposals, structured as follows:

a) Solutions for the legal organization of accounting

- Possibility to distribute interim dividends

b) Solutions concerning measurement rules

- Elimination of the use of fair value as basis of measurement for subsequent measurements (for example, for depreciation adjustments); measurement at fair value must be kept only in case of the initial measurement of tangible contribution to registered capital, of donations, of mergers and acquisitions (placing the value only at assets and liabilities that can be distinctly identified)
- Not recognising goodwill in individual accounts (Romanian regulations stipulate that it normally is mentioned in the consolidated accounts)
- Promotion of the method of weighted average cost for the measurement of inventory and, optionally, the FIFO method
- Simplification of determining production cost, which could include, for the measurement of inventories, only direct costs, the indirect costs being recognised directly in the result.

c) Solutions concerning the content of financial statements

- Relinquishing consolidated accounts, exempted by the European Directive, but not taken over by Romanian regulations

d) Solutions concerning information reporting

The exemptions stipulated in the European Directive in this chapter have been taken over by Romanian regulations. Concretely, these simplified reporting solutions are:

- Structure of financial statements, including the short balance sheet, the profit and loss account, the explicatory notes, the statement of changes in own capital (optional), the cash flow statement (optional);
- The simplified annual financial statements are inspected according to the legal provisions, without making reference to auditing according to legal provisions
- Explicatory notes do not have to contain as much information on management and execution personnel as for other enterprises
- Explicatory notes do not have to contain details concerning turnover

Moreover, we suggest:

- To keep the interim reporting (biannual, for example) for special purposes (financing from institutional funds for which the use of resources and the estimated assessment must be reported)

e) Solutions concerning the publication of information

Both the European Directive and Romanian regulations stipulate the publication of simplified financial statements. It is our opinion that the publication of financial statements



should not be compulsory. It suffices to prepare a set of fiscal documents, for public authorities, and, on request, to prepare other documents for creditors or institutes of macroeconomic statistics (for the latter type of information disclosure, SMEs can be enticed to participate by granting them fiscal or public financing incentives).

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