

3rd GLOBAL CONFERENCE on BUSINESS, ECONOMICS, MANAGEMENT and TOURISM,
26-28 November 2015, Rome, Italy

Analysis related to number of small and medium-sized companies respecting accounting legislation changes

Katarina Zager^a, Boris Tusek^a, Ana Jezovita^{a*}

^a Faculty of Economics and Business - University of Zagreb, J. F. Kennedy Sq 6, HR-10000 Zagreb, Croatia

Abstract

In order to completely adjust to the European Union's accounting legislation, from January 2016 new Accounting law will bring certain changes in Croatian accounting system. Noticeable change is a new size classification system which includes micro-entities. By adopting new classification system in Croatia, total number and proportion of large companies decreased, and the number of medium-sized companies increased by widening the range thresholds. Nevertheless, as expected, the greatest proportion of companies in Croatia will be micro-entities.

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Peer-review under responsibility of the Organizing Committee of BEMTUR- 2015

Keywords: micro-entities; SMEs; Accounting law; Directive 2013/34/EU; criteria thresholds

1. Introduction

In the European Union Member states micro, small and medium-sized companies (SMEs) represent the nucleus of business and economy environment, making more than 99% of total number of companies. Within the SMEs segment micro-entities have the largest proportion which represent the simplest form of business, in most cases poorly diversified, and limited in context of development, interest of stakeholders, organizational structure, and management strategy. Those companies are often deprived from an aspect of financing possibilities. The European Union is aware of the importance of those companies which represent 'the backbone of Europe's economy'. The European Commission considers SMEs as "key to ensuring economic growth, innovation, job creation, and social integration in the EU" (The European Commission, 2015). In 2006 the Commission initiated simplification of

* Ana Jezovita. Tel.: +385-1- 238-3236.

E-mail address: ajezovita@efzg.hr

accounting and auditing for SMEs. The initiation resulted with the elaborate which includes synthesis of the received reactions where five different measures had been identified in the communication with the aim of reducing the administrative burdens, notably for small and medium-sized entities: (1) introduction of 'micro-entities', (2) trespassing the thresholds for SMEs, (3) relief from publication requirement for small entities, (4) extension of exemption for companies without particular external user, (5) simplification for all companies (European Commission, Synthesis of the reactions received to the Commission communication on a simplified business environment for companies in the areas of company law, accounting and auditing (COM(2007)394), 2007, pp. 10-13). Leading with those facts, the European Commission makes appropriate efforts with a goal to ease SMEs operations in context of improving access and funding availability. New accounting Directive 2013/34/EC is focused on simplifying reporting and disclosure requirements, and to the reduction of administrative burdens resulting from the exemption from the publication requirement, especially for micro-entities.

2. Accounting legislation in Croatia before and after the European Union accession

From the beginning of Croatia's independence, accounting practice has had several waves of regulation changes. The first Accounting law was introduced in 1992, and it was in force for the next 13 years. The content of the law was fairly narrow. According to its regulations, companies in Croatia were classified into three classes (small, medium-sized and large), and all of them were required to use International Accounting Standards (IAS) in preparing the annual financial statements. Financial statements included balance sheet, income statement, statement of changes in financial position and notes to financial statements. Small companies were not required to prepare statement of changes in financial position. In 2005 new Accounting law was introduced. It could be said that the main change comparing to previous law was excluding content and structure of annual financial statements from the law. Also, statement in changes of ownership equity was added to the set of financial statements. Important element of the new law was the establishment of the Board for Financial Reporting Standards which replaced Croatian Board for Accounting and Accounting Standards. Related to that, the Board become responsible for translating and publishing International Financial Reporting Standards in Croatia. Not long afterwards in 2007 new Accounting law was ratified. Next to International Financial Reporting Standards used by large and listed companies, the new law introduces the Croatian Financial Reporting Standards developed for the small and medium-sized companies by the Board.

By accessing the European Union, Croatia was required to adjust to the European legislation system. Those adjustments in the field of accounting will be completely accomplished with the new Accounting law (NN No. 78/2015), the Regulation on a structure and content of financial statements (NN No. 96/2015), and the Croatian Financial Reporting Standards (NN No. 86/2015), which enters into force from 01 January 2016.

Framework of accounting legislation in the European Union before 2013 was based on Fourth Council Directive 78/660/EEC from 1978 and Seventh Council Directive 83/349/EEC from 1983. Fourth Directive was regulating issues of presentation and content of annual statements, the valuation methods in respect of companies with limited liability. Seventh Directive was regulating conditions for the preparation of consolidated statements. In 2011, with the goal to simplify and modernize the existing Accounting Directives proposal of new Directive was published. After two years of discussions, all necessary procedures, and after transmission of the draft legislative act to the national parliaments, in June 2013 the European Commission has adopted new Regulation (EU) No 610/2013 and Directive 2013/34/EU on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings. The Directive is primarily intended for companies with limited liability that prepare non-IFRS financial statements. It gives important direction on reporting by such companies.

3. Particularities of the micro, small and medium-sized entities

In order to simplify requirements for SMEs, and in accordance with Directive 2013/34/EC regulations, the member state is allowed to exempt micro-entities from the obligation to present '*Prepayments and accrued income*' and '*Accruals and deferred income*'. Also, exemption can be made referring to the obligation to draw up notes to the financial statements in accordance with specified content of the notes to the financial statements related to other types of undertakings (*Article 16 of the Directive*), the obligation to prepare a management report, and to publish annual financial statements in accordance with simplified publication requirements for SMEs. In addition to that member state may permit to draw up only an abridged balance sheet and profit and loss account, and also shall not

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