

The Repercussions of the Accountancy System at the Level of the SMEs Activity

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Abstract

In the economical activity of the SMEs, the interference of accountancy is reflected by respecting some principles and compulsory rules according to the current laws. Ever since the antiquity the accountancy was manifested at the level of SMEs through the activity of some professionals recognized for their competency to produce, explore and authenticate economical data which were quantified, presented according to the regulated conventions. The professional accountant, abiding by the professional rules, goes through a cyclic and determined route to obtain, filter, measure and expose the precise information of the business. Thus can be observed the significant importance in the business environment of the object of study of accountancy - the economical patrimony based on which it is reflected the patrimonial situation of the company.

Keywords: accountancy, patrimony, SMEs, business environment, accountancy rules

Temporal foray in the accountancy universe

For many people, the term accountancy generates the science and art of mastering the businesses. In fact, it has a more complex applicability, and many different definitions for accountancy have been formulated along the centuries.

The first definition belongs to the Italian Luca Pacioli (The Father of Accounting) in his famous book “Summa de arithmetica, geometria, proportioni et proportionalita” (The Collected Knowledge of

Arithmetic, Geometry, Proportion and Proportionality), where he defines the term “accountancy” *as an assembly of principles and rules for registering in double party (the change between the wealth and capital) of a merchant’s fortune, as well as all his businesses.*

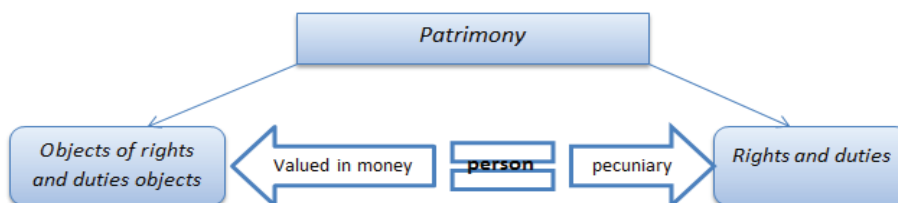
In Romania, Emanoil I. Nichifor laid the foundations of accountancy in 1837 in his book “The Commercial Laws”, a translation from German language, which played an important role in substantiation and popularization of accountancy concepts on Romanian territory. A very important contribution had also I. Elvian by elaborating the first law project for regulating accountancy.

Citing professor Rusu D. “accountancy” means registering the wealth based on some juridical - economical rapports which give birth to monetary return statements, thus accruing the simultaneity of accountancy treated as scientific theory and also as working technique.

According to the Accountancy Law number 82/1991, republished and updated in 2011, the accountancy has as an object of study to measure, to evaluate, to know, to administrate and to control the assets, debts, and own capitals, as well as the results obtained from the activity of an individual or a juridical entity¹.

Of those mentioned above we can notice the significant importance of the accountancy’s object of study in the business world - the economical patrimony - represented through the point of view of the rights and pecuniary obligations of a physical or juridical person with economical value, as well as the economic goods of an individual or a juridical entity with economic value, as well as the economic goods that they refer to. Based on this conception, the patrimony can be presented this way:

Figure nr. 1: **The representation of the patrimony**



Source: Gh. Crețoiu, I. Bucur – “Accountancy – foundations and the new Legal framework”, 2007

¹ Accounting Law number 82/1991, with further modifications and updated.

The wealth elements, meaning the goods or the economical means, form the patrimonial active, and the rights and the duties form the balancing passive.

As a result, accountancy appeared out of the necessity to answer on the informational and decisional level to the problem of administration of economic values, separated patrimonial, reflected precisely in the balance of entities.

Conceptual approaches regarding the SMEs

The acronym “*SMEs*” entered the current vocabulary to refer to small and medium companies, a category opposed to big companies.

Though the significances of the concept appear, at first sight, easy to frame, in the literature on the subject, the approaches are varied. This fact is due to the contingency and diversity of the phenomenon.

For a long period of time the SME were seen as reduced models of the big companies, having an ephemeral existence. But along the years it was demonstrated the permanence of these entities, although many of them disappeared, were been created and others have been developed all the time.

The main distinction between the big companies and the SMEs is the increased degree of external uncertainty of the business environment in which the company operates, but also the internal conflicts which generate actions or motivations. That is why we cannot say that there is a unanimously recognized definition of the notion of “SME”, but we can prove that these are economic entities, independent on the juridical and financial level, with diverse activities.

The companies have always represented the sphere of action where accountancy takes complex forms of surveying and control of the resources, spending and results.

In order to be neutral, but also compatible as a communication system, accountancy is based on rules and general principles of evaluating and economical calculating on a precise terminology which is identical for all users of information.

At present there is not in Romania an accountancy frame on its own, but all the problems regarding the organization and accountancy leadership, as well as the requests towards the accountancy information are regulated by the Accountancy Law number 82/ 1991, republished, and by the regulations adopted by OMFP 3055/2009.

According to the national accountancy legislation in force number 364/2004 (updated), there is a delimitation referring to small and medium entities. This approach is based on the size criteria of an economical entity - the medium number of employees, the turnover and the total assets, fullfilling cumulatively the following conditions²:

a. have a medium annual number smaller than 250.

b. achieve an annual netto turnover of up to 50 million euro, equivalent in lei, or own total assets that do not surpass the equivalent in lei of 43 million euro, according to the latest financial situation that was approved. By total assets we understand fixed assets plus circulatory assets plus expenses in advance.

c. fullfill the criterion of independency.

The small and medium companies are classified according to the annual medium number of employees and by the annual netto turnover or the total assets they own into the following categories:

Table no. 1: The characteristics of SMEs in Romania

Enterprise category	Average number of employees	Turnover (CA) (equivalent in RON)	↔ Total Assets (equivalent in RON)
medium	< 250	≤ 50 mil Euro	≤ 43 mil Euro
small	< 50	≤ 10 mil Euro	≤ 10 mil Euro
micro	< 10	≤ 2 mil Euro	≤ 2 mil Euro

Source: The Law number 346/2004 art.4, republished

The small and medium companies are considered independent if they are not owned in a percentage of over 25% of their capital or their voting rights by another company or more companies, which do not belong to the SMEs group.

Belonging to a category or another has a direct effect on the way of preparing the financial situation:

- entities which on the date of the balance surpass the limits of 2 out of the following three criteria: total asset: 3.65.000 euro, CA 7.300.000 euro, the current number of employees 50, CA 7.300.000 euro, number of current employees 50, they write annual financial report which comprise: balance, profit account and loss. The situation of

² The Law number 364/2004

modifying their own capital, the the report of cash flux, the explanation notes for the annual financial reports.

- entities which on the date off the balance do not surpass the limits of two of the size criteria will write simplified annual financial reports which comprise: Balance, Profit account and Loss, simplified explanatory notes.

As a result of those shown above, accountancy is in debt to the company, and as a consequence, through its vocation, it represents an instrument of knowledge and administration of the patrimony situation, of the financial situation and of the result obtained.

SMEs in the context of the Romanian business environment

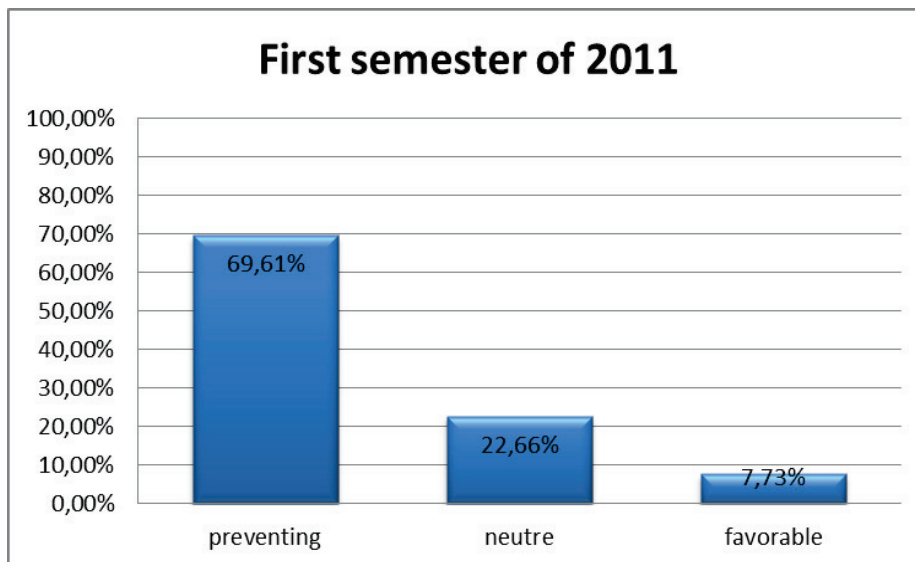
We live a time of changes, of restructuring, the overthrow of all yesterday's fulcrum, a world in which the managers do not know the steps they need to take face the community policy and to become competitive on the market. There is also the tendency to start a business by entrepreneurs without getting detailed information (market study, business plan, feasibility study), or without a professional preparation in the field attesting the qualities, capabilities, meaning the features needed to ensure the success in business.

In other words, an entrepreneur who launches a business neglecting accountancy and the accountant is *like he drove a fast car ignoring the road*³. This is the comparison which must be done regarding the importance of the financial reports for an accountant.

According to the enquiry done by a group of specialist in our country (CNIPMMR, CECCAR, AIPPIMM and IMMIM) the economic environment in Romania, during the first part of the year 2011, was appreciated as preventing the development of SMEs in proportion of 69.61% of companies, 22.66% of SMEs appreciated as neuter the evolution of the business environment and only a percentage of 7.73% was favorable to development (graph no.1).

³ Marin Toma during the conference in Bucharest, 2011

Graph no. 1: The perceived situation of SMEs related to the development



Source: own interpretation after the results of the White Paper of SMEs in Romania

The number of SMEs which appreciated the economic environment as being unfriendly was bigger at the level of companies 5-10 years old (72.14%), companies from Central Region (81.12%), micro-companies (70.59%) or building companies (71.74%).

But we cannot help noticing the fact that only 13.16% of these companies estimated that the evolution of the Romanian business environment in the year 2011 would be favorable⁴.

Analyzing the 11 representative indicators to sum up the parameter of SMEs evolution, we get the following results (table no. 2):

⁴ The Report "The White Paper of SMEs in Romania" 2011

Table no.2: SMEs index

No	Indicator	Actual score	Observations
1	Registrations of commercial companies	10	Number of registrations increased by 18.69% in the first semester of 2011 compared to the first semester of 2010
2	Number of defunct commercial companies	10	Number of defunct commercial companies decreased by 70.97% in the first semester of 2011 compared to the first semester of 2010
3	Number of profitable SMEs	1	Number of profitable SMEs increased by 1% in the first semester of 2011 compared to the first semester of 2010
4	Number of SMEs with losses	2	Number of SMEs with losses decreased by 2% in the first semester of 2011 compared to the first semester of 2010
5	SMEs debts	-1	SMEs debts increased by 3.2% in the first semester of 2011 compared to the first semester of 2010
6	Average turnover per SME	1	Average turnover per SME increased by 0.24% in the first semester of 2011 compared to the first semester of 2010
7	Average profit per SME	-1	Average profit per SME decreased by 1.83% in the first semester of 2011 compared to the first semester of 2010
8	Average loss per SME	2	Average loss per SME decreased by 0.18% in the first semester of 2011 compared to the first semester of 2010
9	Average number of employees per SME	2	Average number of employees per SME increased by 0.85% in the first semester of 2011 compared to the first semester of 2010
10	SMEs' investments	-1	SMEs' investments decreased by 2% in the first semester of 2011 compared to the first semester of 2010
11	Exports of private enterprises	2	Exports of private enterprises increased by 1.09% in the first semester of 2011 compared to the first semester of 2010
12	TOTAL	27	

Source: processing after CNIPMMR

By summing up the scores of all 11 indicators, the SMEs index reached 27 points; this value reflects a satisfying evolution of the Romanian SMEs sector. In the first semester of 2010, this index reached -22 points.

SMEs index	Evaluation
- 64 – 0 points	Very unsatisfying
0 – 20 points	Unsatisfying
20 – 45 points	Satisfying
45 – 70 points	Good
More than 70 points	Excellent

Taking into account also the evolution of the SMEs during the period October 2008- March 2011 when there were recorded the following values: 39.22% of companies reduced their activity, 24.02% went bankrupt, 27.25% stagnated and only a percentage of 9.51% succeeded to develop their activity, we can notice the improvement of the economic environment in Romania. This thing reflects also the increase of entrepreneurs' trust in the positive economical evolution for the next years.

Before concluding we must mention the fact that part of the cause of the unfavourable evolution of SMEs was generated by the problems that the entities have met due to the economic downfall.

Interfering of accountancy in the economic activity of SMEs

By the Order number 2239/2011 were approved the simplified accountancy rules in harmony with the European directives, applied to SMEs, also approached by OMFP 3055/2009. These accountancy rules are apply by juridical entities provisioned by the Accountancy Law 82/1991, republished, modified and updated on the 2nd of June 2011 with the regulations OUG number 37/2011.

The indicators present in the regulations are: the turnover, total of assests and number of employees.

The three indicators mentioned above are watched according to the annual financial situation written at the end of the previous year in this way:

- the turnover based on the data written in the form "Profit account and loss", finished on the 31st of December of the previous year;
- total assets based on the data written in the form "Balance" finished on the 31st of December of the previous year.
- the turnover and the total assets are established on the exchange ratelei/ euro at the end of the previous financial use.
- the medium number of employees, based on the data written in the „Explanatory Notice, information regarding the employees, administrators and managers”, finished on the 31st of December of the previous year.

The general purpose of these regulations underlines the harmonization of the national accountancy with the European directives.

The above mentioned regulations establish the following:

a. The principles and the accountancy rules based on the organization and managing of the company.

The accountancy of a SME must obey some accountancy rules and principles.

➤ The principles that are the base for the accountancy records of SMEs are:

- The principle of continuity of activity
- The principle of the permanence of methods
- The principle of prudence
- The principle of the independence of the exercise
- The principle of evaluating separately the Active from Passive
- The principle of intangibility
- The principle of non-compensation
- The principle of the prevalence of the economic over the juridical
- The principle of the significance threshold

➤ Accountancy rules:

Accountancy is to be obligatory kept in Romanian and in the national currency. For its own necessities of information accountancy of the operations done in a foreign currency may be kept both in the national currency, and the foreign currency.

Responsibility for organizing and managing accountancy is for its administrator or another person who has the duty to administrate the economical entity. The juridical entities organize and manage the accountancy, usually, for distinctive compartments led by the economic manager, the chief accountant or any other person with power of

attorney to do this job. These persons must have economic university studies and are responsible together with the subordinate staff for organizing and managing accountancy, abiding the laws.

Any economic operation which is done is written in a document which stays at the basis of records in Accountancy, this having a quality of justifiable document. The justifiable documents are primary documents which legally probe an operation.

The obligatory accountancy records are: The Diary Record, The Inventory Record and The big Book Record. These are used in strict accordance with their destination and are presented in an orderly manner and written in such a way that to allow at any moment identification and control of the accountancy operations being done.

The accountancy records and the justifiable documents are kept for 10 years in the archive, starting with the date when the exercise during which they were written ended, except the salary records which are kept for 50 years.

The financial exercise begins on the first of January and ends on the 31st of December, except for the first year of activity, when this starts on the date of the founding the company, meaning the date when it was registered at the Commerce Chamber.

The juridical entities who apply the current regulations have the obligation to write annual simplified financial reports, which must offer a faithful image of the financial position and the performance of the juridical entity for that financial exercise.

The administration council elaborates for each financial exercise a report which contains mainly the following:

- A faithful analyses of the evolution of the activity during the financial exercise and of the situation of the company at the end of this.
- Information regarding the probable evolution of the activity of the juridical entities.
- Information regarding the branches of the juridical entities.
- Information regarding its own shares bought or owned at any time during the financial exercise, the value of the dividends proposed by the administration council and subjected to approval of the general holders meeting
- Information regarding the activities in the field of research and development, or regarding the policy of environment protection.

The simplified financial records are signed by the person responsible with them and are given to the administration council,

signed in the name of the Council by its president and approved by the general holders meeting.

On request the annual report will be available to all shareholders.

b. making, presenting, approving and publishing the simplified annual financial reports.

For the SMEs in our country, the annual simplified records (balance, profit account and loss, accountancy policies and explanatory notes, and optional the cash flow reports) are written every semester and are handed to the territorial financial Administration until the 25th of the month.

Conclusions

As stated previously, the interference of accountancy of SMEs is reflected by respecting the principles and the rules according to the current law, showing a faithful image of the financial position and the performance of entity.

In the context of the business environment, these standards must be respected to ensure the success in business, creating a healthy and reliable business environment.

In other words, an enterprising who launches in a business can't neglect the accountancy.

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