

## TRANSPOSITION OF THE „MICROS“ DIRECTIVE<sup>1</sup>

### Transpozice směrnice pro mikrosubjekty

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#### **Preface**

“Micro-entities” has been introduced by the European Commission as an answer to consultations with Member States that have indicated that the size criteria for micro-enterprises in the Commission Recommendation may be too high for accounting purposes. Micro-entities have often limited resources with which to comply with demanding regulatory requirements, but they are subject to the same financial reporting rules as larger companies. Those rules place on them a burden which is not in proportion to their size and is therefore disproportionate for the smallest enterprises as compared to larger ones. Later, reducing administrative burdens for small and medium sized entities within the European Union has been underlined by the European Council. Accounting has been identified as one of the key areas in which administrative burdens for companies within the Union may be reduced. It should be possible to exempt micro-entities from certain accounting obligations to reduce administrative burdens but on the other hand, micro-entities should still be subject to any national obligation to keep records showing their business transactions and financial position. In 2009, the European Commission tabled a proposal to reduce burdensome accounting rules for Europe's smallest companies and two years later, Commission proposed to issue the new accounting directive and revises and repeals the 4<sup>th</sup> and 7<sup>th</sup> Accounting Directives including all amending ones.

#### **Main provisions of Directive**

In March 2012 „Micros Directive“, has been issued by the European Parliament and the Council. This Directive relieves the smallest companies of certain obligations imposed by the 4th Company Law Directive, which establishes minimum requirements for the individual annual accounts of companies and certain partnership. Adopting the „Micros Directive“, Member States should ensure that micro-entities that are to be consolidated under the 7th Council Directive are without prejudice to the obligation to prepare consolidated accounts in accordance with this Directive.

What is a micro-entity? A company which on its balance sheet date does not exceed the limits of the three following criteria:

- (a) Balance sheet total: € 350 000;
- (b) Net turnover: € 750 000;
- (c) Average number of employees during the financial year: 10.

The aim of the Directive is to enable Member States to create a simple financial reporting environment for micro-entities. Companies preparing micro accounts cannot use fair value accounting. The use of fair values can result in the need for detailed disclosures to explain the basis on which the fair value of certain items has been determined. Micro-entities that wish or

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need to use fair value will still be able to do so by using other regimes under this Directive where a Member State permits or requires such use.

Member States may, subject to certain disclosures, exempt micro entities from the obligation to:

- Draw up notes to the accounts
- Prepare an annual report or
- Publish annual accounts provided the balance sheet is filed with a designated competent authority
- Recognise certain „prepayments and accrued income“ and „accruals and deferred income“
- Present „prepayments and accrued income“ and „accruals and deferred income“

Member States may permit companies to draw up a greatly abridged balance sheet and P&L account. Options are about presentation and notes. This relates to nature of business. At the same time, Member States need to ensure compliance with this Directive. Here is an important difference between the 4<sup>th</sup> EC Directive and “Micros directive” as companies can prepare abridged accounts. Statements are illustrated in tables 1-3 bellow.

Tab. 1: Abridged profit & loss account

Abridged profit & loss account	
A	Net turnover
B	Other income
C	Cost of raw materials and consumables
D	Staff costs
E	Value adjustments
F	Other charges
G	Tax

Source: Source: Author's own illustration

Tab. 2: Abridged Balance Sheet – Format 1

Abridged Balance Sheet – Format 1	
A	Called up share capital not paid
B	Fixed assets
C	Current assets
D	Prepayments and accrued income
E	Creditors: amounts falling due within one year
F	Net Current assets (liabilities)

G	Total assets less current liabilities
H	Creditors: amounts falling due after more than one year
I	Provisions for liabilities
J	Accruals and deferred income
K	Capital and reserves

Source: Author's own illustration

Tab. 3: Abridged Balance Sheet – Format 2

Abridged Balance Sheet – Format 2	
Assets	
A	Called up share capital not paid
B	Fixed assets
C	Current assets
D	Prepayments and accrued income
Liabilities	
A	Capital and reserves
B	Provisions for liabilities
C	Creditors
D	Accruals and deferred income

Source: Source: Author's own illustration

As publication of annual accounts can be burdensome for micro-entities, Member States should be permitted to exempt micro-entities from a general publication requirement. This exemption is respected provided that balance sheet information is dully filed, in accordance with national law, with at least one designated competent authority and that the information is transmitted to the business register, so that a copy should be obtainable upon application.

Companies have to provide mandatory notes. Mandatory notes on accounts should be:

- All commitments of any kind, if no obligation to be shown as liabilities,
- Advances and credits
- Acquisition of own shares

Exclusions and limitations from the Directive are not available to:

- Investment companies
- Financial holding companies
- Companies whose securities are traded on a regulated market (listed companies)

## Conclusion

Although it may be easier and less costly for Member States to solve the issues on accounting simplification to the IASB to set SME standards, any new tier of regulation adds to the cost

burden for preparers and SMEs are not themselves involved in the process. Furthermore standards for preparing financial statements must meet user needs, but in the case of micro-entities such needs have not really been defined. It is also debatable whether the top-down approach, which views micro-entities as small companies growing into larger ones, is appropriate. After a long debate, the „Micros Directive“ has been issued, which is to enable Member States to create a simple financial reporting environment for micro-entities. Transposition of Directive become an unique opportunity for each accounting regulator in Member States to decrease accounting obligations and administrative burden in compliance with local conditions and purpose that accounting plays in lives of micro-entities. Member States shall communicate to the Commission the text of the main provisions of national law which they adopt in the field covered by the „Micros Directive“.

### Abstract

V březnu 2012 byla vydaná Směrnice pro mikrosubjekty Evropským parlamentem a Radou. Směrnice byla vydána po dlouhém odborném projednávání. Tato směrnice by měla umožnit členským státům, aby se zjednodušilo účetní výkaznictví mikrosubjektů.

**Klíčové slová:** mikrosubjekt, směrnice pro mikrosubjekty, administrativní zátěž

### Summary

In March 2012 „Micros Directive“, has been issued by the European Parliament and the Council. Directive has been issued after a long debate. This Directive should enable Member States to create a simple financial reporting environment for micro-entities.

**Key words:** micro-entities, directive for micro-entities, administrative burden

**JEL classification:** M40, M41

### Literature:

- [1] Commission Recommendation 2003/361/EC , OJ L 124, 20. 5. 2003, p. 36.
- [2] EC (2009a): *Better Regulation – Administrative Costs*. [on-line], Brussels, European Commission, c2009, [cit. 10. 9. 2012], <[http://ec.europa.eu/governance/better\\_regulation/admin\\_costs\\_en.htm](http://ec.europa.eu/governance/better_regulation/admin_costs_en.htm)>.
- [3] EP resolution of 21 May 2008 (A6-0101/2008) on a simplified business environment for companies in the areas of company law, accounting and auditing (2007/2254(INI))
- [4] Žárová, M.: *Regulace evropského účetnictví*. Praha: Nakladatelství Oeconomica, 2006. ISBN 80-245-1046-4

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