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THE ROLE OF ACCOUNTING IN SMALL AND MEDIUM-SIZED ENTERPRISES (SMES)

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Abstract
Development of Small and Medium Enterprises (SMEs) is the main factor in any modern economy. SMEs stimulate private ownership and entrepreneurial skills. They are flexible and can adapt quickly to the change of supply and demand to the market. They provide employment, promote the diversification of economic activities, support sustainable growth and contribute significantly to the export and trade. Development of small and medium enterprises is a complex challenge that involves a number of directly interested parties in all government sectors, the economy first and foremost.The importance of SMEs to the economy is undeniable. All the studies showed that, globally, more than 90% of all business is being conducted in small and medium enterprises. Small and medium enterprises employ two thirds of the total labor force of the European Union.Small and medium-sized enterprises in Europe are the engine of European economy and a key driver for achieving sustainable growth and job creation. Throughout Europe there are around 23 million of SMEs, which represents about 99% of all enterprises that employ about 75 million of people.The enterprise, as an organized set of people, is the basic economic entity that achieves specific goals and tasks in the system of social reproduction. Socio-economic system is an environment in which the enterprise aims to combine their results. In order to ensure the survival of the enterprise, its future and secure proper integration into the business environment to the market, it is necessary to manage the business and development of the enterprise. To be able to manage the enterprise as well as to develop it, besides personal abilities and intuition of managers, adequate information support is necessary.

Introduction

Data and information management is a crucial problem faced by the organization in conditions of more and more present global processes, at all levels. The main task of accounting, as a utility function necessary for managing the enterprise, is collecting and processing the data of financial nature, and presenting the resulting information to interested users. By the end of the fiscal year enterprises are obliged, after posting all the business changes, to conclude business books, in order to determine the final state, which is used for the preparation of financial statements. Financial statements provide information about the financial status, success and changes in financial position of enterprises.

In this sense, the primary objective of accounting is to provide a complete understanding of the nature of accounting reports, and provide connecting of the decision makers with economic activities. Therefore, the main purpose of financial statements is that their users provide a reliable basis for assessing the financial position, profitability, the amount of own capital, and acquisition and use of cash. Informative basis for analyzing financial statements, represent three basic financial statements: Balance Sheet, Income Statement and Cash and Capital Flow Statement, whose main task is measuring of success and clarification of the position of liquidity.Orientation towards a market economy and a desire for inclusion in contemporary economic trends requires reform of economic system, and in this regard, reform of the accounting system is necessary for achieving this goal. The change of the accounting system requires its approximation and harmonization with the accounting systems of the countries with developed market economies, and that practically means that many accounting regulations should be replaced by accounting standards, which actually represents detailed elaboration of selected accounting principles and constitutes one of the basic accounting regulations of most countries accounting systems. In order to avoid wrong business decisions, management must be based on realistic and objective, i.e. true (correct) information contained in financial statements.

As stated before, one of the goals of accounting is to provide a complete understanding of the nature of accounting reports, and provide connection of the decision makers with economic activities.

Users outside the enterprise are usually being supplied with information of "general purpose". This is done mainly in the form of a set of accounting statements that are commonly referred to as “financial statements” or simply “balance sheets”.

Investors and lenders perform comparing of financial statements of many enterprises, in order to be able to make valid decisions about where to invest and sell their limited resources. Information from financial statements of different enterprises must be sufficiently comparable to make any valid comparisons. In doing so, the generally accepted norms (rules), formulated by science and adopted by the practice.

I. INFORMATION AS A PREREQUISITE FOR MANAGING

Management process, in practical terms, is realized through continuous decision-making and control over the implementation of decisions. The mere business decision is, among intentions and goals to be achieved, conditioned by available information and assessment of current conditions and future business. In today's economic conditions, the management process is impossible without information."

Information represents processed data presented in a form appropriate for the recipient and which has significant value in current or future activities and decisions."[1] Decisions making based on knowledge, information and exact data, provides for successful implementation of management activities. Of course, it is the important to emphasize that intuition and experience also play an important role in the management process.

1 Katarina.Z., Lajos, Z., Analysis of Financial Statements, Zagreb, 2000., pg.20

Information for management purposes can be obtained from various sources. In this sense, it is necessary to carry out the systematization of information. This can be illustrated by the following scheme:

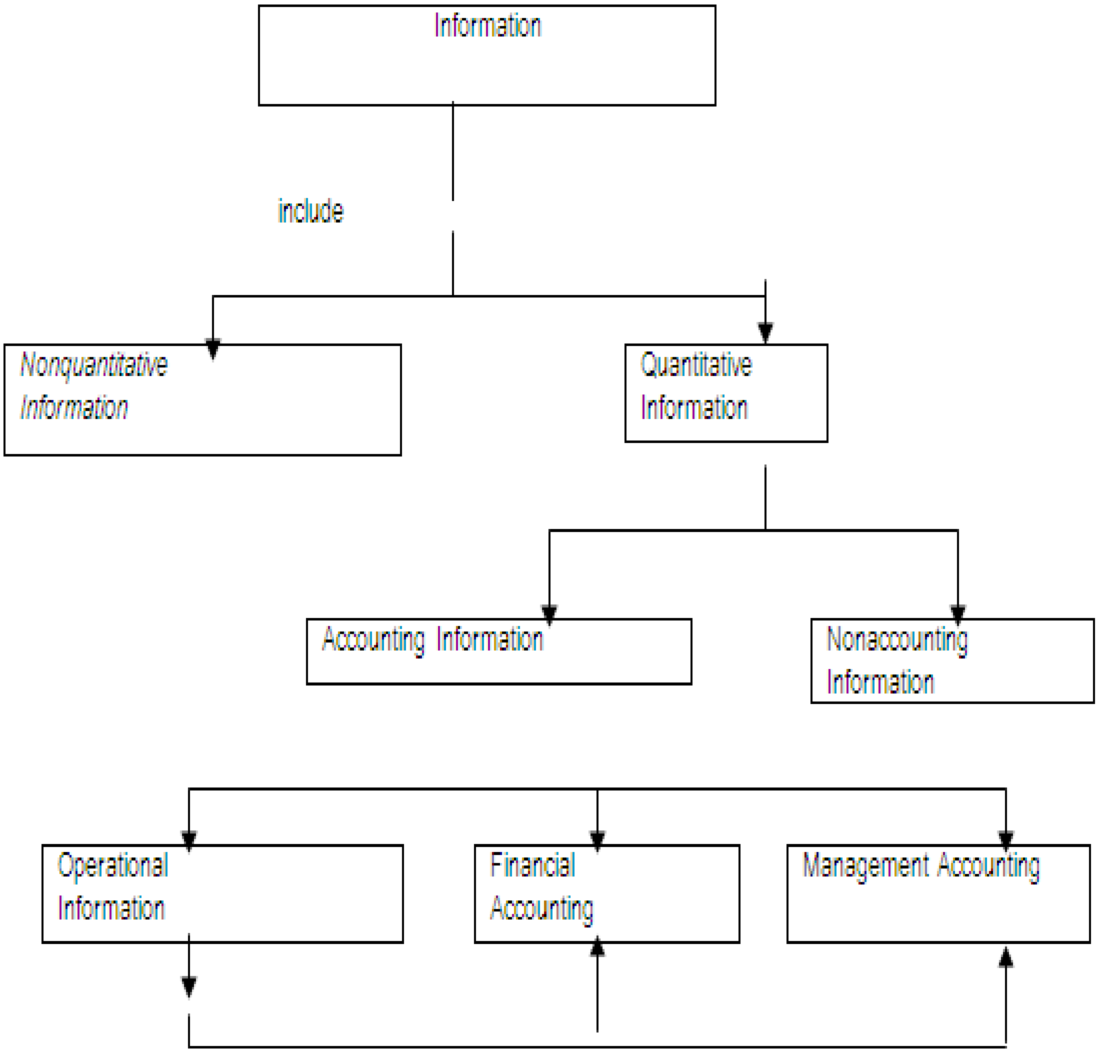

Figure No.1 - Types of information[1]

[1] *Anthoni, Robert N, Reece James S, Accounting-Financial and Management Accounting, Zagreb 2004. pg.*

Accounting information can be grouped into the following three groups:
- operational (business) information,
- financial accounting information, and
- information that come from management accounting.

II. ACCOUNTING INFORMATION SYSTEM AS PART OF THE MANAGEMENT INFORMATION SYSTEM

Today, most of the business in the world is done within the organization. In the broadest sense, the organization is a form of association of people to achieve some common goals. In its work the organization uses resources such as labor, material, miscellaneous services, buildings and equipment. The main objective of the organization is to achieve maximum effect with minimum spending of “live” and past work, subjects and resources of work, whether on the level of society as a whole, organizational units, etc. These resources should be financed or paid. People in organizations need information about the amounts of these resources, ways of financing and results obtained with their use, in order to make their work effective. Parties outside the organization need similar information for making assessments of the organization. Precisely accounting, as the system provides this information.

2.1. Contemporary, information-system approach to accounting of enterprises

"Accounting information system (subsystem) with its quantitative basis (data base) forms the main part of the overall (business, integrated) information system of enterprises."[1] In principle, each enterprise develops its accounting information system that is the most appropriate and suits the needs of management. So accounting information system differs from enterprise to enterprise, depending on the level of rationalization and use of technology.
The results of the accounting information system are the accounting data, indicators and information contained in business records and financial statements.
"Characteristics of accounting information systems in all conditions of all present information technologies are: mutual dependence and connection elements that make up the system; holism; goal; input and output, change and feedback."[2]
Accounting is the most important part of the overall information system, and most of the information needed in business and financial decision-making process occurs in that area. Therefore we can say that the accounting information system plays an important role as part of management information systems and he is focused on the organization of information processing:
- on the achievement of business results,
- on the control on the current business activities,

Based on the information processed in this way, decision-making process is being served and supported. Thus, accounting information system aims to transform the input (input), i.e. data about business events in the output (output), and information. Information intended for customers within the organization and external customers.

2.2. The role of accounting in the system of informing contemporary enterprise

Managing the enterprise means constantly adapting to conditions that are changing. In modern economic Managing data and information is an extremely complex problem faced by enterprises, as market conditions change frequently characterizes the large volume of business transactions.
The literature is full of different definitions of accounting. One such definition is: "Accounting is the process of identifying, measuring and presenting economic information in order to provide information so the users can make decisions based on facts."[3] It is often defined as sub-functions of management. Therefore, accounting is a form of service, since it deals with providing economic information.
"Under the concept of accounting, many authors consider all the actions whose task is the quantitative and value coverage and control of all cash flows and the effects that occur in the enterprise, who are mostly but not exclusively caused by the production and sale of products."[4] Information provided by the accounting required to assist in making decisions whose implementation will ensure efficient allocation of rare resources.
"Contemporary accounting is focused on ultimate need for decision makers who use accounting information, regardless of whether those responsible for decision-making are in such position in the enterprise or outside it."[5] Users are being provided with the information through accounting reporting. Accounting reporting itself was established as direct response to customers' needs for information. Of course, financial statements do not necessarily represent the perfect picture of the situation, but in any case represent the best attempt at presenting the situation in enterprises.
Composed financial statements are the product of the final phase of the accounting process and reflect the state of business activity in such conditions. Their common feature is that all the information and statements are used for making investment, credit and other decisions.
Within the accounting reporting can distinguish reports containing and through which are transmitted:
1. Information about operating results achieved by the enterprise (revenues, expenses and net result-the profit or loss) - the income statement.
2. Information about financial position achieved by the enterprise (assets, liabilities and own capital) - balance sheet.

In addition to these two reports, the reports that are very important are cash flow statements, as well as the funds flow statements and statements about the sources and uses of funds.

[1] *Robert, Anthoni N, Reece, James S, Op.cit.,pg. 3*
[2] *Sljivic, Slavoljub,* Double-entry Bookkeeping*, 1999, pg. 171*
[3] *Slijvić, S. Ibid, pg. 3*
[4] *Skarić-Jovanović Kata, Financial Accounting, Beograd,2003,pg. 5*
[5] *Gray J.S., Needles, Jr.E., Ibid, pg. 3*

"The income statement provides a summary statement of earned income and expenditures made during the ordinary course of business in a certain period of time." So, it shows the result of an enterprise for a certain period, usually one year, and the basis for determining the profitability of a enterprises.

The balance sheet reflects the financial position of an enterprise at the specific time, usually at the end of the month or a year. This report is very important, because it represents the main instrument of control of funds are resources.

Cash flow statements is the statement that is associated with previous two reports and, unlike the income statement, which was aimed at evaluating profitability, cash flow statements is oriented on the evaluation are verification of liquidity as one of the goals of enterprises.

2.3. Users of accounting information

In the business world, different groups of users of accounting information, of those persons who manage the business, through the public, employees, customers, shareholders and environment are engaged in certain kinds of economic decisions. Each of them has their own goals and that totality of represents a target function of the enterprise.

The most important users of information are:

1. **Owners**. They will usually invest in a business with a view to increase their capital. To bring a decision whether to invest or not, they require information related to the risk and cost of this work. Right from the enterprise's expectations regarding rates of return earned on the actions and risks, which is linked to earnings from the revenue depends the decision whether to invest or not, or the decision on disinvestment. "There where the owners of the enterprise have left the operational management of professional business to the managers, information concerning the financial position of enterprises is required."
2. **Employees**. They often have need for the information concerning the financial position and business of an enterprise. This information will help them to evaluate the ability to provide job security and the opportunity to be beneficiaries of the entire surplus realized by the enterprise, as well as provision of reward for the achieved results.
3. **Suppliers for the goods and services.** They where interested for those reports that will provide them with the information so an enterprise can have necessary cash resources for the settlement of liabilities for the goods and services received. Suppliers generally have short-term goals, such as prompt payment of contract obligations. Of course, there are those suppliers who have a long and close relationship with enterprise which is supplied by them, which means that they have an interest that the enterprise has the ability to renew contracts for a longer period. In such case, information relating to general financial position of an enterprise is required in order to evaluate long-term business perspective, unlike the information about the liquidity of enterprises in conditions of commercial lending.
4. **Creditors**. They provide funds for the business of enterprises, apart from its own funds brought to the enterprise by the owners. Creditors can provide funds on a short or a long term basis. They are usually interested in the ability of enterprises to repay debt, including the interest. Therefore, the information on the liquidity of enterprise is important for creditors, while for long-term loans, creditors require information about long-term prospects and financial position of enterprises.
5. **Buyers of enterprises**. They are also interested in financial statements and information on the capabilities of enterprises, in order to be able to supply them with goods and services continuously, according to market dynamics, especially in conditions when it comes to a long term relation with some enterprise or dependence on it.
6. **The State (Government).** It is highly interested in activities of enterprises and it has its own political and financial interests in the enterprise. It wants to achieve long-term profits and maximize revenues from taxation. Therefore, the information relating to the achieved profits has the importance for purposes of taxation. Also, the state affects to behavior enterprises with their political decisions. It can adopt antitrust laws, and adopt a policy of strengthening competition in the market. The tendency of the Government is to create conditions in which health plans and insurance, as well as the prescribed minimum wage will be respected by enterprises. Therefore, information relating to resources of the enterprise and profit contribute to in decision-making of the government on economic policy.
7. **Management**. It is responsible for the business of enterprises. Managers are the ones who should decide what to do, how it is going to be done and who should monitor the implementation of set plans. In order to bring good decisions, managers must have detailed economic information, which must be valid and prompt. As most of the decisions are based on accounting information, management has greater information needs of other users and it is one of the most important users of accounting information. On the other hand, it bears the greatest responsibility for the preparation and presentation of financial statements of enterprises, both for internal use and for external users.
8. **Competition**. It is interested in economic type of information of enterprises, due to comparisons of their own business to the business of its competition, and because of the possibility that through specific economic type of information it can provide or evaluate specific directions strategy of competitors.

2.4. Types of accounting from the perspective of users

Accounting as a process is aimed, primarily, on financial accounting, whose final product are financial statements. Actually, in terms of users', "accounting has internal and external tasks. The first internal task of accounting is documented and control. Accounting this role realize by recognizing, processing and transfer of information and control over economic processes in the enterprise. Second internal task is to provide the information base for planning the state assets and profitability."[6] External accounting

6 Skaric, J, K., Ibid, pg. 5

tasks are related to accountability to other users of accounting information. These tasks have been constituted on the basis of legislation, and partly on a voluntary basis.
We can, therefore, conclude that accounting provides information for two main purposes:
1. Internal reporting for the decisions of managers
2. External reporting of investors, governments, creditors and other stakeholders.
The difference in the information needs of managers and other user groups of accounting information has resulted in the direction of development of accounting and today we distinguish the following types of accounting:
- Financial accounting,
- Cost accounting,
- Management accounting.
Financial accounting deals with the development and use of accounting reports intended for external (international) customers and head office. "Financial accounting is a basic, self-organized, externally oriented, and obligatory and informational very important part of business accounting apropos accounting of enterprises." [7]
Financial accounting information provides a general overview of the financial condition and business operations. They directly provide information about the profitability and liquidity of the enterprise. This information represents a review of past accomplishments and current financial situation. Financial statements are used by investors, government agencies, owners and other users.
"As a enterprise management has a duty to periodically render an accounting on the status and success of enterprise to owners (investors), lenders and to other financial partners, or business partners, tax authorities, other government agencies and other external users of information, this given part of the accounting function is justifiably called externally oriented part of enterprises' accounting and financial accounting." [8]
Management accounting is focused on internal reporting. "Managerial accounting evaluates, assess and shape the financial and nonfinancial information that helps managers to make decisions that will meet the goals of the organization."[9] It provides to internal management, to decision makers, information on financial, investment and operational activities. Based on that information, managers exercise control operations, and thus provides feedback to the ongoing operations. They must be made available information that will tell them how they successfully did the work in the past and what they can expect in the future, so they are able to perform comparisons with the current achievements and planned achievements and to look at whether the work takes place as planned and are the corrective actions necessary."Cost accounting includes part of the management accounting and part of financial accounting and in that context cost accounting is described as an accounting system that provides quantitative information to managers of planning and control (management accounting) and determine the cost of products (part of financial accounting)."[10] Its main feature is charge with cost effects - essential information output. Charges with the cost effects deals with the coverage, dipgibution or allocation of costs to their causal agents, and linking costs and revenues for carriers.
Managers are responsible for the financial statements, and are interested, both for management and for financial accounting.

2.5. Qualitative characteristics of accounting information

From previous exposure, we can conclude that the purpose of financial reporting is utility for making economic or business decisions.
With data processing from the accounting records, which are expressed in value or volume, the accounting data and evidence are created, and with further treatment, which consists of the preparation of appropriate financial statements, they are transformed into the problem-oriented information that is eventually delivered to customers, which will make decisions based on them. Utility is the most important quality that decision makers should require from accounting information. Of course, all accounting information isn't always useful and beneficial for all stakeholders. For the decision-making primary qualities are relevance and reliability of the information.
The most important quality that information should have is the utility. There are two limitations that affect the provision of information and their inclusion in financial accounts. These restrictions are quantitative in nature, and it is a cost – benefit restriction and the material limitation principle. So, the cost-benefit limit relates to the use of high-quality information which is expensive.
Respecting the principles of economy is the request to benefit from any activities of the enterprise is greater than the funds spent. The principle of economy is particularly evident in the selection of information that accounting should provide to the head office and other users.
When selecting the information distinction must be made between significant and insignificant information. Indicators that are substantial, as well as those that are relevant for decision making, should be sought. "Request for ignorance of relatively insignificant indicators and orientation of accounting to the essential facts, is also known as the principle of essentiality or material principle, but requirement that stems from it is completely in accordance with the requirement of economy."[11] The information that can not exceed the materiality threshold, and / or if the benefit from the disposal of information is less than the cost of obtaining them, they are not useful for decision making.

2.6. Size of the enterprises and objectives of financial reporting

The answer to this question depends on the information needs of users of financial statements. In principle

7 Malinic, S.,Op.cit. , pg. 49
8 Stevanovic, N., Leko V., Zarkić-Joksimović, N.,Malinic, S., Novicevic, B., Management Accounting I, Beograd, 1995., str,40-41
9 Horngren, Charles, Foster George, Datar Srikant M., Principles of Cost of Accounting and Control Aspect,2002,pg. 3
10 Katarina, Z., LajoS, Z., Ibid, pg. 32
11 Skarić J,K., Ibid, pg 65

objectives of financial reporting are the same regardless of whether they are for large, medium or small enterprises.

When we are talking about enterprises whose shares are quoted on the stock market then financially reports are needed to all listed users of financial statements (*owners, employees, suppliers of goods and services, lenders, customers of enterprise, country, enterprise management, competition, and regulatory agencies*). Such a wide range of users of accounting information is a consequence of the high degree of public responsibility.

So, the list of users of financial statements and scope of necessary information are dependent on the size and degree of public responsibility.

2.6.1. Financial reporting of small and medium enterprises

The classification of enterprises to large, medium and small depends mainly on set criteria, with a starting point upon which determinate size of enterprises and whether the selected criteria should apply on the framework of the national economy or their application extend beyond national borders.

In the literature we can find a variety of definitions of small and medium enterprises as well as criteria for their classification. As the most used criteria are:

- number of employees
- amount of the income
- amount of capital engaged.

Tabela 2. Criteria of defining micro, small and medium enterprises

Definition EU	Micro	Small	Middle-sized
number of employees	< 10	< 50	< 250
amount of the income		< 7 mil €	< 40 mil €
amount of capital engaged		< 5 mil €	< 27 mil €

Bearing in mind the chosen legal form of organization of an enterprise and the criteria for their definition, we can conclude that the basic characteristics of SMEs include the following:

- Owned by one person or a small number of partners,
- Focused on smaller market segments (local importance)
- Have little market share,
- Easy to adapt to market demands,
- Management is "reserved" for enterprise owners,
- A flexible organization (with no clear division of labor and structures)
- Firm size is small compared to major competitors in an industry (by sales volume, number of employees, and worth of property of enterprise).

In most countries in the region the area of financial reporting is governed by the following legislation:

- Law on Enterprises (enterprises),
- Law on Accounting and Auditing
- Professional regulation of specific state,
- International Accounting Standards (IAS),
- International Financial Reporting Standards (IFRS).

Bearing in mind that today in the European Union small and medium enterprises account 99% of total enterprises and employ approximately 65 million people, we can conclude that on the present level of development of accounting profession improvement of financial reporting of small and medium enterprises is in slow motion. The financial reporting of small and medium enterprises in most countries is mainly based on national standards and in very few countries on the IAS and IFRS.

A common feature of almost all countries in the region of former Yugoslavia is that the Small and Medium Enterprises are asked to publish only some of the report and in summary form, as opposed to large enterprises where national laws provide publication of a set of financial statements. Therefore, reporting of small and medium enterprises are often characterized by:

- Incomprehensible,
- Incomparable,
- Inadequacy of provided information.

Bearing in mind the importance for economic development that SMEs have, especially in transitional economies, such as economies former Yugoslavia countries, and more and more evident internationalization of SMEs management, imposes the need for increasing the quality and harmonization and standardization of financial reporting of SMEs as a necessity.

2.6.2. Harmonization and standardization of financial statements of SMEs

In an era of business globalization as a phenomenon characteristic for contemporary development, accounting should be the universal language of business. Activities aimed at harmonization and standardization of accounting and financial reporting are considered a key factor for the improvement of the quality of financial reporting and the objectivity of reporting on business of the enterprise in the global environment.

Managers who participate in foreign markets without the necessary information, can experience a crash during once they occur.. In contrary, managers who know the value of information and have a positive and active attitude towards them, can achieve good results in the occurrence at the foreign markets. The future of consumers and businesses in global economy will be organized so the information can be available to everyone.

It is obvious that the global society emphasizes growing role of information and the possibility of their possession is becoming more and more complex and risky. In this sense, financial reporting is becoming much more than simple preparation of reports on the results of past activities. In modern business conditions, it takes over a proactive role not only in preparing for and interpreting the financial and nonfinancial information on measures and planned business activities.

Accounting provides a wide use of many pieces of information, both for the management of the economy, and for the functioning of the social information system and has all the characteristics of a continuous process of growth and development of enterprises, according to the time, functions, internal and external environment and the general organization of business entities. Enterprise management as a system of modern market economy in governance and management of enterprise resources, requires the constitution of accounting, business finance and auditing, as well as their mutual dependence and connection, in accordance with international standards.

Adoption of IFRS, capital markets would be more transparent and business entities would have insight into in financial statements enterprises in all countries that support global standards.

International Accounting Standards / International Financial Reporting Standards (IFRS) accounting standards are accounting standards created and the introduced in order to achieve uniformity and the transparency of financial statements of any economic entity, regardless of the activity which it deals with and the country in which it operates. They have a purpose of more comprehensive, easier and the better understanding of financial statements with the primary objective to provide data and the information for comparative analysis for smooth business communication of interested parties which contributes to a faster flow of goods and capital. IAS / IFRS in fact represent a type of instruments for the harmonization of the different accounting regulations which relate the preparation and presentation of financial statements that serve as the basis for making economic decisions. Standardized comparable financial statements for investors are of great importance at all levels.

Of course we should point out that, by using strict application of IAS / IFRS, obtained financial reports can sometimes contain information that is different and the far broader in scope than the information needed by the users of financial statements of SMEs. Therefore, strict application of IAS / IFRS in small and medium enterprises which cause the costs are not opposed to proper use, and on the other hand the application IAS / IFRS requires well-trained accountants.

Bearing this in mind, the basic requirement set to the international accounting institutions, as well as to national legislatures, is that international accounting standards for SMEs should be:

- high quality, understandable and the enforceable,
- oriented to the needs of users of financial statements of SMEs.

In this sense, the IASB (the Board of the International Accounting Standards) on 9 July 2009 published International Financial Reporting Standards for SMEs. The project lasted six years during which they discussed solutions in it, and it was backed up by all important international organizations. Standards were tested in 126 enterprises, from 20 countries and over a hundred presentations to a wider public awareness were held.

The full title of the standard is ‘Standards International Financial Reporting Standards for SMEs’. The term "Small and Medium Enterprises" is defined in section 1 and includes enterprises that:

1. are not accountable publicly (it is not being traded with their debt and the equity instruments in the market; property of wide group of external users such as banks, credit unions, insurance enterprises, brokerage houses, mutual funds or investment bankers is not being possessed by such enterprises;

2. publish general-purpose financial statements for external users (owners who are not involved in management of enterprise, existing and potential creditors and credit rating agencies).

Adoption of such standards brings a relief in medium-sized enterprises in those national economies that have adopted International Financial Reporting Standards (relating on listed enterprises), but their use is prescribed to the medium enterprises as well. Existing standards have grown on 2885 pages, and standards for small businesses have only 230 pages. These standards are far from being compression of the existing in text form, but also thoroughly research and exclusion of many unnecessary regulations.

According to some data, SMEs constitute a population of over 95% of total number of enterprises on planet. It is believed that these standards are brought closer to capacities and needs of SMEs.

Countries of the region of former Yugoslavia, with their respective legal solutions are adopting International Financial Reporting Standards, and in that way become official as soon as is official publication of the translation.

Conclusion

In contemporary conditions of business of small and medium enterprises is exposed to numerous changes. To ensure the survival of the enterprise in the market, as well as its development, it must continuously adapt to various changes, while the process of adapting to changes in the market should be in directed and controlled. Managing the enterprise is a continuous process which initiates and directs business activity. Business in conditions of globalization of the economy is done in conditions of scarce resources - natural resources such as mineral resources, energy resources and land (cultivable land) and labor are limited. The main obstacles to development of enterprises in domestic market are: lack of financial resources, lack of knowledge, lack of markets and lack of adequate institutional infrastructure. Business management is not possible without information as appropriate substrate. Financial reports as the final product of the accounting process contain a significant portion of information that represent management background.

The largest part of the information necessary for the management process occurs in accounting. Managers must understand accounting in order to understand how business activities, from the scope of their responsibilities, affect the overall business of enterprises. Accounting information system (subsystem) with its quantitative basis (data base) forms the main part of the overall (business, integrated) information system of enterprises. Accounting information system differs from of enterprises to of enterprises. Typically, each enterprise develops its accounting information system that is the most appropriate and suits the needs of management. Accounting is not an end in itself but is directed towards customers and focused on the ultimate need for decision makers who use accounting information, whether users are decision makers in the enterprise or outside of it. In this sense, the fact that is emphasized, is the one by which the same information does not have the same value for different users and different levels of decision-making. Therefore, information must be drawn up and presented in a way that ensures their understanding and usability.

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