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FINANCIAL AND TAX REPORTING IN THE SME SECTOR IN SELECTED EASTERN-EUROPEAN COUNTRIES

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Abstract

The purpose of this paper is to carry out a comparative analysis of the reporting obligations of SMEs in selected Eastern-European countries (Latvia, Lithuania, Poland, Russia, Ukraine). These are countries with different levels of economic development, but with a common political-economic ground, where the principles of market economy were introduced at a similar time.

Micro, small and medium enterprises are an important element of European economies, both those within the EU as well as those outside it. The results of the analysis of macroeconomic data, which are presented in the article, will indicate significance of this sector in Latvia, Lithuania, Poland, Russia and Ukraine.

Literature studies and analysis of the national legal regulations allowed to indicate different ranges of the mandatory elements of the financial statements and of the additional information which the entities from the SME sector must prepare in individual countries. The differences also exist in case of tax evidence and tax reporting. As a result, the scope of the financial information for decision-making and for evaluation of the enterprises is not homogenous in the researched Eastern-European countries. This impedes comparability, however, it can also be a prerequisite to seek the best solutions and practices, not only for the reporting purposes, but also for constructing effective information systems meeting the needs of the managers.

Key words: *Accounting, Financial reporting, Small business, Eastern Europe, Financial statement*

JEL code: L25, M13, M41

Introduction

Over the past several years, highly developed countries as well as emerging economies, having a different political, social and cultural structure, have been devoting much attention to micro, small and medium enterprises (SME). This sector plays a crucial role in the national economies; it is a driving force of business, of growth, innovation and competitiveness. Furthermore, it can be observed that most enterprises in Europe are SMEs (i.e. 99.8%) and that the most part of these enterprises (64.4%) is not covered by an EU-level accounting legislation (Accounting Guide for SME, 2015). The study made by the European Commission in 2011 shows that the accounting requirements for those SMEs which are not regulated at an EU-level are very different, ranging from almost non-existent to quite rigorous requirements (Study on Accounting …, 2011). SMEs prepare their financial statements according to local reporting framework. Financial reporting in various countries may vary in:

- the system of accounting regulation,

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- interaction between accounting and taxation,
- application of accounting methods and accounting principles.

In order to ensure that the requirements for small enterprises are to a large extent harmonised throughout the European Union, European Directive 2013/34/EU was introduced but differences still exist.

The purpose of the paper is to provide information about the current legal accounting requirements in Poland, Latvia, Lithuania, Russia, Ukraine for the SMEs which are not covered by harmonised EU accounting rules; and to carry out a comparative analysis of the components of financial statements and tax reporting. The analysis concerns reporting obligations of both, the entities which keep account books, as well as those which are not required to do so.

The objectives of the study were achieved through a desk research aimed at identifying and analysing the accounting and tax requirements in the reporting area. The survey of empirical European research studies on the SME financial reporting, made by Eirle (Eirle B., Schonefeldt A., 2010), shows that there is a research gap in the literature on financial reporting in this sector, especially relating to micro enterprises. This gap is surely partly fulfilled by the reports and studies made by the European Commission published in 2015 (Accounting Guide for SME, 2015) and in 2011 (Study on Accounting …, 2011). However, these reports only concern the members of the European Union. The survey in this paper was concentrate not only on European Union members, but also on the countries outside the EU, which makes our study unique. For analysis were chosen countries with different levels of economic development, but a common political-economic ground, where the principles of market economy have been introduced at a similar time. Poland, Latvia and Lithuania are members of the European Union, as opposed to Russia and Ukraine. The literature review was conducted using an internet search engine Google and an electronic database EBSCO. Three groups of key-words were used:

- small business, SME,
- financial reporting, financial statements, financial reports, tax reporting,
- CEE, Eastern Europe, Poland, Latvia, Lithuania, Russia, Ukraine.

For each search a key-word from each group was used simultaneously. The limitation of study was the fact that the publication had to be written in English.

Results show that most publications were available on the subject of IFRS for SME, concerning one particular country eg.: Romania (Neag R., 2010; Girbina M., Albu N. & Albu C., 2011), Croatia (Baldarelli M. G., et al., 2012), Estonia (Alver L., Alver J. & Talpas L., 2014), Poland (Grabinski K., Kedziora M. & Krasodomska J., 2014), The Czech Republic (Mullerova L., Pasekova M. & Hyblova E., 2010; Strouhal J., 2012), Russia (Morozova T. V., 2014) or group of countries (Borker D. R., 2012; Strouhal J., Pasekova M. & Mullerova L., 2010; Albu C. N. et al., 2013; Albu N., Albu C. N., 2014; Strouhal J. et al., 2011; Strouhal J. et al., 2011a). Less publications describe national financial reporting requirements for the SME in Romania (Sava R., Marza B. & Esanu N., 2013), Russia (Solovyeva O., 2007), The Czech Republic (Nerudova D., 2007), Central and Eastern Europe countries (Bogdan V. & Cristea S. M., 2010). Unfortunately, it was not found any publications about tax reporting requirements for the SME in Eastern Europe. In order to gather information about accounting and tax requirements for the SMEs, in the context of reporting in selected countries, we provided a questionnaire, which was sent to the academics who deal with the subject of accounting or financial reporting in Latvia, Lithuania, Russia and Ukraine[2]. The data in the questionnaire was based on the information from national accounting law, tax law and the statistical data from each country. The limitation of this part of study is that did not obtain full data for all countries. The reason for this is that the amount of the information in the reports of the state statistics in countries is not equal. Moreover, different definitions of SME in selected countries cause that comparative analysis of statistic data were difficult.

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1. The SME sector in the researched countries

The basic criterion for division of companies is their size. However, the criteria for classification of an entity as a micro, small, medium or large-sized enterprise are not explicit. In selected countries, definitions of individual groups of enterprises are contained in the Accounting Acts (Latvia, Lithuania, Poland, Russia) or in other legal regulations (Poland, Russia, Ukraine). In Poland and in Russia, two definitions of micro and small enterprise function – one for the purpose of financial reporting and the second referring to the remaining areas of enterprise activity.

Table 1

Definition of enterprises according to size arising the Act of Accounting

Enterprise	Employment	Revenues from sales	Total assets	Other
Latvia				
Micro	0–9	≤ EUR 2 mln	≤ EUR 2 mln	–
Small	10–49	≤ EUR 10 mln	≤ EUR 10 mln	–
Medium	50–249	≤ EUR 50 mln	≤ EUR 43 mln	–
Lithuania				
Micro	0–9	EUR 2 mln	EUR 1,5 mln	–
Small	10–49	EUR 7 mln	EUR 5 mln	–
Medium	50–249	EUR 40 mln	EUR 27 mln	–
Poland				
Micro	< 10	< PLN 3 mln	< PLN 1.5 mln	Commercial companies
		EUR 1.2 mln – 2 mln		Other companies, natural persons
Small	< 50	< PLN 34 mln	< PLN 17 mln	Entities do not exceed two of the three values
Medium	No special definition			
Russia				
Micro	< 15	–	–	–
Small	< 100	–	–	–
Medium	100–250	–	–	–

Source: author's description based on: Accounting Law of the Republic of Lithuania 2001; Komisijas Regula (EK) 2004; Act of 29 September 1994 about accounting; Федеральный закон от 24.07.2007.

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European Union countries (Latvia, Lithuania, Poland) apply three measures for division of enterprises: employment, revenues from sales and the total assets. Just in Poland the limits of these measures are similar to ones presented in the Directive 2013/34/EU. In Russia, the number of the employed is one of the criteria – significantly higher than in other countries (Table 1) so that presented later statistic data are not comparable.

In Table 2 is presented other legal regulations that are in force in Poland, Russia and Ukraine, which refer to those classifications.

In Poland, the law on freedom of economic activity is in force, which is consistent with the European Commission's Recommendation of the 6th of May 2003 (Commission Recommendation, 2003). In Russia, the Russian Federation government's resolution number 702, dated the 13th of July 2015 (Постановление Правительства), classifies enterprises, in terms of the size, according to the sales income only. In Ukraine, according to the Commercial Code (Commercial Code Ukraine), division of enterprise sizes is carried out using the employment criterion and the sales income. The sizes of these criteria are consistent with the European Commission's Recommendation of the 6th of May 2003 excluding the size of the assets.

Table 2

Definition of enterprises according to size arising from the other regulations

Enterprise	Employment	Revenues from sales	Total assets	Other
Poland				
Micro	0–9	< EUR 2 mln	< EUR 2 mln	–
Small	10–49	< EUR 10 mln	< EUR 10 mln	–
Medium	50–249	< EUR 50 mln	< EUR 43 mln	–
Russia				
Micro	–	< RUB 120 mln	–	–
Small	–	< RUB 800 mln	–	–
Medium	–	< RUB 2 bln	–	–
Ukraine				
Micro	0–10	≤ EUR 2 mln	–	Commercial companies, other companies, natural persons
Small	10–50	≤ EUR 10 mln	–	Commercial companies, other companies, natural persons
Medium	51–250	≤ EUR 50 mln	–	Commercial companies

Source: author's description based on: Act of 2 July 2004 on freedom of economic activity; Постановление Правительства Российской Федерации от 13.07.2015 № 702; Commercial Code Ukraine.

In four researched countries (Latvia, Lithuania, Poland, Ukraine), SMEs are a dominating group of business entities. They constitute nearly 100% of the total number of enterprises (Table 3). Russia, where micro, small and medium enterprises constitute 42.9% of the total number of enterprises, is an exception among the analyzed countries. It is worth to keep in mind that the Russian definition of the SME differs significantly from the EU definition, thus comparability of the statistical data is subject to interference.

Table 3

Number of entities according to the size, as of 31/12/2013

Enterprise	Latvia		Lithuania		Poland		Russia		Ukraine	
	Number	%	Number	%	Number	%	Number	%	Number	%
Micro	143 946	92.8	121 502	90.4	1 693 785	95.6	1 828 589	37.8	1 637 180	95.1
Small	9 327	6.0	10 442	7.8	59 128	3.3	234 537	4.8	65 021	3.8
Medium	1 624	1.0	2 165	1.6	15 329	0.9	13 700	0.3	19 210	1.1
SME	**154 897**	**99.8**	**134 109**	**99.8**	**1 768 242**	**99.8**	**2 076 826**	**42.9**	**1 721 411**	**100.0**
Large	233	0.2	288	0.2	3 218	0.2	2 766 574	57.1	659	0.0
Total	**155 130**	**100**	**134 397**	**100**	**1 771 460**	**100**	**4 843 400**	**100**	**1 722 070**	**100**

Source: author's calculations based on : CSB; SME Performance Review 2013/2014; Raport, 2014, Swaid; Малое, 2014, Федеральная служба ..., Федеральный портал ..., Ukrstat.

Comparison of share of the employed in this sector clearly indicates significance of the work positions offered by these entities for economies of the discussed countries. Average employment in SMEs in the analyzed countries constitutes 73.12% of the total number of the employed – from 69.5% in Poland to 78.5% in Latvia (Table 4). In the EU countries, average employment in micro enterprises amounts to 29.1%, in small 20.6%, and in medium 17.2%, which in total constitutes 66.9% of the employed in these entities (SBA – Poland, 2014). In all the analyzed countries, it is higher than the EU average: in Lithuania by 11.6 pp[3] in Latvia by 9.7 pp, in Poland by 2.6 pp, in Russia by 2.9 pp, and in Ukraine by 4.3 pp. Distribution of the employed in micro, small and medium enterprises in Latvia and Lithuania is even, as opposed to Poland, Ukraine and Russia. In case of Latvia, Lithuania, Ukraine and Russia, employment in micro entities is lower than the EU average, as opposed to Poland, where employment in micro-enterprises is higher by 8.8 pp. This probably results from the fact that self-employment has become very popular on the Polish job market over the past few years. The highest number of the employed in small entities is in Russia (36.1%), while the lowest in Poland (13.7%). In turn, medium enterprises that employ the most persons are in Ukraine (36.9%), in comparison to the 8.9% of the employed in Russia.

Table 4

Number of employees (in thousands) according to the size, as of 31/12/2013

Enterprise	Latvia		Lithuania		Poland		Russia		Ukraine	
	Number	%	Number	%	Number	%	Number	%	Number	%
Micro	160,5	27.5	220,8	25.8	3 371,5	37.9	4 769,5	24.8	1 535,5	18.5
Small	153,2	26.3	215,4	25.2	1 218,1	13.7	6 926,2	36.1	1 308,4	15.8
Medium	144,2	24.7	218,2	25.5	1 592,4	17.9	1 705,5	8.9	3 051,8	36.9
SME	**457,9**	**78.5**	**654,4**	**76.6**	**6 182,0**	**69.5**	**13 401,2**	**69.8**	**5 895,7**	**71.2**
Large	125,7	21.5	200,4	23.4	2 716,9	30.5	5 800,0	30.2	2 383,7	28.8
Total	**583,6**	**100**	**854,8**	**100**	**8 898,9**	**100**	**19 201,2**	**100**	**8 279,4**	**100**

Source: author's calculations based on: SBA – Latvia 2014; SME Performance Review 2013/2014; Raport, 2014; Swaid; Малое, 2014, Федеральная служба ..., Федеральный портал ..., Ukrstat.

[3] pp – percentage point.

The share of the GDP of the SME sector has been presented only for three countries, since it was not possible to obtain appropriate information on Latvia and Lithuania. In Russia, the share of the SME sector in formation of the GDP is 44.2%, in Poland 48.5%, and in Ukraine it constitutes as much as 60.3% (Table 5). However, a more detailed analysis of the micro and small enterprises only indicates that these economic entities in Poland and in Russia compose 38.5% and 34.1% of the GDP accordingly, while in Ukraine it only constitutes 21.5%.

Table 5

Share in the GDP (in %), according to the size, as of 31/12/2013

Enterprise	**Latvia**	**Lithuania**	**Poland**	**Russia**	**Ukraine**
Micro	–	–	29.7	13.6	10.6
Small	–	–	7.8	23.5	10.9
Medium	–	–	11.0	7.1	38.8
SME	**–**	**–**	**48.5**	**44.2**	**60.3**
Large	–	–	51.5	55.8	39.7
Total	**–**	**–**	**100**	**100**	**100**

Source: author's calculations based on: Raport, 2014; Swaid; Малое, 2014, Федеральная служба ..., Федеральный портал ..., Ukrstat.

The above-presented macroeconomic data characterizing the SME sectors in individual countries confirm the importance and significance of this sector for those countries' economies. It is a premise for a statement that the most effective tools supporting the managers of these entities in information acquisition and in creation of information systems ought to be sought.

2. The components of financial reporting and tax reporting – research results and discussion

The institutional relation between the financial reporting and corporate income taxation has been the subject of number of discussions. Accounting principles are objective in nature, basically unchanging, universal. The rules of accounting law, however, often are variable in nature, temporary, economically biased, dependent on the current tax policy, which is reflected in the constant changes of the tax regulations and their interpretation. Defenders of the disconnection between financial reporting and tax reporting fear the connection of the systems, because it could deform the information provided by those systems. They claim that financial and tax accounting cannot be the same, because they have different aims, are subjected to the different rules and serve different purposes. Financial reporting is intended to provide information for the purpose of control and management; while the tax reporting is aimed at collecting the tax. Supporters of the disconnection between the financial and the tax reporting predicate that, if the same practice is used by both systems, there is no need to keep the books twice. The connection of the systems would mean a significant decrease in the compliance costs of taxation, especially for the SMEs, in the area of tax consultancy and tax return completion at the most. On the side of the tax administration, the connection of the systems would result in saving the costs connected with tax collection and with creation of legislation. Another advantage which the connection of the systems could bring is represented by a restriction of the tendency of the enterprises to overvalue the profit. When there is a positive correlation between the reported profit and the management rewards, in a situation when there is connection between the systems, a higher reported profit means a higher management reward, but also higher tax liability (Nerudova D., 2007).

According to the legal regulations currently in force in the analyzed countries, enterprises are obliged to keep economic records and to compile reporting separately, as to serve the balance sheet law and the tax law. Smaller entities, which are exempt from keeping accounting books, are an exception. They only keep tax records and prepare reports for the purposes of income tax (tax declarations). In Poland, this group of enterprises constitutes 86% of all registered entities (Swaid), similar to Russia where the entities preparing only tax reports constitute 88% (Филобокова, Л. Ю. & Григорьева, О. В., 2014). National statistics in this regard unfortunately were not available for Latvia, Lithuania and Ukraine.

In the researched countries, the criteria for exempting smaller units from keeping accounting books are: the legal form and the sales income. While analyzing the legal form criterion, it can be noticed that natural persons are exempt from keeping accounting books (Latvia, Poland, Russia, Ukraine[4]), partnerships (Poland, Russia[5]). Private limited companies in all analyzed countries are not subject to this exemption. In case of the sales income, the limits exempting enterprises differ significantly. In Poland this limit is EUR 1 200 000, in Latvia EUR 300 000[6], in Russia RUB 45 million, which is around EUR 540 000[7]. Unfortunately, the authors did not obtain information on Lithuania and Ukraine, which does not mean that such sales income limits in these two countries do not exist.

The forms of recording economic events for the purposes of the income tax are similar in Poland and in Russia. The units subjected only to tax law regulations can compile one of three forms of tax records. Characteristics of these records for Poland are presented in Table 6 and for Russia in Table 7.

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[4] No information about Lithuania.

[5] No information about Lithuania.

[6] Latvia – microenterprise tax. Rights to choose to pay micro-enterprise tax exist, if the following criteria are complied with (Micro tax company):
- income from economic activities – turnover – per calendar year does not exceed EUR 100 000;
- members of a limited liability company are only natural persons;
- board members of a limited liability company are only micro-enterprise employees;
- number of micro-enterprise employees at any time does not exceed five (number of employees does not include employees who are absent or dismissed);
- income of a micro-enterprise employee does not exceed EUR 720 per month.

Rights for becoming a micro-enterprise exist to:
- individual merchant;
- individual enterprise, farms and fish farms;
- natural person, which is registered in the State Revenue Service (SRS) as a performer of economic activities;
- person is not a member of partnership;
- limited liability company.

[7] 1 RUB = 0,0524 PLN; 1 EUR = 4,3589 PLN. Currency exchange rate RUB and EUR, as at date 29/02/2016. www.nbp.pl

Table 6

Types of income tax records in Poland

Name	Criteria	The scope of the financial data
Revenue and Disbursement (RaD)	Natural persons, partnerships of individuals, partnerships of individuals and partnerships, if their turnover does not exceed EUR 1 200 000	1. As part of RaD: • divided revenues breakdown by value of the goods and services and other income; • costs divided: purchase of the commercial goods and materials at a purchase price, ancillary costs of purchase, the costs of representation and advertising funding limit, the pay in cash and in kind, other expenses 2. Records of the fixed and intangible assets 3. Equipment registry 4. Salary cards of employees 2. Inventories at the end of year
Flat-rate tax of income	Partnerships of natural persons, partnerships of individuals, individuals – if income does not exceed EUR 0.15 million excluding certain activities	1. List of the fixed and intangible assets 2. Equipment registry 3. Records of revenue 4. Salary cards of employees 1. Inventories at the end of year
Tax card	The list of the services included in the Act, Employment up to 5 people	1. Employment records

Source: author's descritpions based on: Regulation of the Minister of Finance August 26, 2003; Act of November 20, 1998.

A tax statement prepared on the basis of the RaD contains information on the company's total revenues, its deductible expenses and income. Moreover, enterprises keeping RaD must prepare a list of stocks on the last day of the year. In case of a flat-rate income tax, the annual tax declaration contains only information on the revenues. In turn, in case of the tax card, no annual tax return is prepared.

Table 7

Types of income tax records in Russia

Name	Criteria	The scope of financial data
Revenue and Disbursement (RaD) or Revenue	Partnerships of individuals Partnerships if their income does not exceed RUB 45 mln during 9 months of the year of transition Tax rate – 15% (Revenue and Disbursement) or tax rate – 6% (Revenue)	Tax return A Book of Revenue and Disbursement
Flat-rate tax of income		Tax return
Tax card		Book of Revenue

Source: author's descritpions based on: Налоговый кодекс Российской Федерации (часть вторая) от 05.08 2000 № 117-ФЗ.

Revenue and Disbursement is also obligatory in Ukraine and Lithuania for the entities which only prepare reports for tax purposes. Additionally, in Ukraine, keeping any other books depends on the kind of activity. For example, for retailers who use a register of payment transactions, an appropriate book is obligatory. In Latvia, if an enterprise does not keep any accounting books (double booking system), it is required to keep records for income tax. Single-entry accounting is a simplified register of the economic operations that could be carried out by an entrepreneur, without professional knowledge in the field of accounting. The data registered in a single-entry system mainly is intended for tax calculation and for preparation of a tax declaration. In the single-entry accounting system, the cash-basis accounting principle is used, provided that revenues are registered at the moment when a payment for a transaction is received, while expenses – when they are paid (Arbidāne I., Poļaka G. & Ruža O., 2015).

A financial statement of an SME, according to IFRS for SMEs, should consist of: a balance sheet, a profit and loss account, a statement of stockholders' equity, a cash flow statement, and notes to the financial statement. In certain cases, an entity can prepare a statement of the revenues from a retained income instead of a profit and loss account and a statement of stockholders' equity. The standard does not lay down any specific patterns of reports (Jaworski J., 2012). According to the Article 4.1 of The Directive 2013/34/EU the annual financial statements shall constitute a composite whole and shall for all companies comprise, as a minimum, the balance sheet, the profit and loss account and the notes to the financial statements. In none of the surveyed countries an IFRS for SMEs is obligatory, therefore, provisions of the national balance accounting law should be applied while preparing financial statements. A summary of reporting obligations for micro, small and medium enterprises in Latvia, Lithuania, Poland, Ukraine and Russia is presented in Table 8.

Table 8

Mandatory elements of a financial statement

Element of financial statement	Latvia	Lithuania		Poland	Russia		Ukraine
	Companies[a]	Compa-nies Partner-ship	Limited Liability Partner-ship	Commercial companies, other companies, natural persons	Commercial companies	Other companies	Commercial companies, other companies, natural persons
Balance Sheet	+	+	+	+	+	+	+
Profit and Loss Account	+	+	+	+	+	If they have received entrepreneu-rial income	+
Notes to the Financial Statement	+	+	+	Medium entities, Optional - small entities (not obligated -micro entities)	<u>Annex to the Financial Statements</u> Optional form. If you need additional information, without which no assessment of the financial position or profits and losses	<u>Annex to the Financial Statements</u> Optional form. If you need additional important information that is not presented in the Balance Sheet and Statement on the Intended Use of Funds	+ (not applicable to small and micro entities)
Cash Flow Statement	If they exceed 2 of the 3 conditions: - 25 employees - average employment in full time equivalent - EUR 400 000 - total assets of the balance sheet - EUR 800 000 - net revenues from sales of goods and products	+	+	All stock companies + other companies if they exceed 2 of the 3 conditions: - 50 employees - average employment in full time equivalent - EUR 2 500 000 - total assets of the balance sheet in PLN - EUR 5 000 000 - net revenues from sales of goods and products in PLN			+ (not applicable to small and micro entities)
Statement of Stockholders' Equity		+	+ macro - micro and small				+ (not applicable to small and micro entities)
Other		–	–	–	–	Statement on the Intended Use of Funds	–

a – commercial companies, cooperative societies, a Latvian European economic interest groups, European cooperative societies and European commercial companies as well as individual businesses, farms and fisheries in which the turnover (revenue) from economic transactions during the previous accounting year exceeds EUR 300 000.

Source: author's description based on: Act of 1 January 1993 Accounting; Law on Financial Statements of Entities 6 November 2001; Act of 29 September 1994 about accounting,; Федеральный закон от 06.12.2011 № 402-Ф; Приказ Минфина России от 02.07.2010 N 66н; Информация Минфина России N ПЗ-3/2012 и N ПЗ-3/2015; Письмо Минфина России от 03.04.2012 N 03-02-07/1-80; The Act of Accounting and Financial Reporting of Ukraine.

In all analyzed countries, it is compulsory for the SMEs to prepare a balance sheet and a profit and loss account (except the enterprises not achieving income from business activity – entrepreneurial income in Russia). Notes to the financial statements are obligatorily prepared by micro, small and medium enterprises in Latvia and Lithuania, as well as by medium enterprises in Poland and Ukraine. In Poland, if small entities do not prepare the notes to the financial statements, they must provide an annex to the balance sheet containing the information included in the Act of Accounting (Act of 29 September 1994). A cash flow statement is mandatory only for the units from the SME sector in Lithuania, the SME stock companies in Poland, as well as for medium enterprises in Ukraine. In Latvia and in Poland, the statement of cash flows is obligatorily prepared only by the SMEs which excede certain criteria presented in Table 8. A statement of stockholders' equity is mandatory for all medium enterprises in Lithuania and Ukraine, while in the case of Poland and Latvia, in relation to this element of financial reporting, the same criteria are obligatory as for the cash flow statement. Only partnership companies from Lithuania are obligated to prepare a statement of stockholders' equity. In the case of Russian SMEs, apart from the balance sheet and the profit and loss account, they prepare one annex to the financial statement and additionally some of them a statement on the intended use of funds (see Table 8). This comparison shows the differences in the financial reporting obligations of the SMEs in the analyzed countries, particularly the differences concern micro and small units. The differences in the scope of the reporting duties concern all the countries, regardless whether a given country is a European Union member or not. This results in a diverse range of the information provided by the SMEs.

Conclusions and proposals

In today's world, information has becomes the most significant resource for a developed economy, while its value has been increasing constantly as technology has been improving. Accounting is said to be a universal language of business and it should provide decision makers relevant information at appropriate an time. Normally, decisions are made based on the financial statement, which are a communication tool between enterprises and the environment. The ongoing discussion is based on the premise that organization, the scope and the shape of SME financial reporting directly determines the possibilities of this sector's development. Consequently, it also determines growth and development of the economies in which these entities operate. In cases when the financial statements are not kept properly, the decisions are made without a real and sound knowledge of the financial position of a given business, which might have serious consequences for its future. In economies of the surveyed countries, SMEs are the most significant group of enterprises employing nearly ¾ of the all employed. It ought to be, however, underlined that the differences in the definition of micro, small and medium enterprises in selected countries cause the comparison of the statistical data bear a certain error. It would thus be advisable to unify the criteria for enterprise classification as micro, small and medium entities, including:

- the use, in selected criteria, a unified currency ex. EUR. Currently, in Poland and in Russia, some criteria apply PLN and RUB accordingly,
- supplementing the criteria, in the case of Ukraine, with a criterion – the total assets value,
- the use of a single uniform definition of SME, for the purposes of financial reporting and other areas of business activity. Currently, in Poland and in Russia, different definitions of SME function.

Due to the need for international comparability in financial reporting of the SMEs, the International Accounting Standards Board (IASB) issued the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs) in July 2009. However, in all selected countries, the IFRS for SMEs is not required to be applied. Consequently, SMEs prepare financial reports in accordance with national accounting acts. Legal requirements relating to financial reporting differ considerably between the analysed countries, especially in case of micro and small entities. Preparation of financial statements containing at least a profit and loss account and a balance sheet is usually a legal requirement, other elements of financial statements significantly differ. It would be worth implementing in case of annual financial statements elements, as Latvia and Lithuania, recommendation presented in The European Directive 2013/34/EU. This paper involved only analysis of the reporting duties in terms of financial reporting, thus it would be advisable to analyze the scope of the information contained in the SME balance sheet and in the profit and loss account in further studies.

During our analysis some difficulties were experienced when gathering the information about tax reporting requirements. In addition, there are no publications in English referring to SME tax reporting, which does not mean that the question of accessibility to financial information on these entities is not important in economic practice. For instance, in Poland and in Russia, entities preparing only such reports constitute 89% and 85% of the SMEs accordingly. Statistical data for the remaining researched countries is not available.

Solutions for tax reporting duties are significantly different in most of the researched countries. The most information on the activity of the SMEs not keeping accounting books can be obtained in Poland, what can be strength of Polish SME tax reporting system. It should be, however, underlined that the highest value allowing exemption from keeping account books concerns this country precisely and perhaps this is where the most complicated reporting obligations derive from. The suggestion for other selected countries is to higher the limits exempting from keeping accounting books to Polish level and to extend the obligations of tax reporting. Harmonization in terms of tax reporting, however, seems to be very difficult.

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