



## THE FINANCIAL REPORTING TO THE LEVEL OF SMES. INTERNATIONALIZATION AND APPLICABILITY

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### Abstract

*In a globalized world, SMEs need to be able to face increasing competition in developed economies and developing countries, there is a direct link between internationalization and growth performance of SMEs.*

*Growth consolidation of international activities has increased the competitiveness and support the long term sustainability of the entities. However, SMEs still depend on their domestic markets, despite the extensive opportunities offered by the single market and globalization.*

*According to the IASB in 2009 was issued the standard simplified IFRS for SMEs by providing information on the financial position, performance and cash flows of the entity, the necessary decision-making. This standard provides an alternative set of IFRS an entity in small or medium can adopt it and apply it to be understood internationally.*

*As we know, in Romania, the applicability of the IFRS for SMEs is null, being used the Minister of Finance Order no.3055/2009 in accordance with European directives. Therefore CECCAR supports them by providing the most reliable information about this standard, as this sector depends on the quality of accountants.*

*This article was followed, in a complex framework, the essential information on applying IFRS for SMEs in financial reporting.*

**Keyword:** standard, Financial Reporting, IFRS for SMEs, applicability, internationalization

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## **I. Introduction**

The adoption in Romania of a uniform financial reporting system and internationally recognized (IFRS) represents for the Romanian entities the only way to ensure that their financial statements are reliable and on this basis users can make the best decisions.

Preparation of financial statements in accordance with applicable regulations should develop accounting policies based on professional judgment to ensure the provision of relevant and reliable accounting information. Transparency and open dialogue about performance, priorities and future plans for development, contribute to strengthening partnerships and building trust.

The regulations are designed compliant with IFRSs as a common global language for business affairs so that the entity accounts are understandable and comparable across international boundaries. The stake application of IFRS as a basis for maintaining accounting in Romania is the first increase investor confidence existing and potential lenders of funds and other creditors regarding the property of the issuing entity's financial statements to render the reality of their business and risks afferent.

Transition to IFRS is a complex process that requires careful planning and allocation of significant resources by the entity.

Through this article was intended to delimit in a complex framework, the impacts on European directives concerning regulations (Order no.3055/2009) and International Financial Reporting Standards applicable in Romania to the level of SMEs. This issue is currently wide interest in the Romanian context.

## **II. IFRS for SMEs**

IASB has initiated a project to appropriate standards small and medium entities since 2001. In their annual report from 2002, the directors of the IASC Foundation, which operates under the IASB, wrote "administrators and support efforts by the IASB to consider the special problems of emerging economies and small and medium-sized entities."



Starting with 2007 IASB published for public comment an exposure draft of a proposed IFRS for SMEs. Standard objective was to provide a simplified set, comprehensive accounting principles that are appropriate for smaller entities listed and are based on full IFRSs, designed to meet the needs of entities whose securities are traded on public markets capital.

Internationally studies have been completed questionnaires for adopting simplified IFRS standard for SMEs leading to publication standard.

According to Holt SMEs use financial statements for a narrower range of decisions.

The adoption of IFRS for SMEs depends on the standard to match local requirements for financial reporting. In addition, the IASB observed that the standard also provides a platform for growing entities who are preparing to enter public capital markets, in order to apply full IFRSs.

During the same period mention that the EU Commission launched a project to simplify SME, coinciding with the publication of the exposure draft of IFRS for small and medium-sized entity. However, after a first analysis, the Commission considers that the current IASB in the accounting area of SMEs cannot provide sufficient elements to simplify the European SMEs. Instead, they identified a number of other measures that could lead to a tangible simplification for SMEs, such as exemption "microenterprises" in applying accounting directives, exceeding the threshold for SMEs, their exemption requirements for small entities and simplifying publishing for all entities of the preparation and presentation of financial statements.

According to the IASB, IFRS for SMEs is a response to international demand in developed economies and developing a rigorous and common set of accounting standards for small and medium enterprises, being it much easier to use than a full set of IFRS sites. We note that the standard improves access to capital, quality and comparability of reporting, focusing on the needs of users of financial statements of SMEs and providing stability of the sheet.

At a national level IFRS for SMEs does not apply, being used the Public Finance Ministry Order no.3055/2009 in accordance with European directives. The decision regarding the entities that are bound to apply or may apply this standard got a crack to the authorities of each jurisdiction. For example, CEECAR supports the application of the IFRS for SMEs in small and medium level entity for this purpose by providing the appropriate information on the IFRS for SMEs.



To be applicable to entities in Romania and other European Union countries, accounting standards issued by the IASB are under review at EU level and formal vote in the special committees established at this level, the process ending by issuing regulations adopting EU standards.

The subject IFRS for SMEs was and is the center of Romanian researchers. The study conducted by Deaconu (2006), concluded that the original purpose of the IASB of simplifying the IFRS has not been touched since the complex reporting requirements such as consolidation and equitability value were preserved in the 2006 version of the standard.

The impact of this standard is concerned in our country, Romanian researchers believe that by applying this standard would result in a significant improvement in financial reporting entities in Romania: a higher quality of accounting information, the accounting rules homogeneous intelligibility and comparability, and recording deficiencies/difficulties such as lack of trainers, teachers and professionals practical adjustment costs to local SMEs, simplifying approach insufficient.

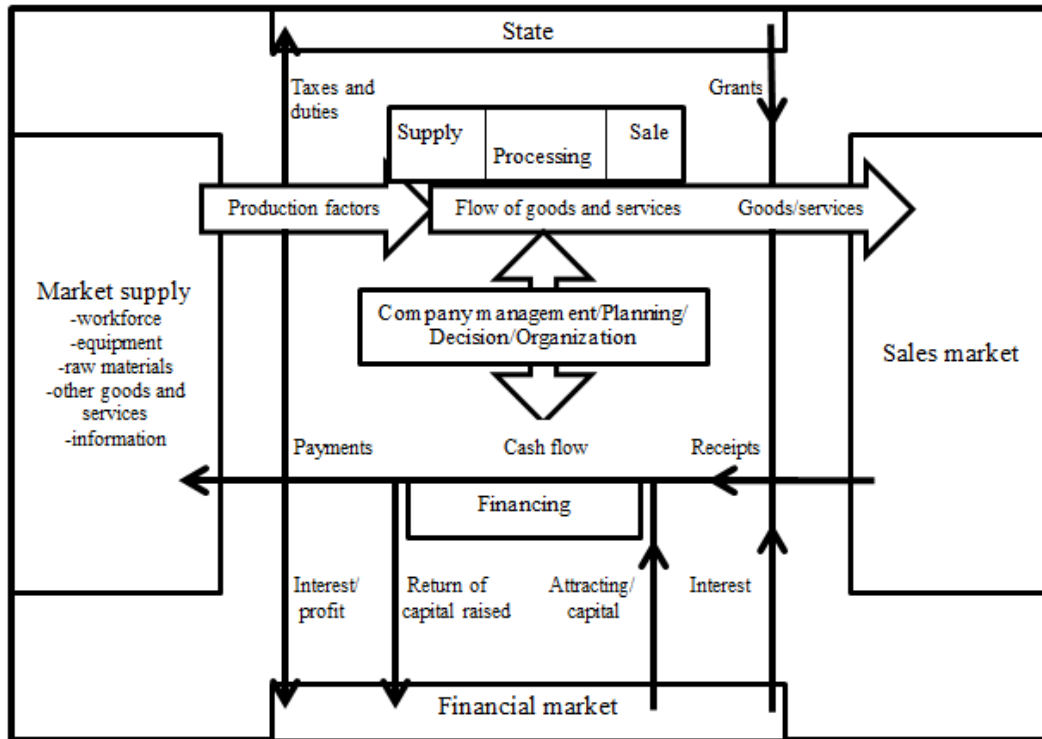
Albu and all developed an experimental study about possible application of IFRS for SMEs in Romania and identified other difficulties: emphasis on compliance with tax regulations, based on the rules of guidance and preference order prescriptive regulatory accountants.

### **III. Accounting referentials in Romania. Differences and similarities between OMFP 3055/2009 and IFRS for SMEs**

As we know, an entity to operate in a free economic zone, actually rendering services to other businesses as area residents.



Figure 1 - Mode of operation of an entity



Source: <http://www.economiainreprenderii.ro/cap2/4bis.htm>

The objective of this paper is to delineate the differences and similarities between IFRS for SMEs and regulations in Romania. To provide an overview about similarities and differences between IFRS for SMEs and Order no.3055/2009 we present the following comparative analysis of borrowing costs and leasing contracts, following the examples resulted in an easy journey, visions about the possible impact of applying IFRS for SMEs in Romania. We mention two items in the financial statements because SMEs resort to lending of funds and leases in the economic activity.



**Table 1** - Differences and similarities between IFRS for SMEs and OMPF no.3055/2009

	<b>IFRS for SMEs</b>	<b>OMPF no.3055/2009</b>
<u>The borrowing costs</u>	Borrowing costs is an expense recognized in profit and loss account.	Borrowing costs are capitalizes for assets that require a period of time to be used and sold.
Example:	<p>SC "X " SRL has contracted a long-term loan in early 2012 in amount of 300.000u.m. with a rate of 10%. In the first six months of the year, the amount borrowed exceeds the needs of the entity, reason to borrow the sum of 100.000u.m. to another entity to an interest rate of 9.5%.</p> <p>What costs are capitalized?</p> <p>Solution:  <math>Expenses\ capitalized = (300.000 * 10\%) - (100.000 * 9.5\% * 6/12) = 30.000 - 4.750 = 25.250u.m.</math></p>	<p>Solution:            Borrowing costs are recognized as an expense in the period in which they arose, to take account of how loans are used as follows:            Expenses = %            interest      Accrued interest                             loans and similar                             debts                             Accrued interest                             on bank loans                             in the short term                             Interest payable                             Shareholders/                             associates                             interest on accounts</p>
<u>Leases</u>	<ul style="list-style-type: none"> <li>• Definition</li> </ul> Lease is the agreement whereby the lessor transfers to the lessee	<ul style="list-style-type: none"> <li>• Definition</li> </ul> Lease is the agreement whereby the lessor conveys to the lessee



	<p>the right to use an asset for a certain period of time in return for payment.</p> <ul style="list-style-type: none"> <li>- finance leases and operating leases.             <ul style="list-style-type: none"> <li>· To lessee accounting                 <ul style="list-style-type: none"> <li>a. Finance lease</li> </ul> </li> </ul> </li> <li>-assets and liabilities are recognized at fair value of payments</li> <li>-the tenant must allocate minimum lease payments between financial and expenses with debt reduction             <ul style="list-style-type: none"> <li>b. Operating leases</li> </ul> </li> <li>-lease payments are staggered</li> <li>-recognition of profit or loss             <ul style="list-style-type: none"> <li>· To lessor accounting                 <ul style="list-style-type: none"> <li>a. Finance lease</li> </ul> </li> </ul> </li> <li>-assets are recognized in the statement of financial position             <ul style="list-style-type: none"> <li>b. Operating leases</li> </ul> </li> <li>-recognition of revenue in the income statement</li> </ul>	<p>the right to use a good for a set period, in return for payment.</p> <ul style="list-style-type: none"> <li>- Finance leases and operating leases.</li> </ul>
<p>Example:</p>	<p><i>An equipment cost 4.500u.m and the accumulated depreciation is</i></p>	<p><i>An equipment cost 4.500u.m and the accumulated depreciation is</i></p>



	<p>2.500u.m, this is sold for 3.500u.m. and taken in the finance leases.</p> <p><i>Solution:</i></p> <p>Sundry = % 3.500</p> <p>debtors Revenues from 2.000</p> <p>sales assets and</p> <p>other works of</p> <p>the capital</p> <p>Revenues recorded 1.500</p> <p>up front</p> <p>% = Technological 4.500</p> <p>Technological equipment 3.000</p> <p>equipment</p> <p>depreciation</p> <p>Expenses of 1.500</p> <p>sales assets</p> <p>and other</p> <p>operations of</p> <p>the capital</p> <p>Technological= Other loans 3.500</p> <p>equipment and similar debts</p>	<p>2.500u.m, this is sold for 3.500u.m and taken in the finance leases.</p> <p><i>Solution:</i></p> <p>Sundry = Other loans 3.500</p> <p>debtors and similar duty</p> <p>If a sale and leaseback transactions leading to an operating lease are recorded two transactions: the sale of the asset and the lease. Resulting gain is recognized in full in profit or loss.</p>
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	<p><i>If a sale and leaseback transaction results in an operating lease, and it is clear that the transaction was carried at fair value, the seller-lessee shall recognize any profit or loss immediately.</i></p>	
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## I. CONCLUSIONS

The numerous researches developed in financial reporting and accounting we have secured a base of rich documentation and research directed us causing us to descend into the details of the methodology for preparation and presentation of financial statements and to give importance to each element, principle or concept formulated by normalized.

The entity that adopts IFRS for SMEs must submit the following financial statements:

- Statement of financial position at the date of the report;
- Statement of comprehensive income for all items of income and expense recognized during the reporting period, including those items recognized in determining the profit or loss and other comprehensive income or separate income statement and a separate statement of expenses and income;
- Statement of changes in equity for the reporting period;
- Statement of cash flows for the reporting period;
- Notes, comprising a summary of significant accounting policies and other explanatory information.

In Romania, we emphasize that accounting regulations, standards or not, the differences are huge and with impact on the life of entities: the regulations are issued by government agencies and have imperative character, while standards or rules should be issued by governmental and have character of recommendation; latter assume the application of professional judgment and finding solutions to individual companies, which



implies a certain level of education and business ethics in general and the activities of reflection, evidence, in particular.

At national level IFRS for SMEs does not apply in the small and medium sized of entities. However it can be seen by Order no. 3055/2009 a better harmonization with EU directives and international standards. We can also point out that the two referential accounting: IFRS for SMEs and OMPF no.3055/2009 are similarities and differences, which may or may not facilitate application in future international standard of IFRS for SMEs.

Federation of European Accountants (The Federation of European Accountants) believes that IFRS for SMEs can help strengthen harmonization in Europe and, therefore, in their view, review guidelines provides a good opportunity to address any real or perceived discrepancy between directives accounting and IFRS for SMEs.

On the other hand, James J. Leisenring disagrees with IFRS issue because he believes that "IFRS for SMEs is not necessary or desirable". Leisenring believes that this standard does not comply with the Constitution Committee Foundation International Accounting Standards.

We believe that the multitude of accounting practices used by SMEs from around the world is an inexhaustible source of solutions responding very easily to the specific needs of small entities.

We concluded that, despite the problems encountered, a common framework for financial reporting for small and medium enterprises is in the interest of the users of financial information and IASB's efforts in these directions are welcome.

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