

**UNIVERSITY OF CRAIOVA**  
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**Field: ACCOUNTING**

## **SUMMARY OF THE PHD THESIS**

### **THE ACCOUNTING OF THE EXPENSES AND INCOMES OF SMALL AND MEDIUM ENTERPRISES**

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Small and medium enterprises have always played an important part in the economic and social life of any country, as they lie at the basis of economic development.

According to the standards for the elaboration of such a work, the thesis contains the introduction, five chapters, conclusions, appendixes and bibliography.

The contents of the five chapters and their order were chosen so as to observe principles regarding scientific rigors, coherence, consistence and contents, systematisation, and psycho-pedagogical guidelines, related to information accessibility, coherence of ideas and the increasing complexity thereof.

**The purpose of the thesis** consisted in combining the purely theoretical approach with an applicative, instrumentalist approach of expenses and incomes, at a general and also particular level, aiming to offer a model of the type, by means of distinct case studies in various SMEs.

The first chapter, entitled ***Convergences and divergences in SMEs approach*** proposes a detailed and supported analysis of controversies arisen regarding the clarification of the concept of small and medium enterprises, the position and role of SMEs in the EU and Romanian economy, the possibilities of delimitation of the SME sector as an object of specific scientific research, and also information transparency between necessity and reality within the SMEs sector.

Various national and international bodies have their own vision regarding the identification of small and medium enterprises, which, according to various authors, results in the idea that there is no unanimously acknowledged definition of SMEs.

Based on the analysis of the various publications, we consider that, in order to be classified as small or medium, a business must meet the following requirements:

- business size: turnover, registered capital, staff number, profit (the most important/frequent criterion is that of staff number);
- management: The General Confederation of Small and Medium Enterprises states that an SME is a company which is managed and directed by a single person.

The definition of SMEs at a European level is eased by the fact that EU law regarding small and medium enterprises is the same for all member states.

According to the new definition, a company is “any entity involved in an economic activity, irrespective of its legal status”. Thus, in our opinion, the determining factor in the definition of SMEs is economic activity, not legal status.

The analysis of the situation of small and medium enterprises in EU member states shows that, if the ratio between each type of company (micro-enterprise, small and medium enterprises, large enterprises) and total employed population is considered, prevalence is taken in the European Union by micro-enterprises, mostly developing commercial activities.

Analysing the features of Romanian economy, according to the data provided by INS and EUROSTAT, SMEs have become more and more important in our society, providing employment opportunities and representing key elements in the welfare of local and regional communities, as a main employer and the biggest contributor to the Gross Domestic Product of the countries in the region. After a timid beginning, at the beginning of the 90s, their number increased significantly with the years, both from a strictly statistical perspective and in terms of the diversification of the developed activities. The region South-West Oltenia was not an exception to this rule. Including five counties (Olt, Dolj, Mehedinti, Valcea and Gorj), with a population of almost 2 million inhabitants, this area followed the trajectory imposed by the new economic-social development of Romania.

Although SMEs face major difficulties in the current context of economic and financial crisis, they will remain in the front line of economic development in the following period and will represent a specific field of scientific research.

SMEs are a separate research field, considering two arguments:

Quantity arguments: SMEs represent a large and vital part of modern economy.

Quality arguments: despite the heterogeneity of the SMEs sector, they are different from large companies for various reasons.

The delimitation of the SMEs sector, as an object of specific scientific research, may be accomplished considering three directions, as follows:

- goals and strategies;
- organisational culture;
- relationship with the environment.

In conclusion, organisational performance is nowadays one of the most widely used result variables, various measures thereof are used, and there is no agreement on the methods of measurement of SMEs performance.

The second chapter, ***Theoretical and Methodological Approaches Regarding Expenses and Incomes*** examines the complexity of the issues regarding the accounting of incomes and expenses, and the ways of improvement thereof, according to international requirements and the current environment of economic development of domestic enterprises.

Information transparency between necessity and reality, within the SMEs sector, is determined by: the financial information needs of SMEs are very different from those of large companies, for multiple reasons. On balance, the constraints and requirements on the financial statements of large companies are naturally different from those of SMEs. Informational requirements must be evaluated in terms of the cost-benefit ratio.

The Romanian accounting model is a hybrid, in relation to current accounting regulations (a combination between international and European guidelines and IAS/IFRS accounting practices, according to the model of the faithful image adopted by IASB) and does not fully correspond to Romania, as it is based on habits, on recognized practices and on financing from capital markets.

In conclusion, the idea to elaborate distinct accounting guidelines for small and medium enterprises is, of course, beneficial. However, as we have seen, accounting normalisation bodies (international and national ones) have different visions on the scope of application and content of these guidelines.

Synthesising the definitions of incomes and expenses in the General Framework of IASB, the International Financial Reporting Standards (IFRS), according to American, European and Romanian researchers, we conclude that they may be divided into three distinct approaches:

- Approached based on changes (increases/decreases) in equity;
- Approached based on changes (increases/decreases) in assets and debt;
- Approaches based on the effect on the activity.

In our opinion, in the first group of approaches, incomes and expenses must not be correlated with the total size of a company's equity, but with a single component thereof, i.e. the net financial result (profit/loss) of the current period;

The approaches in the second group have several disadvantages and cannot be applied directly for establishing the composition of incomes and expenses, as not all changes in assets and debt generate incomes and expenses.

The third group of approaches focuses on the effect on the company's activity.

We consider that such approaches do not fully meet the requirements of the market economy and present several disadvantages, including the exclusion of the method of determining incomes and expenses in phases of completion of services, i.e. until goods are sent to purchasers or services are provided to beneficiaries.

We consider that grouping incomes and expenses according to the nature of the result-producing activity, respectively expenses according to

the nature of the resource-consuming activity and, consequently, according to the type of results, represents the most important classification, as it lies at the basis of determining indicators for financial reporting statements.

For representing incomes and expenses, we start from the process character of result-producing and resource-consuming activities.

We consider that the criteria for acknowledging incomes and expenses must be divided into general and specific. General criteria are unique and compulsory for the acknowledgement of all types of incomes and expenses, and specific criteria are only applied in case of acknowledgement of certain incomes and expenses. In this context, we reached the following conclusions:

- In compliance with the principle of *current year independence*, all the operations determining incomes and expenses are recorded when generated or undertaken. Consequently, an *accruals* accounting is organised. It implies the individualisation and reflection of incomes when obtained and accomplished, and expenses when undertaken, with related consumption;
- According to the result principle, we must delimitate the moment when incomes are considered accomplished and expenses are considered consumed, thereby affecting related costs for diminishing net results. For this purpose, there was created the principle of acknowledgement of accomplished incomes at the moment of transfer of the ownership right (delivery or invoice to customer) and for consumed expenses at the moment of use of resources;
- If incomes are not related to sales only (rents, interests to be collected), they are considered accomplished when found;
- Starting from the accomplished incomes of a financial exercise, expenses are delimited, as the effort generating incomes.

According to our opinion, the concepts and principles for the accounting acknowledgement of incomes and expenses must be applied in a complex way, not in isolation from one another.

As it is strictly related to acknowledgement, evaluation is dealt with differently in international and national accounting guidelines and in specialised literature, but, as we underlined within the paper, the following issues must be taken into account:

- The selection of the evaluation basis;
- Adopting the concept of capital maintenance;
- Establishing the accounting model used;
- The accounting model used;
- Fundamental accounting principles.

We conclude that evaluation represents a complex and difficult process which requires meeting certain models and rules, as incomes and expenses evaluated in accounting serve as a basis for determining the financial and tax result.

As for the role of expenses and incomes in determining the financial performance of a company, we remark that a company may consider it has performance when it is simultaneously efficient and effective. In this context, a definition of performance may be created, starting from the following elements: accomplish something for a given purpose (create value); the result (which may be defined in different ways); the accomplishment potential

(creative capacity, customers' loyalty), comparing a result with the reference (internal or external, chosen or imposed); competition; judgment; comparison etc.

In order to measure the performance of a company, we must resort to a “global vision of interdependences between quantity and quality, technical and human, physical and financial, internal and external parameters of management”.

The global result represents a dimension of the financial performance of a company, focused on the relation between total expenses and total incomes. This relation is structurally determined and, in consequence, it must be analysed from the point of view of resource-consuming and result-generating activities.

Users must resort to the *global performance* of a company. This represents a mirror to the future, “where results lie”, and to the past, “where problems lie”.

In the third chapter, ***Accounting Treatment Regarding the Expenses of SMEs***, we express a range of opinions on the problems generated by the accounting of expenses related to operating activity, financial expenses, extraordinary expenses and amortisation and depreciation or loss of value expenses.

Analysing the accounting treatment of expenses of SMEs, considering their common features, we found a range of aspects which raise certain issues and for whose solution we tried to find adequate methods or made certain comments, of which we select the following:

- Considering the advantages and disadvantages of the methods of evaluation of outgoing stocks, the decision to choose a certain evaluation method acquires a special importance during the extended periods of price increase or decrease;
- We remarked the confusion created, in practical terms, because account 605 "Expenses for energy and water" reflects the consumption of potable water purchased by the employer for employees during the periods with unfavourable meteorological conditions (a temperature higher than 37°C) or such expenses are considered protocol expenses. In our opinion, this is an expense for the social security of employees, as provided for in GEO 99/2000 on the measures to be applied in periods with extreme temperatures for the protection of employed individuals, using account 6458 “Other expenses regarding insurances and social security”;
- Even though the amounts in account 609 “Commercial reductions received” correct the expenses included in account 121 “Profit and loss”, as its purpose is to adjust the purchase cost, we consider that the amounts received as commercial reductions should be reflected as incomes;
- Commercial reductions must not be confounded with reductions in the sales price of wares in commercial retail units, where any changes in price imply the recalculation of the gross margin. Logically, any reduction in the sales price cannot be higher than the mark-up, as this aspect implies the sale of the involved stock under its purchase price. In case this aspect arises, we consider that we do not face the

adjustment of an expense which fulfilled acknowledgement requirements, which is why we propose to use account 6588 “Other operating expenses”;

- The net realisable value must be determined on basis of the conditions existing upon the date of conclusion of the balance sheet; The evaluation requires the exercise of professional reasoning. We must consider all the available information, including subsequent changes in sales prices or costs;
- The acknowledgement of repair expenses in the profit and loss account depends on the circumstances considered for the initial acknowledgement and evaluation of related tangible assets;
- Payments and debt for locations, rentals or royalties, caused by the entity’s activity, must be recorded in the profit and loss statement, on a linear basis throughout the contract performance, when the entity is granted the right to use the various goods and values, or using another basis which is both systematic and representative for the rhythm of the user’s benefit;
- As for collaboration expenses, a difference must be made between the expenses generated by those who actually provide services and collaborators which are members of the administration boards, auditor boards etc. On basis of such difference and for budget reasons, we consider that two analytic accounts could be created for account 621 “Collaboration expenses”. The first category should be included under material expenses (services provided by third parties), in terms of the budget of expenses and incomes, whereas the second category should be included in the company’s fund of salaries;
- As for expenses with other taxes, fees and related payments, we must remark the different work procedure;
- We find that, in the case of the contributions to private pension funds, for the deductibility of the expense for the contributions paid by the employer (up to 400 EUR/fiscal year), they must be included in the employee’s salary incomes. Thus, the employee will pay an income tax for the contribution to the private pension fund, i.e. for an expense. Upon retiring, he/she will pay again an income tax for pension incomes, and he/she will be practically taxed twice for the same amount.
- A sensitive issue is raised by the premiums representing the participation of staff in profit and the expenses generated by paying staff in equity, as one of the changes in accounting law refers to the fact that the principle of economic prevalence over legal issues requires that the values in the balance sheet and profit and loss statement shall only be presented in consideration of the economic fund of the transaction or reported operation, not the legal status thereof.

The fourth chapter, ***Accounting Treatment of Incomes of SMEs*** starts from the aphorism of Heinrich Goethe, who said: “Accounting is one of the sublime creations of human spirit, which every good housekeeper should use in its domestic activities”, as only by properly managing a business we will obtain the expected results, and a proper management of a business can

only be made by putting into practice accounting knowledge.

Similarly, analysing the treatment of incomes of SMEs, considering their common features, we found a range of aspects which raise certain issues and for whose solution we tried to find adequate methods or made certain comments, of which we select the following:

- The same as expenses, incomes are recorded in accounting documents in compliance with the principle of accruals accounting, with the effects of transactions and other events being recognized when transactions and events occur and are recorded in accounting documents and reported in the financial statements of the related periods;
- Incomes from the sale of goods cannot be recognized in the case of internal operations within companies;
- Most SMEs do not have a management accounting and reflect the movement of finished products at a production (delivery) price, which does not allow for the determination of mark-up;
- Financial accounting does not clearly delimitate between residual products; delimitation is evasive and generalised through the assimilation to products;
- Combined sales are specific to those SMEs which deliver goods requiring assembly (air-conditioning devices, electrical power stations etc.). Generally, the accounting of incomes from combined transactions is not a complicated operations, but it is important to separate incomes according to the properties;
- Commercial transactions of goods with staged delivery appear in case special conditions are required for transport and keeping, such as: Sale of fuel and lubricants, chemical substances, wine products in large quantities, cereal products etc. We consider that the non-balance sheet account 8039 "Other non-balance sheet values" should be used. Thus, goods sold (for which the ownership right was transferred) and not delivered can be distinctly recorded in management terms, and they only remain in non-balance sheet accounts;
- Incomes related to the cost of production under execution are incomes which do not generate money collections in an immediately following period; as they represent virtual enrichment sources for a company, they are evaluated at the level of production costs, for reasons of caution. Considering the existence of the two types of production under execution, at the beginning and at the end of the period, for separating expenses between the two elements, we must resort to the methods for the evaluation of stocks, as resulting from IAS 2;
- Cautiously analysing the economic content of indemnifications, fines and penalties, as well as the reality of economic practice, we must consider two aspects, as follows: the period of the economic operations related to such indemnifications, fines and penalties and the nature of the legal relations generating indemnifications, fines and penalties;
- Although Romanian lawmakers regulate the concept of receivable assignment, as reflected in accounting, the function of accounts in the General Chart of Accounts does not provide the information required for recording such economic operations and we provided our own

viewpoint on the matter.

The final chapter, ***Particularities of incomes and expenses related to certain fields of activity in the SMEs sector***, starts from the idea that the formation, structure and size of incomes and expenses largely depend from the technical, technological and organisational particularities, and the scope of activity of a company.

Although various studies contribute to the clarification of certain aspects of SMEs in Romania, although general accounting regulations exist in the field of incomes and expenses, they do not cover all the issues regarding practical needs. In this context, we focused separately on certain entities with specific activities in the SMEs sector, such as: leasing, time-sharing, the activity of forwarding and courier companies, transport of goods by road and various aspects of tourist activity; In this context, we may underline some remarks and opinions we expressed, such as:

- Considering the legal and accounting treatment in various countries, we notice that certain formal and actual differences exist, as in certain countries leasing is better regulated than in other. Moreover, according to the talks with economic operators in our country, we find that some of them improperly identify leasing and sales with payment in instalments, due to certain close forms. We mention that we cannot agree to such an opinion, as, both in economic and legal terms, we cannot identify leasing sales and sales with payment in instalments;
- Leasing must be classified from the beginning of the lease contract, according to the principle of prevalence of economic issues over legal ones, i.e. starting from the content of the transaction, rather than from the legal form of the lease contract, because, as we found out in the practice of the companies performing lease activities, financial and operational lease are frequently confounded;
- Considering that companies (except for specialised leasing companies) also develop other production or commercial activities, we think that expenses and incomes should be grouped under: incomes and expenses from other economic activities; incomes and expenses from lease operations;
- In accounting terms, considering the particularities of incomes and expenses, time-sharing is distinguished by the fact that the administration company takes over assets for operation, in exchange for an administration fee, which generates various accounting issues related to the correct application of the accruals concept: the administrating company does not own the costs it operates; the administration fee represents an income of the company or a settlement on behalf of customers, when we acknowledge profit, considering both the necessity to cover current maintenance, operation and repair costs, and seasonal items or items occurring at large intervals (e.g. overhauls of real estate goods); another fundamental element in the contractual relation is the correctness of the elaboration of contracts for utilities, which are generally concluded on behalf of the owners, who have to be liable for any delays or interruptions, in case of failure to pay the bills. Consequently, according to the nature of the business, incomes, respectively profits,



are acknowledged when the expense concerned is acknowledged/arises, not the other way, as we are used to by applying the principle of connection of expenses to incomes and the principle of recognition of incomes, as well as IAS 18 "Incomes from ordinary activities" and IAS 11 "Construction contracts";

- We consider that the position of the forwarding company must be delimited, without artificially increasing expenses and incomes, as follows:
  - When the forwarding company operates as an intermediary on behalf of the customer, it should not record the transport invoice as its own expense, because it is a simple intermediary, who should only be granted the intermediation commission, which it shall invoice to its customer for the accomplishment of the income of the developed activity;
  - When the forwarding house invoices "payments on behalf of the customer", the transport value must be reflected as a payable obligation, and only the commission should be an income from the activity;
- The courier service (excluding Romanian public post) is destined to the public and consists in the collection, sorting, transport and delivery to destination of certain categories of goods. In accounting terms, the particularities of expenses are found in connection to the consumption of fuel and lubricants, tires and maintenance of means of transport, like other companies performing transport of goods and staff; As for incomes, we remark that the activity of invoicing-re-invoicing between the sender and the courier company generates, on the one hand, fake incomes and expenses, as the delivery fee is not an own income or an own expense of the sender, as it is borne by the receiver; on the other hand, it generates a hard information system, involving invoicing and re-invoicing the same value. The argument is that the current invoicing system represents a way to make sure that the courier company will collect the value of performed services. Considering the existence of the commercial contract concluded between the sender and the courier company, we consider that invoicing and accounting issues may be simplified;
- The accounting of expenses related to the consumption of fuel and lubricants is conditioned by the composition, incoming sources and uses thereof. According to the current Chart of accounts, sub-account 3022 "Fuel", opened within "Consumables", is used for reflecting information on the existence and movement of fuel, lubricants and special liquids. In our opinion, this synthetic account can only be applied in companies owning means of transport, but whose basic activity is not represented by the provision of transport services. In companies performing transport of goods by road, where the consumption of fuel and lubricants is high, we consider that analytic accounts should be opened for each type of fuel. In our opinion, the use of account 5328 is not correct, as, through their economic essence, vouchers for fuel actually represent materials under supply and cannot be assimilated to treasury accounts;

- In our opinion, the value of tires (except for the cases when their change is made within an overhaul) should be assimilated to extended use materials, which implies their recording upon the moment of consumption, as advance payments, from where, on a schedule basis, expenses are allocated according to the operating guideline, which could have the advantage of observing the acknowledgement of incomes and expenses according to accruals accounting;
- The activity of maintenance of means of transport represents another specific issue of transport companies, generating expenses for them. The maintenance activity has two aspects: systematic preventive maintenance and corrective maintenance; irrespective of the type of maintenance, in accounting terms, any expenses are recognized when undertaken, regardless of whether they were paid or not, and their accounting depends on the performer of works;

In accounting terms, the incomes of companies performing transport of goods by road are acknowledged at the moment of ownership transfer (when the invoice for the supply of services is issued) and is reflected in accounting similarly to any income from the supply of services.

Performing a general analysis of the activities of tourism companies, we may notice certain common features and their influences on the accounting of expenses and incomes, as follows:

- All the services supplied to tourists (accommodation, meals, transport, care, visits) represent the tourist product, which, in accounting terms, is important for showing expenses and incomes by activities, by types and kinds of tourist supplies, offering the possibility to determine and analyse them.
- The services supplied to the tourist represent the tourist action entrusted to a tourism agent, for whose efficient accomplishment the latter is responsible. Under these conditions, the tourism agent handles various values, such as: money, travel tickets, checks, for whom he/she is a debtor until the justification of the values received, upon the conclusion of the tourism action. As a consequence of such a characteristic, as the tourism agent retains any supporting documents during the travel, expenses are recorded in accounting after the conclusion of the tourism activity;
- The high diversity of tourism actions implies the follow-up of the expenses for each action, by means of technical and operative records;
- Given the quite short duration of tourism action (it may conclude on the same month of its launch), expenses and incomes relate to the same management period, easing the determination of the result and the economic efficient for each tourism action. If tourism actions are developing at the end of management periods (e.g. one month), they are not recorded to expenses, as the documents lie with the tourism agent, and if certain payments were already made, they will be recorded as advance expenses;
- Some tourism activities include insurance measures, stipulated in the contracts concluded with partners, as well as the anticipated collection of tourist supplies, as any failure to use the capacity of the technical

base has negative effects on economic efficiency. For the stated reason, the effective value of supplies may differ from the one collected with anticipation or the tourism action may not occur at all, which results in recording expenses and incomes after the conclusion of the tourism action;

- The conditions of undertaking tourist supplies determine the settlement of services and the recording of incomes and expenses in accounting. Thus, settlement in organised tourism is made between contracting units by means of banks, whereas not organised tourism is based on anticipated collection from tourists, with collected amounts to be settled subsequently;
- The participation of several tourism units in the accomplishment of a tourism action implies that one of them is an organising unit, and the others are supplying units. Therefore, the incomes and expenses of the tourism activity are only shown in the accounting of the organising unit and supplying units must recover the price of tourist services from the organising unit.

Within tourism activities, in terms of production, there is a common feature in the evaluation of finished product stocks, as costs only include the value of raw materials consumption, not the labour and overheads whose size is taken into account for the formation of prices. Consequently, in the absence of management accounting, we cannot talk of an evaluation at the production cost, but at a direct cost of raw materials, with a non-favourable event on the possibility to judge the economic performance of the concerned entities.

Without pretending to have dealt exhaustively with the subject of the discussed matter, we consider that the highest danger for SME businesses in crisis periods is the major imbalance between expenses and incomes, which implies that the deficit is covered from external sources.

The above mentioned circumstances condition the necessity of the complex examination of issues regarding the accounting of incomes and expenses and its improvement according to the international requirements and the current level of economic development of domestic entities.