

The application of simplified financial reporting for micro and small enterprises in Central and Eastern Europe

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Abstract


Micro- and small enterprises (MSE) have come to constitute the most dynamic element of growth in the transition economies of Central and Eastern Europe (CEE). Only through transparent reporting and communicating information on sustainability work and performance can MSEs build their reputation and trust, attract new capital, and develop a competitive advantage. The paper aims to provide a cross-country analysis of the financial-reporting requirements concerning MSEs, a few years after the introduction of Directive 2013/34/EU. The paper focuses on the transposition of the Directive into the national laws of sixteen CEE-region countries. The objectives have been achieved through a systematic review of the current academic literature, and an analysis of national legislation and questionnaires developed for academics. It turned out that a country's political status does not affect the implementation of the Directive. Moreover, although the Directive allows countries to take the specific conditions of their markets into account when making decisions regarding the size thresholds and a simplified accounting regime, most CEE countries have applied standard definitions and requirements. As a consequence, in almost all CEE countries, about 90% of entities may draw up abridged financial reports, which significantly limits the use of financial statements for decision making.

Keywords: financial statement, Central and Eastern Europe, SME, micro-entities, Directive 2013/34/EU.

Streszczenie

Zastosowanie uproszczonej sprawozdawczości finansowej dla mikro i małych przedsiębiorstw w Europie Środkowo-Wschodniej

Małe i mikroprzedsiębiorstwa (MMP) okazały się najbardziej dynamicznym elementem wzrostu gospodarek Europy Środkowo-Wschodniej w okresie ich transformacji. Jednym z kluczowych obecnie problemów przedsiębiorstw sektora MMP tego regionu jest zwiększenie konkurencyjności i innowacyjności w gospodarce globalnej. Nie jest ono jednak możliwe bez zaufania inwestorów i kredytodawców do informacji finansowych generowanych przez sprawozdawczość finansową tych przedsiębiorstw. Celem artykułu jest analiza porównawcza wymogów w zakresie sprawozdawczości finansowej sektora MMP i ocena stopnia implementacji zaleceń dyrektywy 13/34/EC do prawa krajowego w szesnastu krajach Europy Środkowo-Wschodniej o różnym poziomie transformacji gospodarczej. Informacje dotyczące rozwiązań w wybranych krajach uzyskano na podstawie przeglądu aktów prawnych, literatury przedmiotu

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oraz kwestionariuszy. Z badań wynika, że status polityczny kraju nie ma wpływu na zakres implementacji dyrektywy do prawa krajowego. Ponadto, chociaż dyrektywa zezwala krajom na uwzględnienie specyfiki danej gospodarki przy określaniu progów wielkości przedsiębiorstw i wymogów sprawozdawczych, większość krajów Europy Środkowo-Wschodniej zastosowała standardowe rozwiązania. W konsekwencji prawie we wszystkich tych krajach ponad 90% podmiotów to mikro jednostki raportujące w ograniczonym zakresie, co znacznie ogranicza wykorzystanie sprawozdań finansowych do podejmowania decyzji.

Słowa kluczowe: sprawozdania finansowe, mikro przedsiębiorstwa, małe przedsiębiorstwa, MSP, Europa Środkowo-Wschodnia, dyrektywa 2013/34/UE.

Introduction

It has been argued that the transformation that began in the early 1990s in the Central and Eastern European (CEE) region is the most fundamental economic phenomenon of the second half of the 20th century (Hull, 2014, p. 4). The socio-economic transition in this region differs from transitions in other emerging markets (such as Central and South American countries) (MacLulich, Guarú, 2004, p. 5). Economic transition relates to the turning of a centrally planned economy into a functioning market economy, and it includes economic liberalization, privatization, and the creation of the institution of a market. Transition at the company level entails a shift of ownership from the public to the private sector. To the surprise of many economists and policymakers, the most important factor in the transition process has been the emergence and growth of small private businesses. The growth of micro- and small enterprises (MSEs) in the CEE region has reflected a global trend: the bigger the world economy, the more powerful its smallest players become (Hull, 2014, p.19).

The transition from a centrally planned economy to a market economy, as well as the resulting social and economic changes and the emergence of new entrepreneurial entities, also affected the accounting systems in the CEE region (Subaciene et al., 2018, p.165; Bogdan, Cristea, 2010, p. 25). The evolution of the accounting system started at the beginning of the 1990s, and as Bogdan and Cristea claim, accountancy in this region did not suffer a simple transition but a revolution (2010, p. 17). The system of financial reporting in the countries from the region evolved a great deal, becoming increasingly open towards satisfying the needs of financial statement users (Bogdan, Cristea, 2010, p. 17, p. 25). At present, it is in its fourth phase (2012 – present), which demonstrates the significant impact of Directive 2013/34/EU on national accounting regulations, especially regarding the content of financial reports for different company categories (Subaciene et al., 2018, p. 165).

The paper aims to provide a cross-country comparative analysis of financial reporting requirements in micro- and small entities a few years after the introduction of Directive 2013/34/EU. We focus on details regarding the transposition of Directive 2013/34/EU into the national laws for sixteen CEE-region countries. Although each of these countries has its own distinct culture, they all share a common experience of having functionated as command economies within the Soviet Union's sphere of influence

for at least two generations. They can be called post-communist countries. Eleven out of the sixteen countries are Member States of the European Union, joining the EU in different years. Montenegro represents the official Candidate Countries that are pending membership of the EU, while Albania and Belarus represent Potential Candidates. Ukraine and Moldova are EU-partner countries under the Eastern Partnership, a specific Eastern dimension to the European Neighbourhood Policy.

This cross-country study extends the current knowledge about the recent trends in financial reporting for MSEs in a specific region of Europe (post-communist countries). An important reason why this is the case is the different political status of the countries from that region (EU Members, non-EU Members).

Implementing the Directive by July 20, 2015, was obligatory for Member States, although not all of them voted for it.¹ Candidate Countries are obliged to adapt their national legislation to the EU recommendations, unlike the partner countries. Moreover, Member States were free to define micro-entities and the degree of simplification in their financial reports, taking into account the specific conditions and needs of their own markets. In practice, implementing the Directive may differ not only across the Member States but also in the different regions of Europe. It is worth emphasizing that due to specific historical circumstances, the size of national economies (measured by GDP), the institutional environment, and MSEs in the CEE region differ from those operating in Western Europe. MSE productivity in CEE countries is much lower than the EU-28 average. It may mean that the MSEs operating in CEE countries have much lower assets and generate much lower revenues than an average MSE in Western Europe. Asset value and net revenues are thresholds typically applied in definitions of micro and small undertakings. Thus, the following research questions can be posed:

- have the thresholds resulting from Directive 2013/34/EU been transposed into the national legislation of the CEE countries, or
- based on the Directive's recommendation adjusted to the economic level of a given country, should the thresholds not be lower, especially for micro-entities?

Furthermore, companies from that sector that operate in post-communist countries are more often internally-financed small and medium enterprises (45.9% in former socialist countries vs. 28.6% in market-based countries, or 27.1% in bank-based countries) (Moritz et al., 2016, p. 25). As a result, the main potential users of their financial reports are the owners, who make decisions and thus require information that is more detailed than that presented in an abridged balance sheet and profit and loss accounts. What is more, banks, which most often are external financial report users, often tend to look for specific calculations, primarily the cash budgets (Mamić Saćer et al., 2015, p. 606). A research question can, therefore, be posed:

- does the scope of the information presented in the financial statements that result from the national regulations in CEE countries correspond to Directive 2013/34/EU?

¹ In the opinion of the Estonian government, it contains a number of inconsistencies. As a result, a cancellation complaint was submitted regarding Directive 2013/34/EU to the European Court of Justice on behalf of the Estonian Republic. In July 2015, the complaint was dismissed by the European Court of Justice.

As such, it seems worth analyzing whether the legislation regarding this sector in CEE countries differs from the Directive's recommendations. The following research hypotheses have been posed:

H1: The transposition of the definition of micro- and small enterprises, as presented in Directive 2013/34/EU, into the national financial reporting regulations in the CEE region depends on whether the country has acceded to the EU.

H2: The thresholds applied in the definitions of micro- and small enterprises in the national regulations of CEE countries are mostly based on the specific conditions and needs of their own markets.

H3: The scope of financial statements, transposed to the national regulations in CEE countries from Directive 2013/34/EU, does not depend on whether the country has acceded to the EU.

The objectives formulated in this paper have been achieved through:

- desk research, aimed at identifying and analyzing the current academic literature and national legislation addressing the annual reporting of small and micro enterprises in Central and Eastern European countries, with a focus on selected countries;
- a cross-country comparison of the research results.

The paper is organized as follows: in the next section, a brief literature review of financial reporting for micro- and small enterprises in the CEE region will be presented. Then, the research methodology will be described. Next, the results of our study are presented. In the final section, the main conclusions are summarized.

1. Literature review

Economic factors, politics, the juridical system, and culture significantly impact the development of accounting systems (Bogdan, Cristea, 2010, p. 16). Accountancy in CEE countries has undergone great changes at different levels: from the legislation and the regulators to the recognition, valuation, and disclosure of financial-statement items (Subaciene et al., 2018, p.165; Randelović, Dukić, 2018, p.167). MacLulich and Gurau (2004, p. 8) claim that, considering the central position of financial reporting and control in the economic system of a market-based economy, it is logical to assume that countries that were more effective in the reforming of accounting followed a more positive pattern of economic transformation.

After Directive 2013/34/EU was introduced, a debate regarding simplifying or outright abolishing the reporting requirements for the MSEs operating in the CEE region raged. Some authors tried to determine and evaluate the impact of the transposition of the Directive into the national accounting regulations, especially in terms of entity categorization (Deac, 2014; Bušovová et al., 2016; Zager, Decman, 2016). Bušovová et al. (2016, p. 84) stated that the amendment to the Czech Accounting Act exploits almost all options regarding the simplifications or exemptions allowed by the Directive. She

questions whether the thresholds used in the micro- and small entity definitions, which are based on the Directive, are suitable for the economic situation of the Czech Republic. Applying those thresholds may cause more than 90% of enterprises to be classified as a micro- or a small enterprise.

A similar conclusion was drawn by Deac (2014, p. 204) about Romania. He stated that, if Romania implemented the definition of micro-entities presented in the Directive, the thresholds would have to be dramatically increased, and many more enterprises would be reclassified as micro, instead of small or medium-sized enterprises. In Croatia, for the first time, the concept of a micro-undertaking was introduced, in accordance with the classification criteria recommended in the Directive. Zager and Decman (2016, p. 456) also note that nearly 90% of Croatian companies fall into the category of micro-undertakings. Zubilevych (2014, pp. 290–293) considered the possible impact of the Directive on reporting in Ukraine, with reference to the signing of the EU-Ukraine Association Agreement, suggesting possible changes in the Ukrainian entity classification as well as in the formats and components of financial statements.

Some authors have presented the results of cross-country analyses. They compared the impact of the Directive on national legislation in the V4 group (the Czech Republic, Slovakia, Poland, and Hungary) (Glaserova, 2017); ex-YU countries (Slovenia, Serbia) (Jovanović, 2014), the Czech Republic and Slovakia (Krejčova, 2016), selected CEE countries (Poland, Latvia, Lithuania, and Ukraine) (Martyniuk, Szramowski, 2017), (Poland, Latvia, Lithuania, Ukraine, and Russia) (Martyniuk, Kotowska, 2016), selected Member States from Western Europe (Germany and the UK) and Eastern Europe (Slovakia, Romania, and Croatia) (Zager, Decman, 2016). Using comparative analysis, Randelović and Dukić (2018, pp. 168–174) indicated the essential features of the regulatory frameworks of six economies in the CEE region (Poland, the Czech Republic, Slovakia, Hungary, Romania, and Bulgaria). They proposed applying the solutions resulting from the positive experience of these countries to the development of accounting regulations in Serbia (Randelović, Dukić, 2018, p. 165). Our research complements these studies with data obtained from sixteen countries of the CEE region. The approach to country selection is described in the methodology section.

Opinions regarding the impact of the transposition of the Directive into national legislation differ. Dorel et al. (2015, p. 38) appreciated the fact that Romanian accounting regulations generally comply with the Directive. Ipsas et al. (2014, p. 123–124) presented the resulting advantages for Romanian micro-enterprises from the introduction of the simplified European system of financial reporting, starting January 1, 2015. Mamić Saćer et al. (2015, p. 606) assumed that changes in the Croatian accounting law would have a positive impact on the development of Croatian micro-entities. Moreover, Nowak (2015, p. 1014) claimed that the abridged balance sheet and profit and loss accounts introduced into the Polish Accounting Act, as a result of the Directive, reduce the administrative burden of micro-entities and meet the postulate of balancing the benefits and costs. By contrast, Bušovová et al. (2016, p. 84) disputed whether a reduction of the administrative burden for micro- and small enterprises would occur at the expense of the true and fair presentation of accounting. Furthermore, Martyniuk and Martyniuk

(2016, p. 144, 152) stated that the highly aggregated information presented in financial statements of micro and small entities reduces its usefulness and, consequently, its relevance, as confirmed in a study by Tkocz-Wolny and Szewieczek (2017, p. 293). Similar doubts were expressed by Poniatowska (2015, p. 320). Also, Voss (2016, p. 160) claimed that the abridged financial reports prepared by Polish SMEs include information that is insufficient for internal and external users.

In Güldenkoh and Silberg's (2014, p. 81) opinion, rather than reduce the administrative burden in Estonia, the effect is just the opposite. There is an increase in the administrative burden and the obligation of reporting duplication, which in turn can lead to a lack of transparency in the economic environment. Their opinion is consistent with the one of the Estonian government – neither of these objectives could be achieved, and transposition of the Directive would affect the transparency of the economic space as well as the competitiveness of enterprises (Alver et al., 2014, p. 250). A critical assessment is also presented by Hyblova, Kolcavova (2017, p. 1356). One of the Directive objectives was to improve the information capacity and the comparability of financial statements, with emphasis on the companies that conduct active cross-border activity and cooperate with a greater number of stakeholders. The results of their case study indicate that achieving this objective is unsure, since the options possible can completely change the value or structure of the assets, the equity and the loaned resources, the financing, and the profit or loss reported, by which users assess the financial position and performance of companies. Basheva and Boyanov (2015, p. 64–65) emphasized the problems that may occur in the process of transposing the Directive into the Bulgarian legislation, trying to identify the solutions.

Additionally, the European Commission, in accordance with its obligation, assessed the impact of the super-simplified accounting regime for micro-companies. The aim of that study (Study, 2019, p. 8) was to report the number of entities covered by the size criteria and the reduction in the administrative burden associated with the new regime in Member States. The Commission's report included size-based enterprise classification criteria for twenty-two Member States. The EU study finds that there were 14.2 million companies (84.4%) that would be defined as micro-companies, in accordance with the maximum criteria presented in the Directive, and 11.7 million such companies (69.7%), in accordance with the national size criteria (Study, 2019, p. 56, 60). The results of the EU study show that if the size criteria were fully aligned with the Directive, the costs and benefits would be slightly higher. However, "it clearly emerges that the extensive lack of awareness about the super simplified regime appears to be a far more important factor than the different thresholds adopted in national legislation. Under the assumption of full awareness among micro companies, the estimated costs and benefits would increase by almost a factor of ten to EUR 0.33 billion in one-off costs and EUR 1.29 billion in annual benefits from a reduced administrative burden" (Study, 2019, p. 6). It should be emphasized that these estimates were calculated based on studies of five Western European and three Eastern European countries. Our research will partially complement this research with data regarding European countries that are not Member States.

2. Research methodology

Research objectives – description of countries

Our study comprises sixteen countries from the CEE region. Each of them encompasses the complex processes of the socio-economic transformation from a centrally planned economy and the communist regime. Eleven countries are Member States of the European Union, joining the EU in different years (Bulgaria, the Czech Republic, Croatia, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, and Slovenia). Montenegro represents the official Candidate Countries pending membership of the EU, while the Potential Candidates are represented by Albania. The relations between the EU and Ukraine and Moldova are shaped through the European Union Association Agreement and the Deep and Comprehensive Free Trade Area (DCFTA). Belarus is the only economy in our study that still functions within the Russian sphere of influence. On the one hand, the EU-Belarus Partnership Priorities are currently being negotiated. On the other, the EU decided to prolong the restrictive measures against Belarus for one year.

The regulatory environment (including accounting regulations) of MSEs in all the countries selected has thrived, owing to the comprehensive reforms that have taken place over the years. At present, these economies are ranked differently in the Doing Business Ranking. The Ease of Doing Business score shows an economy's absolute position with regard to the best regulatory practice. The Lithuanian and Estonian economies rank highest in the ranking, reaching eleventh and eighteenth place, respectively. It means they have consistently well-designed business regulations. The worst position in the Ease of Doing Business (2020) was achieved by Albania (eighty-second position).

Just as after the political changes and economic growth, nine out of the sixteen economies selected are classified as high-income (the Czech Republic, Croatia, Estonia, Hungary, Lithuania, Latvia, Poland, Slovakia, and Slovenia), six of them as upper-middle-income economies (Romania and Bulgaria – EU Member States; Albania, Belarus, and Montenegro – non-EU Members) and lower-middle-income economies (Moldova and Ukraine). One of the factors that allow a better explanation of the different accounting concepts in individual countries that affect the scope of information disclosed is the cultural conditions.

Considering the culture aspect, all the countries selected have been classified in accordance with the Schwartz culture classification and assigned to Eastern Europe region and two subregions – Central and Eastern Europe (Estonia, Latvia, Lithuania, the Czech Republic, Poland, and Slovakia), and the Balkan region and Eastern Europe (Slovenia, Croatia, Montenegro, Bulgaria, Ukraine, Belarus, and Romania) (Kolešník, 2010, p.110). Moreover, Borker (2012, p.1014), using the six cultural value dimensions developed by Hofstede (1980) and Hofstede, Hofstede and Minkov (2010), and the derived accounting culture value dimensions constructed by Gray (1988), indicates that CEE countries can be divided into two distinct orientations, by cultural factors. One group of countries represents a very similar orientation to accounting values, due to

Russian influence (Bulgaria, Slovenia, Croatia, and Romania). The other group of countries possibly reflects their cultural affinities with either German (the Czech Republic, Hungary, Poland, and Slovakia) or Scandinavian countries (Estonia, Latvia, and Lithuania) (Borker, 2012, p. 1010).

Phases of desk research

The first phase of the desk research was to identify the current academic literature on annual reporting of small and micro-enterprises in CEE countries after the implementation of Directive 2013/34/EU. A systematic review was planned and reported. The literature search made it possible to identify studies that met the inclusion criteria for further analysis. An electronic search of the Web of Science Core Collection database was performed for publications in English from 2013 to 2020. The search keywords “financial reporting”, “micro” or “small” were used in combination with the names of each selected country separately. Additionally, the phrases “CEE”, “Central Europe” and “Eastern Europe” were used. The search term “Directive 2013/34/EU” was analyzed as well.

A two-step screening process was employed. In step 1, the researchers scanned the titles and abstracts of the studies identified by the search for their potential eligibility. In step 2, full-text articles were screened for eligibility. Due to the fact that researchers from Central and Eastern Europe more often publish in journals that are not indexed in the Web of Science compared to international trends, the Google Scholar database was manually analyzed using similar search terms. Next, an overview of national legal frameworks regarding accounting or financial reporting was carried out, provided that the legal acts were available in English. Information was also collected using a questionnaire sent to academics from selected countries and collected from the websites of Eurostat, European Commission, and national accountants’ associations.

The description method was used to present the different ways the Directive has been implemented into the national legislation, the size-based current definitions of entities, and the scope of financial reports of micro- and small entities in selected countries. Finally, a comparative cross-country analysis was carried out. The synthesis method was used for conclusions.

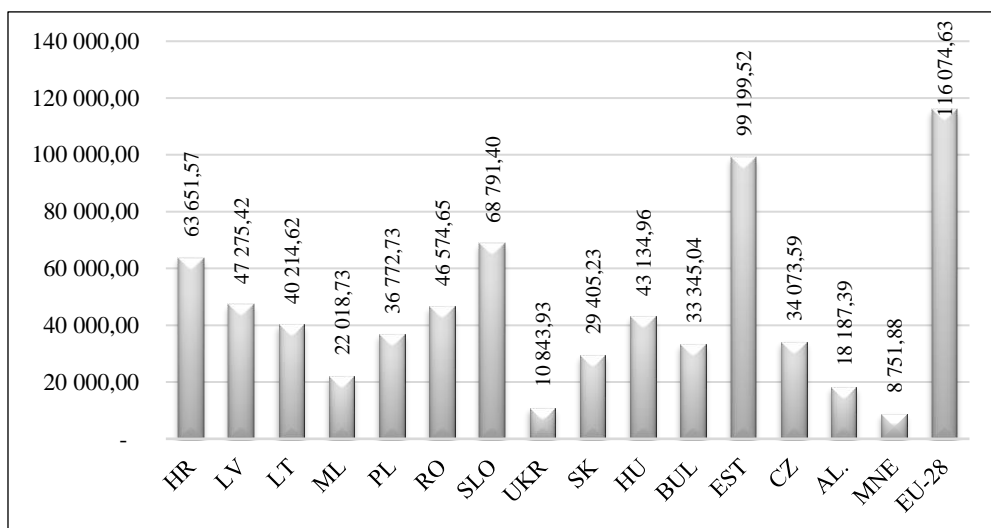
3. Results

The differences in the size-category distribution of companies, presented in this section, seem to result from the characteristics and the differences between Western and Eastern European economies. The European Commission Study (2019, p. 56, p. 60) shows that ten out of the eleven CEE-region Member States have a share of micro-companies² above the EU average (84.4%). Among the seven countries with more than a 90% share

² Only limited liability companies were included.

of micro-companies are Romania (94.6 %), Bulgaria (94.4 %), Latvia (94.0 %), Estonia (93.2 %), Croatia (90.6 %), Slovakia (90.3 %) and Hungary (90.3 %). The only CEE country with a lower share of micro-companies is Poland (77.6%). In terms of small companies, ten out of the eleven CEE-region Member States are also characterized by a lower share than the EU average (13.3%). Poland, again, is the only country with a share above the EU average (18.5%). The opposite is observed in the case of Western European countries. Twelve out of seventeen Western Member States have a share of micro-entities below the EU average; eleven out of seventeen are countries with a share of small enterprises above the EU average. The MSEs operating in CEE countries have much lower assets and generate much lower revenues than the average MSE in Western Europe. Entities in CEE countries generate much lower value added per enterprise than the EU-28 average (EUR 32,568.44/enterprise in the CEE countries versus EUR 116,074.63/enterprise in the EU-28)³ (Figure 1).

Figure 1. The Value Added per enterprise in CEE countries versus EU-28 – basic figures



* These are estimates for 2017, based on the Structural Business Statistics Database (Eurostat). The following size-class definitions are applied: micro firms (0–9 people employed), small firms (10–49 people employed).

** No data was available from Eurostat for Belarus (BL). National statistics of Belarus size-classified enterprises using different thresholds.

*** The employment data for Ukraine concern micro, small and middle-size enterprises.

Source: SBA Fact Sheets for Albania (AL), Bulgaria (BUL), Croatia (HR), Czech Rep. (CZ), Estonia (EST), Hungary (HU), Latvia (LV), Lithuania (LT), Moldova (ML), Montenegro (MNE), Poland (PL), Romania (RO), Slovakia (SK), Slovenia (SLO), Ukraine (UKR), EU-28 – all countries of the EU, Compendium of Enterprise Statistics in 2018, pp. 16, 19, 23.

³ MSE productivity was calculated as the value added per enterprise.

Because asset value and net revenues are thresholds typically applied in definitions of micro and small undertakings, these differences should be taken into account when making decisions about the size thresholds in entity sector definitions.

Implementation date

Considering the calls to improve the regulatory framework for SMEs (Europe 2020 Strategy), the European Parliament and the Council of the European Union introduced Directive 2013/34/EU (Directive). The Directive aimed to establish equal minimum legal requirements, at the Union level, regarding the extent of the financial information that should be made available to the public by small and micro micro-entities operating on the competitive market. The Directive required Member States to fully comply with its recommendations by July 20, 2015 (Directive, Art. 53). However, because of the freedom Member States were given, in practice, how the Directive has been implemented differs across the Member States. The Member States included in our study (Croatia, Hungary, Lithuania, Poland, Romania, and Slovakia) transposed the recommendations introduced in the Directive into their national legislation before July 20, 2015, while Bulgaria, the Czech Republic, Estonia, Latvia, and Slovenia did it before the end of 2015. Although Albania, Moldova, Montenegro, and Ukraine are not Member States, they transposed the Directive into their national law as well (Table 1), but much later.

Table 1. The date of Directive 2013/34/EU implementation in selected countries

Country	Issue date	Effect date	Legislation Act
Albania	10/05/2018	01/01/2019	Law No. 25/2018 on Accounting and Financial Statements, Official Gazette No. 79, dated May 30, 2018
Bulgaria	24/11/2015	01/01/2016	Accountancy Act of Bulgaria, State Gazette No. 95 on December 8, 2015
Croatia	17/07/2015	01/01/2016	Law on Accounting, 2015, Official Gazette, No. 78/15, 134/15, 120/16
The Czech Republic	21/08/2015	01/01/2016	Decree No. 325/15 Coll. Implementing some provisions of Act No. 563/1991 Coll. On Accounting, as amended for accounting units using single-entry accounting
Estonia	10/12/2015	01/01/2016	Amendment to the Accounting Act of 20/11/2002, RT I, 30.12.2015, 4
Hungary	23/06/2015	01/01/2016	Bill T/4852 modifying Act C of 2000 on Accounting and other financial acts
Latvia	22/10/2015	01/01/2016	The Law on the Annual Financial Statements and Consolidated Financial Statements (Latvijas Vestnesis, 222)

Country	Issue date	Effect date	Legislation Act
Lithuania	14/05/2015	01/01/2016	New edition of The Law on Financial Statements No. XII– 1696
Moldova	15/12/2017	01/01/2019	Law No. 287 of December 15, 2017, of the Republic of Moldova “On Accounting and Financial Reporting”
Montenegro	09/08/2016	17/05/2016	Amendment to the Accounting Act dated 30/07/2016, Official Gazette of Montenegro 52/16
Poland	11/07/2014	05/09/2014	Act of July 11, 2014, amending the Accounting Act, Journal of Laws 2014, item 1100
Romania	29/12/2014	01/01/2015	Order No. 1802/2014 of the Ministry of Public Finances on the approval of the accounting regulations on the individual and consolidated annual financial statements
Slovakia	11/12/2013	01/01/2014	Amendment No. 352/2013 Coll. to the Accounting Act Decree No. MF/15464/2013-74 of December 11, 2013, laying down details of the structure, description, and content of items of individual financial statements for micro accounting entities
	03/12/2014	01/01/2015	Decree No. MF/23378/2014-74 of December 3, 2014, laying down details of the structure, description, and content of items of individual financial statements for small accounting entities
Slovenia	24/07/2015	01/01/2016	the Law on Amendments and Supplements to the Companies Act (ZGD-II, Official Journal No. 55, 2015)
Ukraine	05/10/2017	01/01/2018	Law of Ukraine No. 2164-VIII of October 5, 2017 “On Amendment of the Law of Ukraine “On Accounting and Financial Reporting in Ukraine”

Source: own elaboration based on legislation acts.

Based on the above, hypothesis (H1), which states that the transposing of the definition of a micro- and small entity into the national financial reporting regulations in the CEE region depends on a country having acceded to the EU, has not been confirmed. This is consistent with the results of Subaciene et al. (2018, p.166).

For most Member States from the region, the implementation date was January 1, 2016. For Poland, the implementation date was the financial year ending after September 5, 2014, for Romania and Slovakia – for small entities it was January 1, 2015, for Slovakia – for micro-entities it was January 1, 2014 (Table 1). The implementation date for Ukraine was January 1, 2018, and for Moldova and Albania – January 1, 2019. Belarus is the only country that has not transposed the Directive into its national legislation. However, according to the Law of July 1, 2010, № 148-3 “On support of small and medium-sized businesses”, some simplifications were introduced for SMEs in Belarus regarding the reduced composition of financial statements for small businesses, and in some cases, exemption from the obligation of accounting and financial reporting.

Micro- and small entity definitions

The Directive recommends that small and micro-undertakings be limited liability legal entities, which should be defined and distinguished by reference to the balance-sheet total, the net turnover, and the average number of employees during a financial year, since those criteria typically provide objective evidence of the size of a business. Directive 2013/34/EU introduces the definition of micro- and small enterprises, presented in Table 2.

Table 2. The Directive 2013/34/EU definition of micro, small enterprises by size

Enterprise	Employment	Net turnover	Balance sheet total	Other
Micro	0–9	≤ EUR 700,000	≤ EUR 350,000	–
Small	10–49	< EUR 8,000,000	< EUR 4,000,000	–

Source: Directive 2013/34/EU, Art. 3.

Member States are indeed free to make decisions on whether to stick to the size criteria proposed in the Directive or to apply more restrictive criteria (i.e., lower total assets, turnover, or the number of employees). There is an exception, i.e., Member States may define thresholds that exceed the thresholds for small undertakings; however, they must not exceed EUR 6,000,000 for the balance-sheet total and EUR 12,000,000 for the net turnover (Art. 3, p. 2). The Directive states that if, on its balance-sheet date, an enterprise or a group of entities exceeds or ceases to exceed the limits of two of the three classification criteria set, that fact shall affect the application of the classification only when it occurs in two consecutive financial years.

Table 3 presents the number of countries that transposed the size thresholds for micro-entities into their national legislation.

Table 3. Application of size thresholds to the definition of a micro-entity in selected CEE countries

EU Members			Non-EU Members		
Full application	Application with the use of national currency	National definition or no definition	Full application	Application with the use of national currency	National definition or no definition
LT, LV, RO, SK, SI	BUL, CZ, HR, HU, PL	EST	UKR, MNE	–	AL, BLS, ML
10		1	2		3

Source: own calculation.

Analyzing the size thresholds in selected countries, it can be stated that seven out of the sixteen countries transposed the definition directly from the Directive (EU members – five countries; non-EU members – two countries). The other five countries (EU members)

applied the thresholds recommended by the Directive, but the national currency is used in the definition.⁴ It may be stated that the definition of micro-entities is transposed into most national accounting regulations (twelve countries). In Poland, however, it is not enough for an enterprise to meet two out of the three thresholds. An approval authority has to additionally issue a decision regarding the preparation of simplified financial reports. Albanian, Estonian, Moldovan, and Belarusian legislations do not incorporate the size thresholds recommended. Albanian and Moldovan law partially aligns with the Directive. The legislation classifies economic entities according to three criteria, as in the Directive, but the thresholds for total assets and net turnover are much lower. In Estonia, micro-entities are defined as undertakings which, on their balance-sheet dates, do not exceed the limits of all of the following criteria: total assets EUR 175,000, net turnover EUR 50,000, liabilities not exceeding the owners' equity, and one shareholder who is also a member of the management board. In Belarus, micro-entities employ less than fifteen people.

Table 4 presents the number of Western European countries (EU-15) and the selected sixteen countries from Central and Eastern Europe that transposed the size thresholds for micro-entities into their national legislation.

Table 4. Application of size thresholds to the definition of a micro-entity in selected Western European countries (EU-15) and the CEE region

CEE countries			EU-15 Member States		
Full application	Application with the use of national currency	National definition	Full application	Application with the use of national currency	National definition
7	5	4	9	2	4
44%	31%	25%	60%	13%	27%
77%		25%	73%		27%

Source: own calculation.

The structure of the countries which have implemented the standard definition of a micro-entity into the national regulations is similar in Western and Central and Eastern Europe. Only the use of the national currency is more popular in the CEE region since the euro is not the national currency there. As such, hypothesis (H2), which states that the thresholds applied in the micro- and small entity definitions used in CEE countries' national regulations are mostly based on the specific conditions and needs of their own markets, has been partially rejected (in the context of micro-entities). Just one Member State from the CEE region – Estonia, one potential candidate – Albania, and one Partner Country – Moldova, decided to adjust the thresholds to the needs of their markets.

⁴ In Poland, an entity's legal form defines its size; different thresholds are applied to capital partnerships or civil partnerships and sole proprietorships.

Table 5 presents the number of countries that transposed the size thresholds for small entities into their national legislation.

Table 5. Application of size thresholds to the definition of a micro-entity in selected CEE-region countries

EU Members			Non-EU Members		
Full application	Application with the use of national currency	National definition	Full application	Application the with use of national currency	National definition
EST,LT, LV, RO, SK, SI	BUL, CZ, HR, HU, PL	–	UKR, MNE	–	Al, BLS, ML
11		0	2		3

Source: own calculation.

Eight out of the sixteen selected countries transposed the size thresholds for small entities from the Directive (EU Members – six countries; non-EU Members – two countries). The other five countries (EU Members) applied the thresholds recommended by the Directive, but the national currency is used in the definition⁵. In Poland, it is not enough for an enterprise to meet two out of the three thresholds. Additionally, an approval authority has to issue a decision regarding the preparation of simplified financial reports. Albanian and Moldovan law partially aligns with the Directive. The legislation classifies economic entities according to the three criteria, as in the Directive, but the thresholds for total assets and net turnover are much lower. In Belarus, small entities are those that employ less than a hundred people.

Table 6. Application of size thresholds to the definition of a micro-entity in selected Western European countries (EU–15) and the CEE region

CEE countries			EU–15 Member States			
Full application (standard definition)	Application with the use of national currency	National definition	Full application (standard definition)	Application with the use of national currency	National definition Application of lower thresholds	Application of increased thresholds
8	5	3	5	1	1	10
50%	31%	19%	20%	7%	7%	66%
81%		19%	27%		7%	73%

Source: own calculation.

⁵ In Poland, the entity's legal form defines its size; different thresholds are applied to capital partnerships or civil partnerships and sole proprietorships.

In contrast to the CEE countries, ten Member States from Western Europe took advantage of the possibility to define thresholds that exceed the standard ones. Only Spain, like Albania and Moldova, assumes lower criteria. It means that hypothesis (H2), which states that the thresholds applied in the definitions of micro- and small entities in the national regulations of CEE countries are mostly based on the specific conditions and needs of their own markets, has been rejected for fourteen out of the sixteen selected countries. We may assume that this should be confirmed for Western European countries.

Comparative analysis of financial-report content in selected countries

According to Directive 2013/34/EU, “the annual financial statements shall constitute a composite whole and shall for all undertakings comprise, as a minimum, the balance sheet, the profit, and loss account and the notes to the financial statements” (Directive, Art 4.1.). Member States may permit small (Directive, Art. 14) and micro (Directive, Art. 36) undertakings to draw up abridged balance sheets and profit and loss accounts (Directive, Art. 14). Micro-entities may be exempt from the obligation to draw up notes to financial statements and management reports, provided that the information required is disclosed at the foot of the balance sheet (Art. 36). The Directive states that Member States should take into account the specific conditions and needs of their own markets when making a decision about whether or how to implement a distinct regime for micro-undertakings, within the context of this Directive.

Small entities may prepare notes to financial statements that only cover accounting policies, revaluations and value adjustments to assets at fair value, financial commitments, exceptional items, the amounts owed falling due after more than five years, the average number of employees, credit transactions, and commitments relating to the members of managerial bodies. They may be exempt from the obligation to prepare management reports or abridged management reports (excluding non-financial key performance indicators).

Financial-reporting legislation in most of the selected countries allows micro-entities to draw up an abridged balance sheet and profit and loss account (Albania, Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Moldova, Poland, Romania, Slovakia, Slovenia, and Ukraine). Polish micro undertakings may prepare abridged profit and loss accounts only by nature. In the Czech Republic, abridged forms are allowed only if a company is not subject to mandatory audits. Micro-undertakings in Croatia, Belarus, and Montenegro are not allowed to prepare abridged financial reports. The preparation of notes to financial statements is mandatory for micro undertakings in Albania, Belarus, Croatia, the Czech Republic, Estonia, and Slovakia. In other countries, this group of undertakings prepares footnotes to balance sheets, instead of notes.

Table 7. Mandatory elements of micro-entity financial statements in selected countries

Element of the financial statement	BLS	HR	LV	LT	ML	PL	RO	SLO	UKR	AL	BUL	CZ	EST	HU	MNE	SK
	micro	micro	micro	micro	micro	micro	micro	micro	micro	micro	micro	micro	micro	micro	micro	micro
Balance Sheet	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+
Profit and Loss Account	+	+	+	+	+	Only by nature	+	+	+	+	+	+	+	+	+	+
Notes to the Financial Statement	+	+	-*	-	-	-	-	-	-	+	-	Full version	+	-	-	+
Simplified (abridged) form	no	no	yes	yes	yes	yes	yes	yes	yes	yes	yes, additionally, an activity report if a company is subject to a mandatory audit	Only, if a company is not a subject to mandatory audit	yes	yes	no	yes

* If total assets do not exceed EUR 800,000, net turnover does not exceed EUR 1,600,000, and employment is less than five people.

** If net sales income for the current reporting period of a sole trader does not exceed BGN 200,000, and it is not subject to statutory independent financial audit, it is necessary to prepare only a profit and loss account. Meanwhile, sole proprietorships which are not subject to mandatory audit are required to prepare only a profit and loss statement.

Source: own elaboration based on legislative acts.

Table 8. Mandatory elements of small-entity financial statements in selected countries

Element of the financial statement	BLS	HR	LV	LT	ML	PL	RO	SLO	UKR	AL	BUL	CZ	EST	HU	MNE	SK
	small	small	small	small	small	small	small	small	small	small	small	small	small	small	small	small
Balance Sheet	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+
Profit and Loss Account	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+
Notes to the Financial Statement	+	+	+	+	+	+	+	+	–	+	–	Full version	+	+	–	+
Simplified (abridged) form	no additionally, a cash flow statement and state- ment of shareholder equity	no	yes	yes	yes	yes	yes	yes	yes	no	yes, additionally, an activity report if a company is subject to mandatory audit	Only, if a company is not subject to manda- tory audit	yes	yes	no additionally, statistical report	no

Source: own elaboration based on legislative acts

As Table 8 shows, small entities from Albania, Belarus, Croatia, and Montenegro are exempt from preparing abridged financial statements. Czech small undertakings may prepare an abridged form of financial reports, except the notes to financial statements, only if they are not subject to mandatory audit. In Bulgaria and Ukraine small companies are not obliged to draw up notes to financial statements.

Micro and small entities from Bulgaria and Montenegro are obliged to prepare additional reports (Activity report – Bulgaria, Statistical report – Montenegro). In accordance with Belarusian regulations, all entities additionally draw up cash flow statements and statements of shareholders' equity.

Summing up, the hypothesis that the scope of financial statements transposed from Directive 2013/34/EU into the national regulations in CEE countries does not depend on whether they have acceded to the EU has been confirmed. Even though the research by Zager and Decman (2016, p. 456) confirmed the need to simplify the financial reporting model, Croatia, as the only Member State from the CEE region, has not transposed the simplified regime for small and micro-entities, while Moldova did.

Conclusions

Users of financial statements need reliable, accurate, and comparable financial and non-financial information on which they can base their decisions. Only through transparent reporting, and communicating information on performance and the progress towards goals can MSEs build their reputation and trust, attract new capital, and develop a competitive advantage. One obstacle to the development and expansion of cross-border participation of MSEs seemed to be the existence of different accounting systems within the EU (Strouhal et al., 2010, p. 49). The idea "Think Small First" inspired the introduction of Directive 2013/34/EU. The Directive was intended to reduce the burden of financial reporting for MSEs while keeping the obligation. Accordingly, national accounting legislation, which resulted from the transposition of the Directive, was designed to strike an appropriate balance between the interests of financial statement users and those of companies, taking into account the specific conditions of national economies.

Although each Member State was responsible for incorporating the provisions of the Directive into national law by 2015, the results of our analysis show that not all Member States transposed the size thresholds recommended into their legislation. In turn, Ukraine and Montenegro, non-EU countries, have implemented the definitions recommended. Consequently, the range of the thresholds for micro- and small entities in the EU still varies, but to a lesser extent than before. One may, therefore, wonder why some countries have not transposed the standard definitions. Some of them have applied more restrictive criteria, especially for micro-entities, e.g., Estonia and Italy. As a result, in these countries, the share of entities under the super simplified accounting regime is about 60%, whereas, in almost all CEE countries, it is over 90%. Albania

and Moldova, which implemented the Directive after 2015, applied the same solution as Estonia and Italy. It should be considered whether lowering the thresholds and thus adapting them to the national market is not more appropriate, in the context of financial report relevancy and information asymmetry. It seems important, especially in relation to the CEE countries, whose enterprises operate in a different environment than those from Western Europe. Moreover, it may be discussed whether the thresholds are not too high, if the average share of micro-entities for the EU is 84.4% and for small undertakings 13.3%. The only countries with a share below 70% are Austria and Germany. It may, therefore, be considered whether this was the purpose of the Directive.

Because comparability of annual financial statements is limited if enterprises belong to different classes (Deac, 2014, p.205), six years after the introduction of the Directive, the administrative burden of MSEs, in terms of international development and in association with the definition, seems still to exist. What is more, non-eurozone countries still use their national currencies in their legislation, which makes it less transparent for foreign investors.

Summing up, it may be stated that the implementation of the Directive does not depend on whether a country has acceded to the EU. Ukraine and Montenegro transposed the Directive recommendations to a quite large extent. Only Belarus, with the lowest number of MSEs in its economy and which still functions within the Russian sphere of influence, has not harmonized its national accounting law with the Directive at all. However, to assess the Directive in practice, it is necessary to conduct broader quantitative and qualitative studies among MSEs. Further comparative cross-country analysis of simplifications of the valuation methods, disclosures, as well as the content of the balance sheet and profit and loss accounts, also seems to be relevant.

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