COMPARATIVE STUDY REGARDING FINANCIAL STATEMENTS OF SMALL AND MEDIUM ENTERPRISES IN ROMANIA AND GERMANY

MARIA MORARU
WEST UNIVERSITY OF TIMISOARA, FACULTY OF ECONOMICS AND BUSINESS ADMINISTRATION
mariamoraru2002@yahoo.com

IONEL BOSTAN
ionel_bostan@yahoo.com
VERONICA GROSU
dorugrosu@yahoo.it
STEFAN CEL MARE UNIVERSITY OF SUCEAVA, FACULTY OF ECONOMICS AND PUBLIC ADMINISTRATION

Abstract: In Romania there have been several changes in economic processes of great interest for accounting. Efficient use of accounting information, by the users, has become vital for the business environment. This paper presents information concerning the balance sheet and profit and loss account and note drawn up in Romania as compared with those drawn up in Germany. In this paper are also presented features of accounting regulations information on small and medium-sized enterprises and accounting principles both in Romania and in Germany.

Keywords: *Financial statements, Balance sheet, Profit and loss account, Accounting regulations, Small and medium-sized enterprises*

JEL Classification: M41

INTRODUCTION

"Accounting information should allow both existing investors and the potential ones to identify, measure, classify, and evaluate all operations and activities of an entity. Without doubt one of the most important products offered by and accountant is accounting information. This allows making some managerial decisions and adequate investments by existing and potential investors."(Vătăşoiu, C.I; Gheorghe, M; Motoniu, I. D; Boca, I. S., 2010, pp. 244).

Timisoara, respectively Timis County is closely related to the external business environment through foreign investors who have decided to develop a new business, as well as through companies in other countries that have decided to operate in Romania. Timisoara has close business ties with Germany, the strongest economic force in Europe. Investors of the approximately 1500 companies with German capital from Timis County decided to operate in the county for several reasons, namely: positioning to the border, highly qualified workforce, strong university center developed into a variety of areas specialized on the needs of the market, the number of German speakers, wage costs and utility costs lower than in Germany.

RESEARCH METHODOLOGY

The research method consisted in reviewing approaches from specialized literature and articles from national and international journals. We also studied accounting regulations and laws from Romania and Germany, accounting principles and characteristics of financial statements in both countries. We pursued a more detailed approach of the content of financial statements in Romania and Germany, drawing up within the case study a balance sheet for Germany based on data from the balance sheet drawn up in Romania.

SPECIALIZED LITERATURE

Accounting regulations

In Romania, entities apply, starting from 1 January 2010, Accounting regulations compliant with the 4th Directive of the European Economic Community, part of the Accounting regulations compliant with European directives, approved by OMFP no. 3055/2009, with subsequent amendments.

Accounting regulations of the OMPF no. 3055/2009, provide the format and content of annual financial statements, accounting principles and rules for recognition, evaluation, removal from records and presentation of items in annual financial statements, rules for drawing up, approval, audit/ verification, according to the low, and the publication of annual financial statements, certain rules concerning management accounting, general Chart of accounts, as well as the content and function of bookkeeping accounts.

Accounting regulations in Germany are basically constituted only from laws and interpretations of the law. The first accounting rules were defined since 1794 in the Civil Code of Prussia. In 1897 the accounting rules are regrouped in the Commercial Code applicable to any type of entity.

Although Germany has a continental accounting system, that is based on the 4th Directive of the European Economic Community there are, however, several differences in financial reporting.

Small and medium enterprises

In the European Union there are approximately 23 million SMEs that provide around 75 million jobs. Small and medium sized enterprises represent 99% of European companies.

"In Romania SMEs are currently the most important factor in the development of the private sector and the free market, representing at the same time the sector with the highest absorption of workforce. Of the total number of Romanian companies, 99.7% are small and medium enterprises" (National Courier, No. 6129/ 15.03.2012, pp. 5)

In Romania, legal entities which at the date of the balance sheet exceed the limits of two of the following three criteria: total asset: 3650000 euro, net turnover: 7300000 euro, average number of employees during the financial year: 50, draw up annual financial statements which comprise: balance sheet, profit and loss account, statement of changes in equity, cash flow statement, explanatory notes to the annual financial statements. Legal entities that at the date of the balance sheet do not exceed the limits of two of the three size criteria draw up abridged annual financial statements which comprise: abridged balance sheet, profit and loss account, explanatory notes to the abridged annual financial statements. Framing in the size criteria provided by these regulations shall be performed at the end of the financial year, based on the indicators determined from the financial statements of the financial year preceding the reporting one and the indicators calculated based on data from accounting and the trial balance concluded at the end of the current year, using the exchange rate of the National Bank of Romania, valid at the date when the financial year ends.

In Germany, small enterprises are those which do not exceed the limits of two of the following criteria: total assets: 4840000 euro (after deducting losses), net turnover: 9680000 euro, average number of employees during the financial year: 50.

Medium enterprises are those which do not exceed the limits of two of the following criteria: total assets: 19250000 euro (after deducting losses), net turnover: 38500000 euro, average number of employees: 250.

Accounting principles

Accounting principles in Romania. The items presented in annual financial statements are evaluated in accordance with the general accounting principles. The effects of transactions and other events are recognized when the transactions or events occur (and not as cash or its equivalent is received or paid) and are recorded in accounts and reported in the financial statements of the related periods.

Revenues and expenditures that result directly and simultaneously from the same transaction are recognized simultaneously in accounts, through a direct association between the related expenditures and revenues, with the distinct emphasize of these revenues and expenditures.

The general accounting principles are: the going concern principle, consistency principle, prudence principle, matching principle, valuation of assets and liability items principle, opening balance principle, offsetting principle, substance over form principle and materiality principle.

Accounting principles in Germany - According to the German Commercial Code, all companies are required to comply with the accounting principles; however these principles are not fully defined by the law. The law allows an interpretation space.

Accounting must be kept so as to provide to third parties a fair picture of the transactions and the company's position at a reasonable time.

The main principles are the following: The resulting accounting information must be clear and concise. This includes: an adequate organization; clear presentation of the financial statements; assets and liabilities, respectively expenditures and revenues can't be compensated with each other; documents must be obligatory legible and recordings in pencil are not allowed; all transactions must be recorded in time, successively, they must be complete, accurate and objectively ordered; each entry must have a supporting document; all accounting records must be kept ordered.

The general principles are: *Accuracy principle* is fulfilled when the financial statements were drawn up in accordance with applicable rules.

Clarity principle refers to the records from the financial statements. Financial statements should be clear, transparent and independent.

The Principle of individual assessment refers to the fact that all assets and liabilities must be evaluated independently.

Principle of completeness - According to the completeness principle, all relevant transactions must be recognized in financial statements, regardless of their effect.

Additional principles are the prudence principle, consistency principle and going concern principle, principles that have the same content as in Romania.

Financial statements

In Romania the format of the balance sheet and of the profit and loss account can't be changed from one financial year to another, only in exceptional cases. The items listed in the balance sheet and in the profit and loss account must be presented separately in the indicated order. A more detailed sub-classification of the items can only be made in the explanatory notes.

The balance sheet is the synthesis accounting document through which are presented assets, liabilities and equity of an entity at the end of the financial year, as well as other situations provided by law. In the balance sheet, items of assets and liabilities are grouped by nature and liquidity, respectively by nature and chargeability.

An asset is recognized in accounting and presented in the balance sheet when the company is probable to achieve a future economic benefit and the asset has a cost or a value that can be reliably assessed.

A liability is recognized in accounting and presented in the balance sheet when it is probable that an outflow of resources embodying economic benefits will result from the settlement of a present obligation and the amount at which the settlement will be achieved can be reliably assessed.

Equity represents the residual interest of the shareholders or associates in the assets of an entity after deducting all its liabilities. The balance sheet format used in Romania is presented in Table no. 1.

The balance sheet in Germany has an account form (tabular form). Medium and large enterprises have to complete the detailed form of the balance sheet, while small enterprises have to complete only the abridged version of the balance sheet, meaning only the row that begin with capital letters or Roman numbers. The balance sheet model used in Germany is presented in Table no. 2.

The profit and loss account shows the performance registered by the entity during the financial year indicating how the result of the financial year was established and provides additional information on the operations carried out by the entity.

The profit and loss account in Germany can be presented in the form of an account or a report. The profit and loss account may be made based on expenditures or revenues. Once the model of the form is selected it must be kept, any changes must be presented in explanatory notes.

For small and medium enterprises some specific positions can be summarized in order to protect from competition, but they will still need a detailed chart of accounts.

The explanatory notes are intended to provide additional financial accounting information to those resulting from other items of the financial statements. These explanatory notes come to provide a foundation for the information presented, particularly in the balance sheet and in the profit and loss account.

Explanatory notes in Romania contain *10 points* that cover all the information required to be presented according to the regulations, namely: 1. Fixed assets; 2. Provisions; 3. Profit distribution; 4. Analysis of the operating result; 5. Statement of receivables and debts; 6. Accounting principles, policies and methods; 7. Participations and funding sources; 8. Information on employees and members of the administrative, management and supervisory bodies; 9. Examples of calculation and analysis of the main economic and financial indicators; 10 Other information.

Explanatory notes in Germany can be summarized in 3 points: general principles in drawing up a balance sheet, evaluation and exchange rate (the methods applied in drawing up a balance sheet and in assessing financial statements are presented and explained, are presented the values at which the items are presented in the balance sheet and the exchange rates used); additional explanations and correction of the balance sheet and the profit and loss account; other information (name of all members of management and supervisory board, subscription rights and number of employees).

CASE STUDY

We consider the example of a company in Germany which has a branch in Timisoara.
Company name: AA GmbH & CO. KG Germany – Timisoara Branch
Field of activity: Information technology consultancy activities;
Headquarters: Germany;
Working points: Timisoara (Romania), Germany, Croatia;
Legal form: Branch.

Because the entity holds double-entry bookkeeping, it must publish annual financial statements. Annual financial statements, management report and audit report or report of the censor committee, as appropriate, are subject to publishing. These provisions also apply to branches registered in ROmania, belonging to legal entities headquartered abroad. For 2013, AA GmbH & CO. KG Germany - Timisoara Branch, prepared abridged financial statements of the financial year ended on 31.12.2013.

Table no.1

Balance sheet in Romania

F10			
Form 10 Abridged BALANCE SHEET date 31.12.2013 -lei-			
Name of the item	No. row	Balance at:	
		01.01.2013	31.12.2013
A	B	1	2
A. FIXED ASSETS			
I. INTANGIBLE ASSETS	01	215	
II. TANGIBLE ASSETS	02	19.436	27.302
III. FINANCIAL ASSETS	03	4.939	20.055
FIXED ASSETS - TOTAL (row 01+02+03)	04	24.590	47.357
B. CURRENTS ASSETS			
I. INVENTORIES	05	12.858	
II. RECEIVABLES	06	464.275	1.125.877
III. SHORT-TERM INVESTMENTS	07		
IV. PETTY CASH AND BANK ACCOUNTS	08	13.106	8.196
CURRENT ASSETS - TOTAL (row 05+06+07+08)	09	490.239	1.134.073
C. DEFERRED EXPENSES	10	69.000	
D. DEBTS: AMOUNTS TO BE PAID WITHIN A PERIOD OF UP TO ONE YEAR	11	43.922	157.020
E. NET CURRENT ASSETS/NET CURRENT LIABILITIES (row 09+10-11-19)	12	515.317	977.053
F. TOTAL ASSETS MINUS CURRENT LIABILITIES (row 04+12)	13	539.907	1.024.410
G. DEBTS: AMOUNTS TO BE PAID IN A PERIOD OF MORE THAN ONE YEAR	14		
H. PROVISIONS	15		
I. DEFERRED INCOME (row 17+18+21+22)	16		
1. Investment subsidies	17		
2. Deferred income - total (row 19+20)	18		
Amounts payable within a period of up to one year	19		
Amounts payable in a period of more than one year	20		
3. Deferred income related to assets received by transfer from customers	21		
Negative goodwill	22		
J. CAPITAL AND REZERVE			
I. CAPITAL (rd. 24+25+26+27)	23		
1. Subscribed capital paid	24		
2. Subscribed capital not paid	25		
3. Patrimony	26		
4. Patrimony of national institutes of research and development	27		
II. PREMIUM RELATED TO CAPITAL	28		
III. REEVALUATION REZERVES	29		
IV. REZERVES	30		
Own shares	31		
Gaines in related to equity instruments	32		
Loses related to equity instruments	33		

V. RETAINED PROFIT OR LOSS BALANCE C	34	525.277	475.348
BALANCE D	35		
VI.PROFIT OR LOSS FOR THE PERIOD BALANCE C	36	14.630	549.062
BALANCE D	37		
Profit appropriation	38		
EQUITY - TOTAL (row 23+28+29+30-31+32-33+34-35+36-37-38)	39	539.907	1.024.410
Public patrimony	40		
CAPITAL - TOTAL (row 39+40)	41	539.907	1.024.410

Table no.2

Balance sheet in Germany

Abridged Balance sheet Germany		
Name of the item	Sold la:	
	01.01.2013	31.12.2013
ASSETS		
A. FIXED ASSETS		
I. INTANGIBLE ASSETS	215	
II. TANGIBLE ASSETS	19.436	27.302
III. FINANCIAL ASSETS	4.939	20.055
B. CURRENT ASSETS		
I. INVENTORIES	12.858	
II. RECEIVABLES AND OTHER PROPERTY ASSETS	464.275	1.052.315
III. EFFECTS, INVESTMENTS		
IV. PETTY CASH AND ACCOUNTS AT THE FEDERAL BANK, ACCOUNTS AT OTHER CREDIT INSTITUTIONS AND CHECKS	13.106	8.196
C. DEFERRED EXPENSES	69.000	
D. DEFERRED TAXES RECEIVABLES	0	73.563
LIABILITIES		
A. EQUITY	539.907	1.024.410
I. SUBSCRIBED CAPITAL		
II. CAPITAL RESERVES		
III. PROFIT APPROPRIATION		
IV. REPORTED PROFIT OR LOSS	525.277	475.348
V. SURPLUS/ DEFICIT FOR THE YEAR	14.630	549.062
B. PROVIZIONS		
C. DEBTS	43.922	157.020
D. DEFERRED INCOME		
E. DEFERRED TAX LIABILITIES		

RESULTS

From the analysis of the two balance sheet results the fact that the *Romanian balance sheet* contains 43 rows, while the *German balance sheet* contains only 21 rows (less than half).

Data for intangible assets, tangible assets, financial assets and inventories were taken exactly as they are in the Romanian balance sheet.

In Germany, receivables to the state are recorded separately.

Short-term investments, petty cash and bank accounts and deferred expenses are taken exactly as they are in the balance sheet after the Romanian model.

Short and long term debts are accumulated in the same position in the German balance sheet. *Provisions and deferred income* are also found in the Romanian balance sheet.

Subscribes capital paid and subscribed capital not paid are accumulated in the same position in subscribed capital. *Capital reserves* are part of general reserves. Capital reserves include share premium, amounts payable for the provision of benefits for shareholders, other capital payments. *Retained profit or loss, profit or loss for the period*, profit appropriation and equity are taken as they are found in the Romanian balance sheet.

Items that are not found in the German balance sheet: deferred income and capital are not detailed; gains/ losses related to capital instruments and public patrimony are not found as separate items of the balance sheet.

Of the two models of profit and loss account used in Germany, the one that focuses on expenses resembles more to the profit and loss account model used in Romania. *Turnover* is not developed in several elements, but is required the direct sum. The turnover was taken from the Profit and loss account after the Romanian model.

The German model doesn't contain revenues associated to the production cost of the work in progress.

But the second position is used in Romania in other financial statements, namely Cash flow statement and not in the profit and loss account.

Production made by the entity for its own purposes and capitalized, other operating revenues, expenses with raw materials and consumables, other external expenses were taken from the profit and loss account used *in Romania*. There are no other expenses with materials, expenses on goods and no trade discounts received.

Personnel expenses, besides salaries and indemnities and social security expenses, also contain an element which is not considered separately in Romania, namely *pension expenses*.

Value adjustments on intangible and tangible assets and current assets, as well as other operating expenses can be taken from the profit and loss account after the Romanian model.

Expenses on external services, other taxes, duties and similar expenses, other expenses, interest refinancing expenses recorded by entities deregistered from the General register of entities who have ongoing leasing contracts, adjustments on provisions, operating profit or loss, other financial income/expenses, financial profit or loss, total income and expenses, as well as gross profit or loss do not appear in the profit and loss account according to the model in Germany. Instead, the following elements can be taken: income from investments, income from other investments and loans part of fixed assets, interest income, value adjustments on financial assets and financial investments held as current assets, interest expenses, financial profit or loss, current profit or loss, extraordinary expenses, profit or loss from extraordinary activities, income tax, other taxes not presented and net profit or loss of the financial period.

All three models of the profit and loss account start with turnover.

In the profit and loss account on income appear several new elements, namely: cost of production, gross profit on sales, distribution cost, administrative overheads. In addition to the mentioned elements mentioned missing in the profit and loss account on expenses, in the profit and loss account on income the following elements are not found: production made by the entity for its own purposes, expenses on raw materials and consumables, external expenses, personnel expenses, value adjustment on intangible assets, tangible assets and current assets.

The following items can be taken from the profit and loss account used in Romania, other operating income/expenses, income from investments, income from other investments and loans part of fixed assets, interest income, value adjustments on financial assets and financial investments held as current assets, current profit or loss, extraordinary income/expenses, profit or loss from extraordinary activities, other taxes not presented and net profit or loss of the financial period.

CONCLUSIONS

Financial statements seem to be very different from one country to another, but there are no major differences in drawing up financial statements in Romania and Germany.

In Romania, financial statements are presented more detailed than in Germany, they contain several elements, some not synthesized as in Germany. But, in the balance sheet model used in Germany appear in addition the following: receivables/debts with deferred taxes. In the German system is practiced the accumulation of receivables of taxes to the state to protect from possible changes in the tax system that could affect business profitability.

In our opinion, the complexity of the balance sheet used in Romania aims to help users of financial and accounting information, because it contains detailed information that helps business analysis. But, rarely, it happens that an entity completes all elements of the balance sheet due to the fact that small and medium sized enterprises do not have such a developed activity. The balance sheet model used in Germany is more concise and uses only large groups of elements; it is drawn up more easily and presents a summary of information.

The profit and loss account from Romania is also more detailed that those used in Germany. The following elements are contained in all three models of the Profit and loss account: turnover, other operating income/expenses, income from investments, income from other investments and loans forming part of the fixed assets, value adjustments on financial assets and financial investments held as current assets, current profit or loss, extraordinary income/ expenses, profit or loss from extraordinary activities, income tax and other taxes not presented and the net profit or loss for the financial period.

Additional information required by German users from the persons who draw up financial statements in Romania are: receivables/debts with deferred taxes, information on capital reserves, for the balance sheet, changes in inventories, information on pension expenses, for the profit and loss account on expenses, and for the profit and loss account on income the production cost, gross profit on sales, distribution expenses, administrative overheads.

From the analysis we can state that the transformation of financial statements in Romania according to the model used in Germany can be achieved without great difficulty, because the financial statements used have many common items.

RECOMMENDATION

In our opinion, *entities that produce and distribute goods and products* is more appropriate to use the *profit and loss account on income*, while *entities that operate in the service sector* is more appropriate to use the *profit and loss account on expenses.*

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