THE NEW EU ACCOUNTING DIRECTIVE – A COMPARATION OF REPORTING REQUIREMENTS

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Abstract:
The adoption of Directive 2013/34/EU constitutes the materialization of a modernization process of the Directive 78/660/EEC and Directive 83/349/EEC that has started in 2009. The new accounting directive replaces the two accounting directives and sets the requirements for both individual and consolidated financial statements. It also introduces a new category of entities "micro-undertakings" in order to implement the requirements of Directive 2012/6/EU. The paper tries to summarize and compare the typologies of enterprises and groups defined in the old and new accounting directives as well as in the Romanian accounting system (RAS). It also compares the requirements of both the new and the old accounting directives as well as RAS regarding the structure and presentation of the annual financial statements. European Union (EU) wide, about 99% of the enterprises fall into micro and small categories and might benefit from the simplifications of preparation and publication requirements of the annual financial statements. They will also be exempted from the requirements of auditing their financial statements. Only 1.21% of the enterprises in Europe will be classified as medium and large and will be required to prepare and publish a full set of annual financial statements and to audit their financial statements. If Romania will opt for reducing the administrative burdens for micro entities and implement simplifications for micro-entities as they were defined in the EU directive 2013/34/EU, the thresholds would have to be dramatically increased and many more enterprises will be reclassified as micro instead of small or medium enterprises.

Keywords: *4th accounting directive, 7th accounting directive, new accounting directive, directive 2013/34/EU, RAS, accounting harmonization*

JEL Classification: *M40, M41, M48*

1. Introduction

For over three decades, the structure and presentation of the annual financial statements of individual and consolidated financial statements has been regulated by two accounting directives (Directive 78/660/EEC also known as the 4th accounting directive and Directive 83/349/EEC also known as the 7th accounting directive). Those two directives were in a dire need of modernization. In 2013, Directive 2013/34/EU has been adopted repealing the 4th and 7th Accounting Directives. The new directive entered into force on 20 July 2013, allowing Member States two years to comply with its requirements. Directive 2013/34/EU sets the requirements for preparation, presentation, publication and auditing requirements for both individual and consolidated financial statements, combining the provisions of both the 4th and 7th accounting directives into a single directive.

The new accounting directive also introduces a new category of entities called "micro-undertakings" in order to implement the requirements of Directive 2012/6/EU. EU wide more than 20,000,000 entities or about 92% of the enterprises (see Table 1) could be classified as micro-entities, and could benefit from the simplifications of the reporting requirements introduced by the new accounting directive, the potential cost savings by the reduced administrative burdens for these companies has been estimated to around €1.5 billion per year.

Table 1 shows the distribution of enterprises by size throughout EU in 2010. Data was collected from Eurostat database. It is worth noting that while Directive 2013/34/EU uses three criteria to classify the enterprises (balance sheet total, net turnover, and average number of employees during the financial year), Eurostat only uses the average number of employees, so there might be some differences in the classification of companies into one category or another. Ireland was excluded from Table 1 as structural data was not available.

The present paper will try to compare the typologies of enterprises and groups defined in the old and new accounting directives as well as in the Romanian accounting system (RAS). It will also make a comparison of the requirements of both the new and the old accounting directives as well as RAS regarding the structure and presentation of the annual financial statements.

Table 1 **Enterprise distribution by size throughout EU in 2010**

	Total	Micro-enterprises (0-10 employees)		Small enterprises (11-50 employees)		Medium enterprises (51-250 employees)		Large enterprises (>250 employees)	
		N	%	N	%	N	%	N	%
European Union	21,801,180	20,154,303	92.45%	1,355,000	6.22%	222,000	1.02%	42,421	0.19%
Belgium	538,545	506,138	93.98%	27,317	5.07%	4,222	0.78%	867	0.16%
Bulgaria	313,079	284,670	90.93%	23,334	7.45%	4,383	1.40%	692	0.22%
Czech Republic	968,121	926,751	95.73%	33,393	3.45%	6,613	0.68%	1,364	0.14%
Denmark	208,237	186,085	89.36%	18,493	8.88%	3,083	1.48%	576	0.28%
Germany	2,073,915	1,706,164	82.27%	305,145	14.71%	52,893	2.55%	9,709	0.47%
Estonia	52,180	46,377	88.88%	4,707	9.02%	963	1.85%	133	0.25%
Spain	2,500,574	2,345,329	93.79%	135,413	5.42%	16,912	0.68%	2,920	0.12%
France	2,513,679	2,368,046	94.21%	121,159	4.82%	20,140	0.80%	4,336	0.17%
Croatia	165,490	152,178	91.96%	10,917	6.60%	1,972	1.19%	423	0.26%
Italy	3,867,813	3,660,256	94.63%	184,925	4.78%	19,401	0.50%	3,231	0.08%
Cyprus	46,354	42,495	91.67%	2,954	6.37%	513	1.11%	85	0.18%
Latvia	81,318	72,559	89.23%	7,248	8.91%	1,330	1.64%	185	0.23%
Lithuania	114,511	101,934	89.02%	10,267	8.97%	2,025	1.77%	285	0.25%
Luxembourg	28,345	24,876	87.76%	2,758	9.73%	575	2.03%	136	0.48%
Hungary	554,886	525,411	94.69%	24,619	4.44%	4,052	0.73%	804	0.14%
Netherlands	777,869	727,802	93.56%	40,109	5.16%	8,404	1.08%	1,554	0.20%
Austria	301,730	263,804	87.43%	32,081	10.63%	4,841	1.60%	1,000	0.33%
Poland	1,480,097	1,411,715	95.38%	49,836	3.37%	15,457	1.04%	3,089	0.21%
Portugal	861,135	817,408	94.92%	37,537	4.36%	5,385	0.63%	805	0.09%
Romania	447,091	397,901	89.00%	40,058	8.96%	7,635	1.71%	1,497	0.33%
Slovenia	115,243	107,864	93.60%	5,925	5.14%	1,224	1.06%	230	0.20%
Slovakia	406,084	388,531	95.68%	14,743	3.63%	2,307	0.57%	503	0.12%
Finland	224,505	206,694	92.07%	14,779	6.58%	2,429	1.08%	603	0.27%
Sweden	623,087	588,665	94.48%	28,542	4.58%	4,899	0.79%	981	0.16%
United Kingdom	1,649,086	1,473,562	89.36%	144,098	8.74%	25,631	1.55%	5,795	0.35%

(source EUROSTAT, 2010)

2. The new accounting directive

The first known book that describes the use of a double entry accounting system was written in 1458 by Benedetto Cotrugli and was entitled "Della mercatura et del mercante perfetto". As Benedetto Cotrugli hasn't published his book until 1573, the father of modern accounting is now generally considered to be Luca Pacioli who wrote the first published book describing the principles of double entry accounting.

Luca Pacioli's book, "Summa de Arithmetica, Geometria, Proportioni et Proportionalità" – mainly a thesis on mathematics – includes a chapter entitled "Particularis de Computis et Scripturis" ("Particulars of Reckonings and Their Recordings")" dedicated to describing a technique that was common practice for Venice traders for more than 200 years before his work, that constitutes the basis of modern accounting (Chatfield & Vangermeersch, 1996).

Luca Pacioli's book contributed to the dissemination of the Venetian accounting technique throughout Europe. Even though the official accounting harmonization effort will not be undertaken until 1978, all European accounting systems are inspired by Pacioli's work. In this sense, one can consider that the process of accounting harmonization in Europe has started when Pacioli's book "Summa de Arithmetica, Geometria, Proportioni et Proportionalità" has spread throughout Europe influencing the accounting practices on the entire continent. Some authors consider that the development of double entry accounting was "the decisive event in European economic history" (Spengler et al., 2006).

In an effort to improve the comparability of annual financial statements of companies throughout Europe, the first official step towards the harmonization of accounting has been the taken in 1978 with the adoption of the Fourth Council Directive 78/660/EEC of 25 July 1978 regarding the annual accounts of limited liability companies

(EC, 1978). The Fourth Accounting Directive establishes the extent of financial information that should be made available to the public by limited liability companies and certain forms of partnership in the EU. The main focus of the directive is to describe the components of the annual accounts (balance sheet, profit and loss account and the notes to the accounts), the publication and auditing requirements of the annual accounts depending on the size of the company.

A few years later, another step towards a harmonized European accounting system has been taken with the enactment of the Seventh Council Directive 83/349/EEC of 13 June 1983 (EC, 1983) that regulates the content of consolidated annual accounts of companies within European Union. The Seventh Accounting Directive defines the circumstances in which consolidated accounts are to be prepared, the contents of the consolidated annual reports, the notes to the annual financial statement and the publication and auditing requirements for consolidated accounts.

The qualifications of persons responsible for carrying out the statutory audits of annual financial statements were regulated throughout EU by the Eighth Council Directive (EC, 1984).

In 2002 the European Union has endorsed the International Accounting Standards (IAS/IFRS) through the adoption of the EC Regulation on the Application of International Accounting Standards No. 1606/2002 of the European Parliament and of the Council of July 19, 2002, (EC, 2002; IASPlus, 2013). All companies that were listed on a regulated market, including banks and insurance companies were required to prepare and publish their consolidated financial statements in accordance with IFRS starting from 2005.

In 2004, a new directive has been adopted that introduced harmonized transparency requirements for issuers whose securities are admitted to trading on a regulated market within EU (EC, 2004). This directive requires timely and periodic publication of the following reports by issuers of shares or debt securities:

- financial statements that are to be released yearly, half-yearly and quarterly;
- information pertaining to major holdings of voting rights and
- other information disclosed in order to comply with the requirements of the Market Abuse Directive (EC, 2003)

The adoption of Commission Regulation No 1569/2007 of 21 December 2007 establishing a mechanism of equivalence for accounting standards applied by third country issuers of securities can be considered a step towards a larger harmonization process. This directive allows foreign companies listed on EU stock markets to prepare their annual accounts using their own GAAP instead of using IFRS (EC, 2007).

In 2013, a new accounting directive (2013/34/EU) comes to repeal the 4th and 7th Accounting Directives. The new directive entered into force on 20 July 2013, allowing Member States two years to comply with its provisions. It also modifies some reporting requirements introduced by the Transparency Directive, one of the modifications being the abolishment of the obligation to publish quarterly financial information for listed companies.

Directive 2013/34/EU combines and updates the requirements of the 4th and 7th accounting directives into a single directive for the preparation, presentation, publication and auditing of both the individual and consolidated financial statements.

The new directive implements a 2009 proposal for a directive of the European Parliament and of the Council amending Council Directive 78/660/EEC on the annual accounts of certain types of companies that suggested the introduction of a new category of undertakings mainly micro-entities (EC, 2009). The proposed directive recommended some exemptions from the requirements of Directive 78/660/EEC for micro-entities that were defined as undertaking that do not exceed two of the following three thresholds:

- a balance sheet total less than EUR 500,000;
- a net turnover less than EUR 1,000,000;
- an average number of employees during the financial year less than 10.

It also implements the special requirements for micro entities introduced by Directive 2012/6/EU (EC, 2012), a directive that aims to reduce the administrative burden and simplify the reporting requirements for small enterprises.

Directive 2013/34/EU classifies enterprises based on a series of size criteria (balance sheet total, net turnover and average number of employees during the financial year). For an enterprise to move up one size it has to exceed two of the preset thresholds for two consecutive financial years.

Table 2 **Categories of entities as defined by RAS, the 4th accounting directive and Directive 2013/34/EU**

<table>
<tr><th>Enterprise size</th><th>RAS</th><th>The 4th EU Accounting Directive</th><th>Directive 2013/34/EU</th></tr>
<tr><td>Micro entities</td><td>Entities that do not exceed the following two criteria:
1. balance sheet total: EUR 35,000;
2. net turnover: EUR 35,000</td><td>Directive 2012/6/EU amended Article 1a of the 4th Accounting Directive by introducing this new category of entities defined as undertakings which on their balance sheet dates do not exceed the limits of two of the following three criteria:
1. balance sheet total: EUR 350,000;
2. net turnover: EUR 700,000;
3. average number of employees during the financial year: 10
As Directive 2012/6/EU has been published on 14 March 2012, these amendments have not yet been applied by any Member State.</td><td>Entities that do not exceed two of the following three criteria:
1. balance sheet total: EUR 350,000;
2. net turnover: EUR 700,000;
3. average number of employees during the financial year: 10</td></tr>
<tr><td>Small entities</td><td>Entities that do not exceed at least two of the following three criteria:
1. balance sheet total: EUR 3,650,000;
2. net turnover: EUR 7,300,000;
3. average number of employees during the financial year: 50</td><td>Entities that do not exceed at least two of the following three criteria:
1. balance sheet total: EUR 4,400,000;
2. net turnover: EUR 8,800,000;
3. average number of employees during the financial year: 50</td><td>Entities that do not exceed at least two of the following three criteria:
1. balance sheet total: EUR 4,000,000 (can be increased up to EUR 6,000,000 by member states);
2. net turnover: EUR 8,000,000 (can be increased up to EUR 12,000,000 by member states);;
3. average number of employees during the financial year: 50</td></tr>
<tr><td>Medium entities</td><td rowspan="2">Entities that exceed at least two of the following three criteria:
1. balance sheet total: EUR 3,650,000;
2. net turnover: EUR 7,300,000;
3. average number of employees during the financial year: 50</td><td>Entities that do not exceed at least two of the following three criteria:
1. balance sheet total: EUR 17,500,000;
2. net turnover: EUR 35,000,000;
3. average number of employees during the financial year: 250.</td><td>Entities that do not exceed at least two of the following three criteria:
1. balance sheet total: EUR 20,000,000;
2. net turnover: EUR 40,000,000;
3. average number of employees during the financial year: 250</td></tr>
<tr><td>Large entities</td><td>Entities that exceed at least two of the following three criteria:
1. balance sheet total: EUR 17,500,000;
2. net turnover: EUR 35,000,000;
3. average number of employees during the financial year: 250.</td><td>Entities that exceed at least two of the following three criteria:
1. balance sheet total: EUR 20,000,000;
2. net turnover: EUR 40,000,000;
3. average number of employees during the financial year: 250</td></tr>
</table>

The new accounting directive defines five categories of undertakings:

Micro entities are a new category of undertakings introduced by Directive 2013/34/EU. This class of enterprises comprises entities that do not exceed the limits of two of the following three criteria:

- balance sheet total: EUR 350,000;
- net turnover: EUR 700,000;
- average number of employees during the financial year: 10

Small entities are undertakings that do not exceed the limits of two of the following three criteria:

- balance sheet total: EUR 4,000,000 (Member States (MS) have the option to increase this threshold up to EUR 6,000,000);
- net turnover: EUR 8,000,000 (MS can increase this threshold up to EUR 12,000,000);
- average number of employees during the financial year: 50

Medium entities are undertakings that do not exceed the limits of two of the following three criteria:

- balance sheet total: EUR 20,000,000;
- net turnover: EUR 40,000,000;
- average number of employees during the financial year: 250

Large entities are defined as undertakings that exceed the limits of at least two of the following two criteria:

- balance sheet total: EUR 20,000,000;
- net turnover: EUR 40,000,000;
- average number of employees during the financial year: 250

Public-interest entities (PIE) are:

- entities whose transferable securities are admitted to trading on a regulated market of any Member State
- credit or insurance institutions or
- entities that are designated by Member States as PIE, because of the nature of their activities, their size or the number of people employed

The thresholds set by Directive 2013/34/EU compared to the ones in the 4th accounting directive and those in RAS are shown in Table 2. It is worth noting that the Romanian Accounting System does not explicitly use the micro/small/medium and large classification but defines different annual accounts formats based on the reporting entity sizing criteria.

3. Individual financial statements requirements introduced by the new accounting directive

The annual financial statements are comprised – at minimum - of a balance sheet, a profit and loss account and the notes to the financial statements. Member States can require all types of entities other than micro and small ones to include additional statements. Directive 2013/34/EU takes a "bottom up approach" for reporting and disclosure, defining disclosure requirements for small entities first and requiring additional disclosure as the size of the enterprise grows. Article 17 of Directive 2013/34/EU defines the required notes to the annual financial statement for small enterprises, article 18 adds additional disclosure requirements for medium, large and public-interest entities while article 19 defines notes to the annual financial statements that are compulsory only for large and public-interest entities.

- **Micro undertakings:** Member States have the option to require micro-entities to prepare a simplified set of annual financial statements comprised of an abridged balance sheet, an abridged profit and loss account, a set of notes to the financial statements that can be omitted provided that the information is disclosed at the foot of the balance sheet and a management report that can also be exempted if that information is disclosed in the notes to the financial statements or at the foot of the balance sheet. Micro entities may also be exempted from the obligation to publish the annual financial statements if the balance sheet information is filed with at least one competent authority. If the competent authority is not the central register, commercial register or companies register, the competent authority is required to provide the register with the information filed.
- **Small undertakings:** Member states have the option to allow small undertakings to prepare a simplified set of annual financial statements comprised of an abridged balance sheet, an abridged profit and loss account and notes to the financial statements. MS can exempt small enterprises from the obligation to prepare a management report provided that they disclose in the notes to the financial statements the information pertaining to the acquisition of their own shares.

  The notes accompanying the annual financial statements of small enterprises should be comprised of: Accounting Policies, the Fixed Assets Grid (if fixed assets are measured at revaluated amounts), disclosure of fair value of financial instruments or other assets, financial commitments, guarantees or contingencies not included in the balance sheet, advances or credits granted to the members of administrative, managerial and supervisory bodies, amounts and nature of exceptional items in the profit and loss account, long term and secured debt and the average number of employees during the financial year.
- **Medium-sized entities:** Member States have the option to allow medium sized entities to prepare a simplified version of annual financial statements comprised of an abridged balance sheet and profit and loss account, an abridged management report accompanied by a set of notes to the financial statements. The notes are to include all the elements required from small enterprises and the fixed assets schedule, information on financial instruments carried at purchase price, emoluments granted to members of administrative, managerial and supervisory bodies, staff cost and the average number of employees during the financial year (by categories), deferred tax provision balances and movements, the proposed appropriation of profit or treatment of loss, the nature and business purpose of the arrangements that are not included in the balance sheet, post balance sheet date material events which are not reflected in the balance sheet or profit and loss account, transactions with related parties, disclosure on participating interest and

certificates, convertible debentures, warrants, options or similar securities or rights, unlimited liability associations.

- **Large entities and public-interest entities** cannot prepare abridged balance sheet and profit and loss accounts. In addition to the notes that are required from small and medium sized entities, large undertakings and PIE must prepare the following notes: net turnover broken down by categories of activity and geographical markets, the total fees charged by each statutory auditor or audit firm, total fees charged by each statutory auditor or audit firm for other assurance services, tax advisory services and other non-audit services.
- **Public-interest entities** governed by the law of a Member State and whose transferable securities are traded on a regulated market of any Member State should also include a corporate governance statement in the management report.

A comparative analysis of the minimum requirements for annual financial statements of enterprises in different size classes by RAS, the 4th accounting directive and Directive 2013/34/EU is presented in Table 3.

Table 3 **Comparative analysis of the minimum requirements for annual financial statements by RAS, the 4th accounting directive and Directive 2013/34/EU**

<table>
<tr><th>Enterprise size</th><th>RAS</th><th>The 4th EU Accounting Directive</th><th>Directive 2013/34/EU</th></tr>
<tr><td>Micro entities</td><td>1. abridged balance sheet,
2. abridged profit and loss account
3. fixed assets schedule
4. management report</td><td>same as small entities as there are no special exemptions for micro undertakings</td><td>1. abridged balance sheet,
2. abridged profit and loss account
3. virtually no notes to the financial statements</td></tr>
<tr><td>Small entities</td><td>1. abridged balance sheet,
2. abridged profit and loss account
3. the notes to the financial statements
4. fixed assets schedule
5. management report</td><td>1. abridged balance sheet,
2. MS may exempt small enterprises from the obligation to publish the profit and loss account
3. abridged notes to the financial statements</td><td>1. abridged balance sheet,
2. abridged profit and loss account
3. abridged notes to the financial statements</td></tr>
<tr><td>Medium entities</td><td rowspan="2">1. balance sheet,
2. profit and loss account
3. Cash Flow Statement
4. Statement of Changes in Equity (Statement of Retained Earnings)
5. the notes to the financial statements
6. fixed assets schedule
7. management report</td><td>1. abridged balance sheet,
2. profit and loss account
3. abridged notes to the financial statements
4. management report</td><td>1. abridged balance sheet,
2. abridged profit and loss account
3. the notes to the financial statements
4. management report</td></tr>
<tr><td>Large entities</td><td>1. balance sheet,
2. profit and loss account
3. the notes to the financial statements
4. management report</td><td>1. balance sheet,
2. profit and loss account
3. the notes to the financial statements
4. management report</td></tr>
<tr><td>PIEs</td><td>most of Romanian PIEs are required to apply IFRSs</td><td>there are no special references to PIEs in the 4th accounting directive</td><td>1. balance sheet,
2. profit and loss account
3. the notes to the financial statements
4. management report that includes a corporate governance statement if the PIE's transferable securities are traded on a regulated market of any Member State</td></tr>
</table>

4. Consolidated financial statements requirements introduced by the new accounting directive

Directive 2013/34/EU uses three size criteria (balance sheet total, net turnover and average number of employees during the financial year) to classify groups of enterprises into three categories. The criteria thresholds are to be calculated on a consolidated basis at the balance sheet date of the parent entity. The three categories of groups are:

- Small groups which do not exceed on a consolidated basis the limits of at least two of the following three criteria:
  1. balance sheet total: EUR 4,000,000 (MS have the option to increase the threshold up to EUR 6,000,000);
  2. net turnover: EUR 8,000,000 (MS have the option to increase the threshold up to EUR 12,000,000);
  3. average number of employees during the financial year: 50.
- Medium sized groups which do not exceed on a consolidated basis the limits of at least two of the following three criteria:
  1. balance sheet total: EUR 20,000,000;
  2. net turnover: EUR 40,000,000;
  3. average number of employees during the financial year: 250.
- Large groups which do exceed on a consolidated basis the limits of at least two of the following three criteria:
  1. balance sheet total: EUR 20,000,000;
  2. net turnover: EUR 40,000,000;
  3. average number of employees during the financial year: 250.

The thresholds should be increased by 20% if they are evaluated before intragroup set-offs and eliminations.

Table 4 **Categories of groups as defined by RAS, the 7th accounting directive and Directive 2013/34/EU**

<table>
<tr><th>Group size</th><th>RAS</th><th>The 7th EU Accounting Directive</th><th>Directive 2013/34/EU</th></tr>
<tr><td>Small groups</td><td rowspan="2">There is no differentiation between small and medium sized groups. The group entities that at the balance sheet date of the parent company do not exceed the limits of two of the following three criteria are exempted from the obligation of preparing consolidated financial statements:
1. balance sheet total: EUR 17,520,000;
2. net turnover: EUR 35,040,000;
3. average number of employees during the financial year: 250.</td><td rowspan="2">There is no differentiation between small, medium and large sized groups, but Member States may exempt from the obligation of preparing consolidated financial statements the groups that at the balance sheet date of the parent company do not exceed the limits of two of the following three criteria:
1. balance sheet total: EUR 17,500,000;
2. net turnover: EUR 35,000,000;
3. average number of employees during the financial year: 250.</td><td>Groups which at the balance sheet date of the parent entity, do not exceed on a consolidated basis the limits of at least two of the following three criteria:
1. balance sheet total: EUR 4,000,000 (can be increased up to EUR 6,000,000 by member states);
2. net turnover: EUR 8,000,000 (can be increased up to EUR 12,000,000 by member states);
3. average number of employees during the financial year: 50.</td></tr>
<tr><td>Medium groups</td><td>Groups which at the balance sheet date of the parent entity, do not exceed on a consolidated basis the limits of at least two of the following three criteria:
1. balance sheet total: EUR 20,000,000;
2. net turnover: EUR 40,000,000;
3. average number of employees during the financial year: 250.</td></tr>
<tr><td>Large groups</td><td>Groups that at the balance sheet date of the parent company do exceed the limits of two of the following three criteria are required to prepare consolidated financial statements:
1. balance sheet total: EUR 17,520,000;
2. net turnover: EUR 35,040,000;
3. average number of employees during the financial year: 250.</td><td>Groups that at the balance sheet date of the parent company do exceed the limits of two of the following three criteria are required to prepare consolidated financial statements:
1. balance sheet total: EUR 17,500,000;
2. net turnover: EUR 35,000,000;
3. average number of employees during the financial year: 250.</td><td>Groups which at the balance sheet date of the parent entity, exceed on a consolidated basis the limits of at least two of the following three criteria:
1. balance sheet total: EUR 20,000,000;
2. net turnover: EUR 40,000,000;
3. average number of employees during the financial year: 250.</td></tr>
</table>

Small groups are exempted from the obligation to prepare consolidated financial statements except where any affiliated undertaking is a public-interest entity. Member States have the option to exempt medium-sized groups from the obligation to draw up consolidated financial statements unless one of the affiliated enterprises within that group is a PIE. Large groups are required to prepare consolidated annual financial statements. Any parent undertaking governed by the national law of a Member State which is also a subsidiary of another entity which is governed by the law of a Member State, including PIEs that are not listed on a regulated market within EU should be exempted from the obligation to draw up consolidated financial statements if the parent undertaking of the exempted undertaking holds all of the shares or 90 % or more of the shares in the exempted undertaking and the remaining shareholders or members of the exempted undertaking have approved the exemption.

A comparative analysis of different categories of groups as defined by RAS, the 7th accounting directive and Directive 2013/34/EU is presented in Table 4.

5. Financial statements audit requirements introduced by the new accounting directive

Directive 2013/34/EU requires that financial statements of medium and large undertakings as well as PIEs to be audited by one or more statutory auditors or audit firms. It also requires the audit of consolidated financial statements of medium and large groups. Micro and small entities should be exempted from the requirement to audit their annual financial statements as they have limited need for third-party assurance on financial statements and audit is an important administrative burden for these categories of enterprises. However, the directive doesn’t prohibit Member States from demanding the audit of financial statements of micro and small undertakings, taking into account the needs of these entities and of the users of their financial statements.

A comparison of compulsory statutory audit requirements by enterprise size classes between RAS, the 4th and 7th accounting directives and Directive 2013/34/EU is presented in Table 5.

Table 5 **Compulsory statutory audit by entity size as defined by RAS, the 4th and 7th accounting directives and Directive 2013/34/EU**

Criteria	RAS	The 4^{th}& 7^{th} Accounting Directive	Directive 2013/34/EU			
			Individual financial statements		Consolidated financial statements	
			Minimum requirements	MS option	Minimum requirements	MS option
Balance sheet total (EUR)	3,650,000	4,400,000	4,000,000	6,000,000	20,000,000	24,000,000
Net turnover (EUR)	7,300,000	8,000,000	8,800,000	12,000,000	40,000,000	48,000,000
Average number of employees	50	50	50	50	250	250

6. Conclusions

EU wide about 92% of the enterprises have less than 10 employees (see Table 1) and might be classified for the scope of the new accounting directive as micro-undertakings. About 99% of the enterprises would fall into micro and small categories and might benefit from the simplifications of preparation and publication requirements of the annual financial statements. They will also be exempted from the requirements of auditing their financial statements.

More than 99% of the enterprises from Italy, Portugal, Spain, Slovakia, Czech Republic, Hungary, Sweden, Belgium and France could be classified as micro and small entities. The countries with the smallest percentage of micro and small enterprises are Lithuania, Romania, Estonia, Luxembourg and Germany where about 97% of the entities fall into micro and small enterprises categories.

Only 1.21% of the enterprises in Europe could be classified as medium and large and will be required to prepare and publish a full set of annual financial statements.

In Romania, the actual thresholds for simplified annual financial statements for micro-undertakings are EUR 35,000 for both net turnover and balance sheet total. If Romania will opt for reducing the administrative burdens for micro entities and implement simplifications for micro-entities as they were defined in the EU directive 2013/34/EU, the thresholds would have to be increased to EUR 350,000 for balance sheet total and EUR 700,000 for net turnover (a ten times factor for balance sheet and twenty times for net turnover thresholds). Many more enterprises will be classified as micro instead of small and medium-sized.

The number of Romanian enterprises that would prepare full annual financial statements (medium and large entities) will also decrease as the thresholds have to be increased from the actual EUR 3,650,000 for balance sheet total and EUR 7,300,000 for net turnover to EUR 4,000,000 for balance sheet total and EUR 8,000,000 for net turnover. Based on Eurostat data one can expect that less than 2% of the Romanian companies would fall into these categories.

The reduction of administrative burdens for micro and small sized businesses can provide many benefits to these companies, but it can also reduce the usefulness of the information provided by these size classes of companies and this can be an obstacle when they seek access to sources of finance.

Member States should also consider the impact of the new accounting directive on the accounting and auditing services market. For example, if Member States would adopt the maximum threshold for small undertaking many more enterprises would be classified as small undertakings and will not require an audit for their annual financial statements.

The various options that are available to Member States, make financial statements for entities under the jurisdiction of different Member States difficult to compare. Also the comparability of the annual financial statements is limited if the enterprises are from different size classes. Only the financial statements of large undertakings are truly comparable.

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