

IFRS IN THE SMALL AND MEDIUM-SIZED ENTITIES.DIFICULTIES AND OPPORTUNITIES OF THE IFRS FOR SMES

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Abstract: *Over the years, the accounting have to meet a series of transformations and adaptations to the new trend by globalization, harmonisation and integration, trying to unfold transformations carried out at European and international level. In the same way and SMEs have undergone a series of changes, moreover SMEs shall draw up financial statements often use only owner-managers or use only tax authorities or other government authorities. Financial statements elaborated only for these purposes are not necessarily financial statements general purpose.*

IASB (International Accounting Standard Board) has developed and published a separate standard devised to apply financial statements with general purpose and other financial reporting of the small and medium-sized entities (SMEs), entities private and public entities without liability, called IFRS for SMEs (The International Financial Reporting Standard for Small and Medium-sized entities).

The International Financial Reporting Standard for SMEs has become an issue of wide interest and for Romania. Through the contents OMPF 3055/2009 is a harmonisation with European Directives and International Standards, fundamental purpose being upgrade the comparability of financial statements of the economic entity.

In an effort to reduce the workload of SMEs has been provided the fact that IFRS for SMEs should be reviewed every three years and may be implemented by any entity, whether adopted or not full set of IFRS.

We believe that IFRS for SMEs is different than the full set of IFRS, due simplification, which allows flexibility provisions and showing accounting required information for this class of entities, but in applying the standard simplified scheme for SMEs has revealed a series of opportunities and challenges. IFRS for SMEs allows a particular accounting policies on recognition and measurement principles, offers greater flexibility in developing their accounting rules than provisions of full IFRSs.

Having regard to theoretical concepts discussed above, we carry out a case study, which shows the comparable presentation by applying of financial statements OMPF 3055/2009 and IFRS for SMEs in reporting financial assistance in Romania.

According to studies, rules used in the preparation and presentation of financial statements present a yawning abyss regarding accounting standards and those applying them in practice, due to the existence of multiple accounting regulations, confusing and permanently changing.

Through this article it soughts to point out the accounting rules used by entities in Romania, in financial statements presentation.

Keywords: *financial statements, standard, SMEs, IFRS for SMEs, harmonisation, performance*

1. Introduction

The International Financial Reporting Standards, known as IFRS abridged, having its origin in English - International Financial Reporting Standards, shall be carried as a set of standards "based on principles" as laid down general rules, but shall require and specific accounting treatments. These are issued by the International Accounting Standards Board (IASB) in order to apply financial statements and other financial reporting entity's directed to profit, providing information regarding the position, performance and cash flows of the entity, appropriate to users in decision-making process (International Financial Reporting Standards – IFRS, Part A – Conceptual framework and provisions, 2011).

IFRS-s shall lay down the rules for the recognition, assessment, presentation and description which deals with transactions, events and conditions that are important in the financial statements with general purpose. IRFS is based on the general framework conceptually, which deals with the concepts which outlines the information given in the financial statements with general purpose. The aim being to facilitate Frame formulation and logically consistent IFRS-sized. It also provides a basis for using reasoning in solving professional accounting.

2. The jump SMEs to IFRS

The Council for International Financial Reporting Standards Board (IASB) has published at the time of the year 2006 the project for the preparation of Financial Reporting Standards for SMEs, which was published in Romania, in 2009, by CECCAR with permission and review the Review Committee IASCF.

This standard has been developed and published by IASB having as foreground presentation by SMEs financial situations of general purpose, since SMEs shall draw up accounts only for noncommercial owners or only for noncommercial tax authorities or other governmental authorities (International Financial Reporting Standards (IFRS) for Small and Medium-sized Entities, 2009).

IFRS for SMEs is designed for use by small and medium-sized entities, falling within the following categories:

- a. do not have public accountability
- b. public financial situations general purpose for external users.

The fundamental objective of SMEs is to provide information regarding the position, performance and cash flows of the entity (Feleagă N. and Feleagă L., 2005), and giving the qualitative characteristics of financial statements, as can be seen in the figure below.

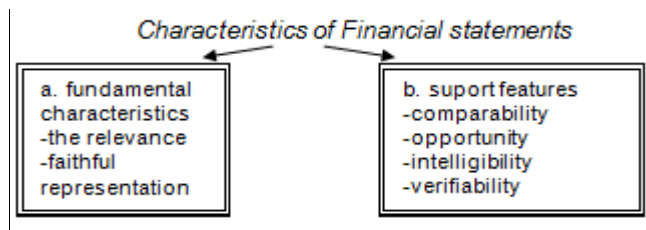


Figure no. 1: Characteristics of financial statements

Source: own processing

Unlike the full set of IFRSs and other national accounting standards, IFRS for SMEs is much shorter constituting a single standard in its own right, which was carried out in accordance with the requirements and the needs of SMEs which represents a percentage of 95% by number entities existing at the global level.

Full IFRS completely shows more accounting treatments, while IFRS for SMEs provides for a single treatment, that is the easiest, and it also allow the choice of a certain accounting policies on the principles of providing and assessment offering greater flexibility in the development of their own accounting rules.

Practically speaking, the IFRS for SMEs is seen as an accounting framework for entities which have no size and nor the resources required to use the full set of IFRSs.

3. Challenges and opportunities in applying IFRS for SMEs

In applying the standard simplified for SMEs have resulted in a series of opportunities and challenges, taking into account both financial statements and accounting policies (Caloian Florentin, 2012):

A. Financial statements

| OMFP 3055/2009 | IFRS for SMEs |
|--|---|
| <p>The legal entities who satisfy 2 criteria of the 3 listed:</p> <ul style="list-style-type: none"> - Total assets ≤ 3,650,000 euro - Net turnover ≤ 7,300,000 euro - Number of employees ≤ 50 <p>You must submit financial statements which may include the following:</p> <ul style="list-style-type: none"> - Statement of financial position - Profit and loss account - Statement changes its own capital - Statement cash flows - Explanatory notes <p>The legal entities which on the date of financial statements not exceeds 2 criteria of 3 herein above, shall simplified financial statements such as the following:</p> <ul style="list-style-type: none"> - Short balance sheet - Profit and loss account - Simplified notes <p>* You can present the statement of changes own capital and/or statement cash flow.</p> | <p>A complete set of financial statements should include:</p> <ul style="list-style-type: none"> - Statement of financial position - A single statement of income for the reporting period covering all the income items and expenditure which are recognized during the period - A statement of changes in capital - A statement of cash flows - Accounting policies and other explanatory information <p>There is no format for the statement of financial position. But in the balance sheet are provided as follows:</p> <p>A. assets:</p> <ul style="list-style-type: none"> - Cash and cash equivalents - Trade and other receivables - Financial assets - stocks - Tangible and intangible - Investment property - biological assets - Investments in associates and joint ventures - Deferred tax payable - Deferred tax assets <p>B. equity and duty:</p> |

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| <p><i>Declaration of Conformity</i> Entities must disclose in the financial statements notes that they have not been drawn up in accordance with Accounting Law 82/1991, republished and provisions of OMPF 3055/2009.</p> <p><i>Deviation from regulations</i> Annual financial statements must give a true and fair view of the assets, of liabilities, financial position, profit or loss of the entity. If application of the regulations is not sufficient to ensure an accurate picture of entity, it should present additional information in the notes.</p> <p><i>Comparative information</i> An entity must provide comparative information for one year for the amounts presented in financial statements.</p> <p><i>Materiality threshold and aggregation</i> Balance sheet and profit and loss account of elements are preceded by</p> | <ul style="list-style-type: none"> - trade payables and other nature - Financial liabilities - exigible tax debts - Deferred tax liabilities - provisions - Equity attributable to owners of the parent - Controlling interests <p>Other items presented in the statement of comprehensive income, such as:</p> <ul style="list-style-type: none"> - income - The cost of financing - Share of profit or loss of associates - Tax expenses - Profit or loss <p>Cash flow statement shows the cash flows generated and used during a specified period. The Explanatory Notes shall provide additional information of financial statements.</p> <p><i>Conformity with the IFRS for SMEs</i> An entity in accordance with IFRS for SMEs will make a recall explicit and without reservation in respect of compliance in notes.</p> <p><i>Deviation from standard</i> In extremely rare cases, when management concludes that ensure conformity IFRS for SMEs should be misleading and would be in conflict with the objective of financial statements of SMEs, the entity will drift away from that requirement, except situations where the regulation prohibits such deviation.</p> <p><i>Comparative information</i> An entity will present comparative information on previous accounting periods for the amounts shown in financial statements.</p> <p><i>Materiality threshold and the aggregation</i> An entity shall present separately each class significant of similar items.</p> |
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| Arabic numerals, with the presentation of details in notes. | |
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B. Accounting policies

| OMFP 3055/2009 | IFRS for SMEs |
|--|--|
| <p><i>Definition accounting policy</i> Definition accounting policy is consistent with the definition of IFRS-SME. The method of depreciation is considered accounting policy.</p> <p><i>Selection of accounting policies</i> Directive IV EEC does not contain strict rules in this respect, except that when transactions are significant in accordance with certain criteria and internal judgment of the entity who classified this must be treated separately</p> <p><i>Accounting treatment of changes of policy</i> Policy changes may be caused by: -initiative of entity -decision of an authority A voluntary change in accounting policy can also be determined by: -changing entity exceptional situation or economic conditions in which they operate -to need to obtain more relevant and credible information.</p> <p><i>Error correction periods prior</i> Errors are periods prior restated retrospectively. Restatement of comparative information balance sheet and profit and loss account is expressly prohibited. Insignificant errors can be attributed to the profit and loss account.</p> | <p><i>Definition accounting policy</i> Accounting policies are the principles, the bottoms, like conventions, rules and practices applied by an entity which prepares and presents financial statements.</p> <p><i>Selection of accounting policies and other guidance hierarchy</i> To select an accounts when IFRS-SMEs does not treat specifically a transaction, an event or a condition, management will be with a view to applying sources: -requirements and guidelines IFRS - SMEs for similar things -definitions, recognition criteria and a basis for the assessment of assets, liabilities, income and expenditure -general principles.</p> <p><i>Accounting treatment of changes in policy</i> Changing an accounting policy is booked as follows: -an entity must account for a change an accounting policies resulting from a change of IFRS-SMEs -when an entity has chosen to apply IAS 39 - Financial instruments: recognition and measurement, instead of the requirements IFRS-SMEs for financial instruments -other changes in accounting policies are accounted retrospectively.</p> <p><i>Error correction periods prior</i> Significant errors in previous periods are corrected retrospectively, except situations when the determination of error is impossible.</p> |

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| When correcting the error causes a loss carried forward, it must be covered before any distributions. | |
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Source: processing after CECCAR

4. Case Study

Having regard to theoretical concepts discussed above, we will carry out a case study, which shows comparability of preparation and presentation of financial statements by applying OMPF 3055/2009 and the IFRS for SMEs, financial reporting entity in Romania.

A. Applying OMPF 3055/2009

Case study has been carried out at SC Radiant Glass SRL, has as their main activity and trimming processing flat glass.

The entity shall draw up balance sheet and profit and loss account and explanatory notes, submitted in accordance with Accounting Law no.82/1991 reissued and with the regulations in accordance with Directive IV EEC, approved by OMPF 3055/2009. In table no. 1 shows the main elements of the financial statements (www.mfinante.ro):

Table no.1: Financial statements according OMFP 3055/2009

| Balance sheet elements (RON) | 31.12.2010 | 31.12.2011 |
|---|---------------|---------------|
| Fixed assets-total | 30575 | 30575 |
| Current assets-total , of which: | 936937 | 947252 |
| Stocks | 689538 | 764561 |
| Claims | 137955 | 162660 |
| Cash and bank accounts | 109444 | 20031 |
| Expenditure in advance | - | - |
| Total debts | 970725 | 982045 |
| Incomes in advance | - | - |
| Provisions | - | - |
| Capital-total , of which: | -3213 | -4218 |

| | | |
|---|-------------------|-------------------|
| <i>Paid-up share capital</i> | 200 | 200 |
| <i>Special assets regia</i> | - | - |
| <i>Public property</i> | - | - |
| Profit and profit and loss account (RON) | 31.12.2010 | 31.12.2011 |
| Net turnover | 325508 | 441283 |
| Total income | 337412 | 471584 |
| Total expenditure | 322313 | 472589 |
| Gross profit or loss | | |
| -profit | 15099 | 0 |
| -loss | 0 | 1005 |
| Profit or loss of financial year | | |
| -profit | 10224 | 0 |
| -loss | 0 | 1005 |

Source: own processing

Financial statements of the above is the source of the basic information to carry out the analysis financial. They are formal reports on the state and financial performance of entity in presenting an image of financial position and its profitability at the end of a period of the current financial year.

B.Application of IFRS for SMEs - Presentation of Financial Statements

Case study has been carried out on the example BEAUTY DENT SRL, which is providing services in the field of dental technique.

Since its establishment till now the company has diversified and expanded the range of products and services. The Laboratory with European standards and has a team of experienced technicians who are able to please the most exacting demands, using materials and tools of-the-art and supplies disposable.

On the basis accounting entity shall draw up the balance sheet and profit and loss account and the rest of the reports, which are presented in accordance with Accounting Law no.82/1991 reissued and with International Accounting Standards. Taking into consideration that in the *IAS 1 - Presentation of financial statements* is not given any form of balance sheet and profit and loss account, the entity can create their own format so that the information presented fulfills all accounting information requirements.

In table no. 2 shows the main elements of financial statements (www.mfinante.ro):

Table no.2: Financial statements according IAS 1:

| Balance sheet elements (RON) | 31.12.2010 | 31.12.2011 | Variation (%) |
|-------------------------------------|-------------------|-------------------|----------------------|
| Intangible fixed assets | 0 | 0 | - |
| Tangible fixed assets | 81015 | 88466 | 9,19 |
| Financial fixed assets | 0 | 0 | - |
| Fixed assets - total | 81015 | 88466 | 9,19 |
| Stocks | 10267 | 0 | -100 |
| Claims | 0 | 0 | - |

| | | | |
|---|-------------------|-------------------|----------------------|
| Short-term investments | 0 | 0 | - |
| Cash and bank accounts | 260 | 1905 | 632,69 |
| Current assets- total | 10527 | 1905 | -81,90 |
| Total assets | 91542 | 90371 | -1,28 |
| Shorts-term debts | 75224 | 72824 | -3,19 |
| Long-term debts | 0 | 0 | - |
| Provisions | 0 | 0 | - |
| Equity capital, of which: | 16318 | 17547 | 7,53 |
| Social capital | 200 | 200 | 0 |
| Share premium | 0 | 0 | - |
| Revaluation reserve | 0 | 0 | - |
| Total reserves | 0 | 0 | - |
| Result for the year | 1341 | 1229 | -8,35 |
| Total liabilities | 91542 | 90371 | -1,28 |
| Profit and profit and loss account (RON) | 31.12.2010 | 31.12.2011 | Variation (%) |
| Operating income, of which: | 98936 | 96905 | -2,05 |
| <i>Turnover</i> | <i>98936</i> | <i>96905</i> | -2,05 |
| Financial income | 1 | 1 | 0 |
| Extraordinary income | 0 | 0 | - |
| Total income | 98937 | 96906 | -2,05 |
| Expenditure on the holding, of which: | 81526 | 65789 | -19,30 |
| <i>Material costs</i> | <i>32004</i> | <i>37890</i> | 18,39 |
| <i>Staff costs</i> | <i>19200</i> | <i>17230</i> | -10,26 |
| <i>Amortization expenses</i> | <i>18492</i> | <i>10669</i> | -42,30 |
| <i>Expenditure on those provisions</i> | <i>0</i> | <i>0</i> | - |
| Financial expenses | 12845 | 29654 | 130,87 |
| Extraordinary expenses | 0 | 0 | - |
| Total expenses | 94371 | 95443 | 1,13 |
| Operating result | 17410 | 31115 | 78,71 |
| Financial result | -12844 | -29653 | -13,08 |
| Extraordinary result | 0 | 0 | 0 |
| Gross result | 4566 | 1463 | -67,79 |
| Income taxes | 3225 | 234 | -92,74 |
| Net result | 1341 | 1229 | -8,35 |

Source: own processing

By balance sheet is should be noted that the entity complies with International Accounting Standards and Regulations Directive -IV- EEC, with respect to the allocation of assets and liabilities. The profit and loss account is reflected the company performance and presents a distinct structure of the financial statements by processing and systematization all revenue and expenditure recorded in current financial year.

International Accounting Standards leave a large freedom of thought accounting officer, in such a way that professional reasoning decisions the best, for the financial statements present a true and fair view of business performance.

5. Conclusions

In the case of Romania accounting reform in the field has been influenced by the perimeter of European and international developments in the area. The tendency was, to provide a framework for the elaboration and presentation of comparable financial statements both with European Accounting Directives and with IFRS. This approach is wants to contribute to improving the comparability of financial statements of entity in Romania. So IASB has carried out a specific simplified standard for small and medium sized entities (IFRS for SMEs), coming in their support in carrying out and presenting financial statements general purpose.

In our country has not been imposed a bill to determine this standard, but by OMFP 3055/2009 has occurs the harmonization of national rules with EU directives and international standards, with a view to presenting annual financial statements.

Information to be provided by annual financial statements on the basis of analysis financial. Financial statements must be drawn up in such a way as to provide information about the position and financial performance, as well as the accurate entity. Each of the component of the financial statements shows different information about same transactions and events carried out by economic entity during the course of a financial year. Therefore, each financial situation analyzed separately is unable to provide an overall picture of the entity by analyzed.

Accounting system IAS/IFRS applied to certain operators in Romania since 2000 and there is an intended to gradually generalize these international standards, so that they can be applied and in the smallest entity. However, it is an unwieldy system, with more than one accounting records, calculations more complicated and different results from accounting system governed by legislation presented, so that there is a certain inertia, to the disadvantage of applying IAS/IFRS.

Some experts consider that many of the companies, by a number of different accounting tricks have concluded the year with profit, in order to be able to access bank loans. These entities will collapse as soon as the implementation of the standards. Such a situation will create additional problems entities preserve, because they will have to apply new accounting standards at a time when that will be affected by competition in the common market predatory european. The only chance to overcome such difficulties is that all economic agents to record profit real up to application of the new accounting system, since, in the case where the profit is artificially created by application of the new standards, the companies are likely to become bankrupt.

In the markets with a competitive level on the rise, the application allows an entities IFRS relate to other similar entities at world level and to enable investors and other users looking to compare company performance with competitors on a global level.

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