Requirements for the Disclosure of Financial Information for Smes in Accordance With European and National Legislation

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Abstract

This article focuses on the issues of presentation and disclosure the information in financial statements for small enterprises in the EU and requirements for financial statements of such enterprises in Moldova in connection with the drafting of a new law on accounting.

Keywords: presentation and disclosure the information in financial statements for SMEs, Directive 2013/34/EU.

1. Introduction

The main normative document that regulates the disclosure of information in the financial situation in the European Union is Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 "On the annual financial statements, consolidated financial statements and related reports", which amending the Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC.

European Commission adopted communication entitled "Smart regulation in the European Union", which goal is to elaborate and apply the regulation of the highest quality respecting the principles of subsidiarity and proportionality and ensuring that the administrative onus is proportionate to the benefits it brings. The Directive2013/34/EU takes into consideration the provisions of Commission's communication.

It is also necessary to emphasize, that one of the most important communication of European Commission in the sphere of SME is "Think Small First – Small Business Act for Europe". This document recognizes the central role of SMEs in the eropean economy and suggests an improvement the approach to entrepreneurship and to fix the "think small first" principle in policy-making from regulation to public service.

Small and medium enterprises constitute over 90% of EU enterprises and form the backbone of the economy within the Community. That's why, the European Council intents measures to increase economic growth and jobs, results to citizens and businesses.

Unification of national provisions of the presentation and content of annual financial situation and management reports is of special importance for the protection of shareholders and investors. Coordination in presentation and disclosure of financial information for SME's enterprises is necessary because some undertakings operate in more than one Member State of European Union.

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The European Directive 2013/34/EU provides unified requirements for the presentation and disclosure of information in financial statements for all SMEs in all countries members of the European Union. Despite this Member States can set the requirements in notes that are additional to the mandatory notes. In addition, Member States may limit additional disclosures of financial information if this is required by their national tax laws for tax purposes.

Member States have the possibility to stipulate additional requirements for the disclosure of Information presented in financial statements for large businesses that exceed the minimum requirements established in this Directive. Directive 2013/34/EU allows Member States to apply additional requirements to small businesses, it is possible to partially or fully use their requirements, which are less than the provisions of the Directive. The Directive establishes that Member States may use exceptions in relation to small enterprises for exemption from disclosure of information

Criteria that classify enterprises as small, medium- sized and large, are the most objective, and represent such indicators as: balance sheet total, net turnover and the average number of employees during the financial year. In the event that a Member State applies one or more specific provisions for microenterprises, these provisions should also be linked and determined using the balance sheet total, net turnover and average number of employees during the financial year. If the gradation of the categories and requirements for medium and large enterprises in the national legislation of member countries are the same, then Member States should not define separate such categories in their national legislation.

Micro-enterprises have limited resources to meet all regulatory requirements. If member countries no specific rules for micro-businesses, the rules that apply to them are the rules established for small businesses. These rules establish micro-enterprises for additional administrative burden, which do not correspond to their dimensions and, therefore, become more onerous, compared to other small undertakings. Therefore, Member States should exempt microenterprises from wide disclosures of financial statements that could lead to unnecessary administrative burdens on them. However, micro-enterprises in accordance with national legislation should keep records and reflect business transactions.

Investment funds and financial holdings cannot use the benefits of disclosure financial information as micro-enterprises, while Member States must take into account the specific conditions and needs of their markets when deciding how to implement a separate regime for micro-enterprises in the context the provisions of Directive 2013/34/EU.

For micro-enterprises publication of financial statements can be cumbersome. However, in fulfilling the requirements of the Directive, Member States should not exempt microenterprises from of requirement of publication, in condition that information presented in balance sheet is provided in accordance with national legislation.

In this situation, the requirement established in Directive 2013/34/EU, on the publication of financial statements which are disclosed in accordance with Directive 2009/101 / EC of the European Parliament and of the Council of 16 September 2009 on coordination of safeguards, which are necessary for the protection of the interests of owners and third parties, are required by member States to ensure the equivalence of these guarantees, should not apply. To guarantee the comparability and equivalence of information and recognition the disclosure must include the going concern, the prudence, and the accrual bases. Set-offs between asset and liability items and income and expense items should not be allowed and components of assets and liabilities should be valued separately. However, in specific cases, Member States should be allowed to permit enterprise to perform set-offs between asset and liability and income and expense. Financial information must be presented relying on the economic reality or commercial substance of the underlying transaction or arrangement, but in a number of cases Member States should be allowed to exempt enterprises from applying such principles.

In the disclosure and consolidation financial statements, the primary role should be played by materiality for recognition, measurement, presentation information in the financial situation. In the event that the information is not material then it must be aggregated in the financial situation. A separate element of the financial statements may be immaterial, but immaterial items of a similar nature might be considered material when taken as a whole. Member States should be allowed to impose restrictions in the sphere of application the principle of materiality which is concerning to presentation and disclosure of information in the financial situation. The principle of materiality should not affect any national obligation to keep complete records showing business transactions and financial position.

The recognition of the elements of financial statements should be measured on the basis of the principle of initial value (purchase price or production cost) to ensure the reliability of information contained in financial situation. For presentation of more relevant information Member States should be allowed to permit undertakings to apply the revaluation method for fixed assets in order for a more complete disclosure of information for users.

It is necessary to limit a number of tips of the balance sheet to allow users of financial statements for better comparing the financial position of enterprises within the Union. Member States should require one set of balance sheets and offer a choice of several allowed formats, as published in Official Journal of the European Union at 29 June 2013. However, member States should be able to allow or to require enterprises to change the layout and to submit a balance sheet that distinguishes current and long-term elements such as assets and liabilities.

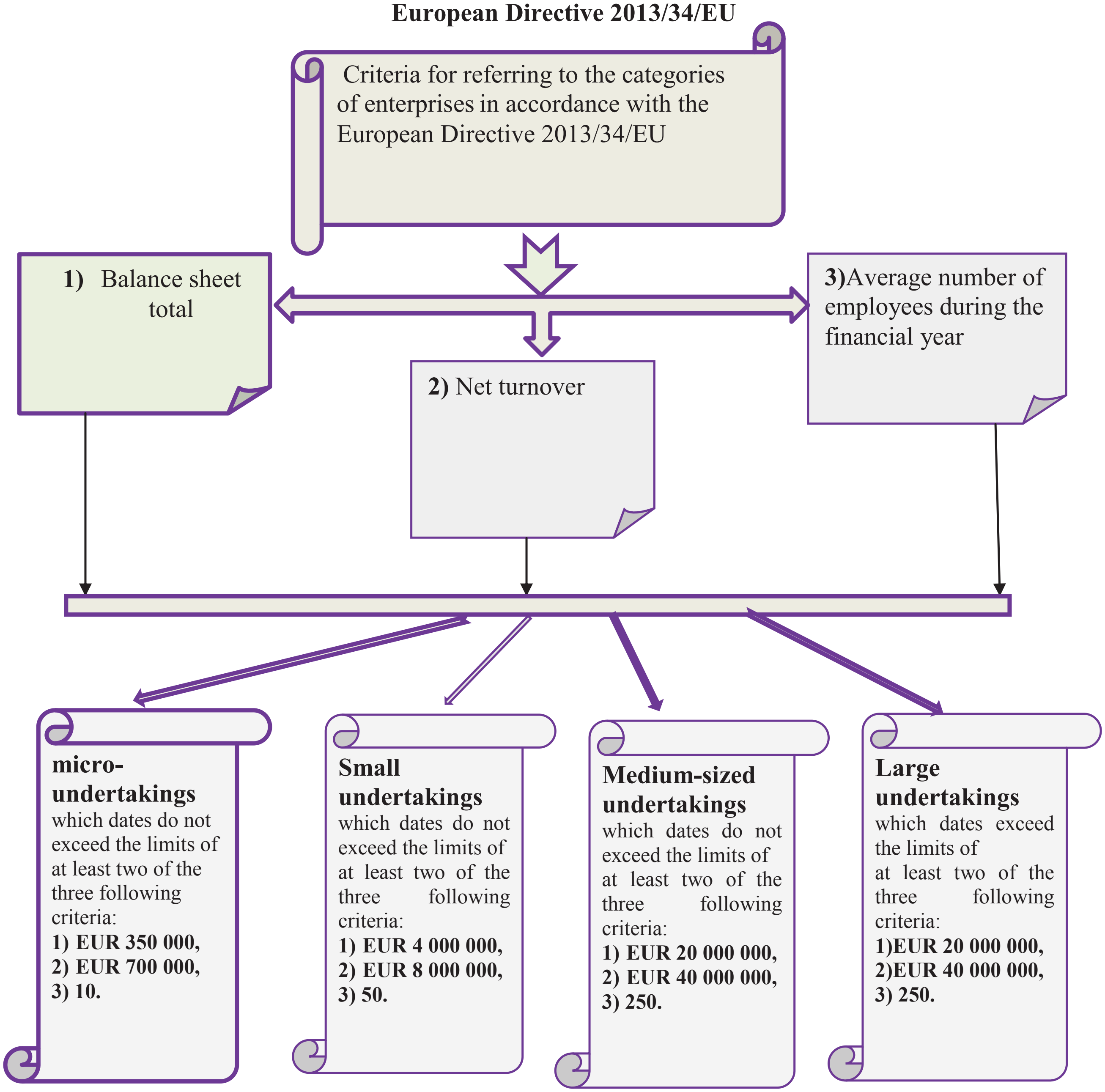
There are two layouts of profit and loss account which disclose information in accordance with the nature and the function of expenses. Member States should require the use of one layout for the profit and loss account and should be allowed to offer a choice from amongst permitted layouts. Member States are allowed to establish requirements for their enterprises to fill and to present a statement of performance instead of a profit and loss account prepared in accordance with one of the permitted layouts. Exceptions in terms of simplification of the required layouts for balance sheet and for the profit and loss account, can be made for small and medium-sized undertakings. If it is necessary for the electronic filing of financial statements, Member States could be allowed to restrict layouts of the balance sheet and profit and loss account.

Member States should be able to exempt small companies from the obligation of compiling the management reporting, provided that such commitments include, in the notes to the financial statements, information on the acquisition of own shares referred to in Article 24 of Directive 2012/30 / EU Of the European Parliament and of the Council of 25 October 2012 on the coordination of safeguards which, in order to protect the interests of members and others, are required by Member States with the meaning of the second paragraph of Article 54 of the Treaty on the Functioning of the European Union, in the formation of public limited liability companies and the maintenance and change of their capital, with a view to making such safeguards equivalent.

It can be expensive to compose consolidated financial statements in addition to the annual financial statements of the parent and subsidiary undertakings, because users of small enterprises' financial statements do not have sophisticated information needs and that’s why small groups should be exempt from the obligation to prepare consolidated financial statements.

The Directive 2013/34/EU establishes the criteria for referring to the categories of enterprises that are presented in Figure 1.

Figure 1. Criteria for referring to the categories of enterprises in accordance with the European Directive 2013/34/EU



Source: elaborated by the authors on the materials of the Directive 2013/34/EU.

The international economic situation in different member countries can lead to the fact that the criteria for referring to different categories of enterprises can vary greatly, in which case countries are allowed to extend the thresholds of criteria for small undertakings in the direction of increasing and to exceed the thresholds constitute in the Directive 2013/34/EU, however the thresholds shall not exceed EUR 6 000 000 for the balance sheet total and EUR 12 000 000 for the net turnover.

Member States may solicit small enterpruses to prepare, disclose and publish information in the financial situation which extend far beyond the demands of the Directive

2013/34/EU. Such additional disclosure shall provide that any such information is gathered under a single filing system and the disclosure requirement is contained in the national tax legislation for the strict purposes of tax collection. And such additional information should be placed in the relevant part of the financial statements.

Financial statements shall be prepared in accordance with the following general financial reporting principles:

- **going concern** – *the elements in the annual and consolidated financial statements should be recognized, measured and presented sequentially in time,*
- **the principle of the constancy** - *accounting policies and measurement bases shall be applied consistently from one financial year to the next,*
- **prudent basis -** *considering the elements of financial statements, it should be noted that assets and income have not been overstated and liabilities and expenses are not understated.*

The Directive 2013/34/EU allows small enterprises to prepare abridged financial statements: abridged balance sheets and profit and abridged loss accounts, wherein simplification of financial statements assumes that in abridged balance sheets show only those items in Annexes III and IV of directive preceded by letters and roman numerals. While in Annexe III financial information is presented in horizontal layout of the balance sheet, but in Annexe IV –in vertical layout.

We will present an abridged balance sheet in horizontal form in accordance with the requirements of the Directive 2013/34/EU:

Assets

A. Subscribed capital unpaid

B. Formation expenses

C. Fixed assets

I. Intangible assets

II. Tangible assets

III. Financial assets

D. Current assets

I. Stocks

II. Debtors

III. Investments

IV. Cash at bank and in hand

E. Prepayments and accrued income

Capital, reserves and liabilities

A. Capital and reserves

I. Subscribed capital

II. Share premium account

III. Revaluation reserve

IV. Reserves

V. Profit or loss brought forward

VI. Profit or loss for the financial year

B. Provisions

C. Creditors

D. Accruals and deferred income

It is also possible disclosures, either in the balance sheet or in the notes to the financial statements following information about:

1) ***long term and current debtors separately*** (*trade debtors, amounts owed by affiliated undertakings, amounts owed by undertakings with which the*

undertaking is linked by virtue of participating interests, other debtors, subscribed capital called but not paid, prepayments and accrued income),

2) ***long term and current creditors*** *(debenture loans, showing convertible loans, amounts owed to credit institutions, payments received on account of orders, in so far as they are not shown separately as deductions from stocks, trade creditors, bills of exchange payable, amounts owed to affiliated undertakings, amounts owed to undertakings with which the undertaking is linked by virtue of participating interests, accruals and deferred income).*

Article 36 ”Exemptions for micro-undertakings” of the Directive 2013/34/EU establishs the following benefits for micro-undertakings, which do not:

1) *provide information about prepayments and accrued income or accruals and deferred income in financial statements,*
2) *draw up notes to the financial statements in accordance with Article 16 of directive,*
3) *prepare a management report in accordance with Chapter 5 of relevant directive*
4) *publish annual financial statements in accordance with Chapter 7 of the Directive.*

The small enterprises can be allowed to draw up only an abridged balance sheet showing separately at least those items preceded by letters in Annexes III or IV, where applicable. Authors showed abridged balance sheet prepared in accordance with the requirements of the directive as applied to the vertical form, such as:

A. Subscribed capital unpaid,
B. Formation expenses,
C. Fixed assets,
D. Current assets,
E. Prepayments and accrued income,
F. Creditors: amounts becoming due and payable within one year,
G. Net current assets/liabilities,
H. Total assets less current liabilities,
I. Creditors: amounts becoming due and payable after more than one year,
J. Provisions,
K. Accruals and deferred income,
L. Capital and reserves.

In terms of disclosure of income and expenses, the directive allows micro-enterprises to compile an abridged profit and loss account showing separately at least the following items, where applicable:

- *net turnover,*
- *other income,*
- *cost of raw materials and consumables,*
- *staff costs,*
- *value adjustments,*
- *other charges,*
- *tax,*
- *profit or loss.*

By 20 July 2018 the Commission shall submit to the European Parliament, to the Council and to the European Economic and Social Committee a report on the situation of micro-undertakings taking account, in particular, of the situation at national level regarding the number of undertakings covered by the size criteria and the reduction of administrative burdens resulting from the exemption from the publication requirement.

Currently in Moldova the Ministry of Finance developed a draft law on accounting which was approved by the government at 08 June 2017. In a new project of law on accounting, all enterprises are classified by categories (micro, small, medium and large enterprises) and groups (small, medium and large), depending on the sales revenue, total assets and average number of employees. Below we present a classification of enterprises in accordance with the draft law on accounting of Moldova.

Categories of entities and groups

Micro entity - entity that at the reporting date does not exceed the limits of at least two of the following three criteria:

(A) total assets: 5 600 000 lei;

(B) Income from sales: 11 200 000 lei;

(C) the average number of employees during the management period: 10.

Small Entity - the entity that at the reporting date does not exceed the limits of at least two of the following three criteria:

(A) total assets: 63 600 000 lei;

(B) Income from sales: 127 200 000 lei;

(C) Average number of employees during the management period:50.

Medium Entity - the entity that at the reporting date does not exceed the limits of at least two of the following three criteria:

(A) total assets: 318 million lei;

(B) Income from sales: 636 million lei;

(C) Average number of employees during the management period: *250*.

Large Entity - Entity that at the reporting date exceeds the limits of at least two of the following three criteria:

(A) total assets: 318 million lei;

(B) Income from sales: 636 million lei;

(C) Average number of employees during the management period: 250.

An entity or group changes from one category to another if, at the reporting date, it exceeds or ceases to exceed the limits of two of the three criteria for the last two consecutive reporting periods.

Micro entities, individuals who carry out entrepreneurial activity after their registration as VAT payers, keep double-entry accounts and prepare abridged financial statements according to the National Accouynting Standards. Small entities keep double-entry accounts and prepare simplified financial statements according to the National Accouynting Standards. Medium and large entities keep double-entry accounting and prepare complete financial statements according to the National Accouynting Standards. Public interest entities keep double-entry bookkeeping and prepare financial statements under International Financial Reportind Standards.

Non-profit organizations and representations of non-resident entities keep double-entry accounting and prepare financial statements in accordance with the methodological guidelines approved by the Ministry of Finance of Republic of Moldova.

Induvidials who carry on business, until they are registered as VAT payers, individuals who perform independent activity, individuals who perform professional activity in the justice sector and the offices set up by these, keep it simple bookkeeping on a cash basis, without the preparation of the financial statements, as of the methodological guide approved by the Ministry of Finance.

Moreover the Entity which has the right:

- ✓ *to keep simple bookkeeping can keep double-entry bookkeeping, beginning with the next reporting period,*
- ✓ *to draw up abridged financial statements can draw up the simplified financial statements or complete,*
- ✓ *to draw up simplified financial statements can draw up complete financial statements.*

It should be noted that in accordance with the provisions of the draft law on accounting of the Republic of Moldova

- ➢ *abridged financial statements include:*
- ✓ the balance sheet abridged;
- ✓ the situation of the profit and loss abridged;
- ✓ explanatory note.
- ➢ *simplified financial Statements include:*
- ✓ balance sheet simplified;
- ✓ the situation of the profit and loss;
- ✓ explanatory note.

Conclusions:

In conclusion it is necesary to emphasize that the Republic of Moldova unifies its legislation with the legislation of the European Union, including in the field of accounting and SMEs. However, the criteria that the Republic of Moldova has established for small businesses are somewhat overstated for the republic, based on the net sales that are carried out by local enterprises. At the same time, simplifying the set of financial statements for small businesses and also reducing the information that should be provided by such enterprises is welcomed.

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