

AN INVESTIGATIVE STUDY REGARDING SMES SPECIFIC ACCOUNTING POLICIES

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In this paper we intend to continue the research regarding the enterprise accounting policies and the manner in which these are perceived by the practitioner accountants, Assistant Lecturers of financial statements. This time, in order to carry out the research, we made up a new questionnaire applied to the same sample, containing a number of 100 SMEs in Bihor County, selected according to the criterion of the average number of employees and that of the level of net turnover at the end of 2008. Continuing previous conducted research we have investigated this time the specific accounting policies of the sampled SMEs from Bihor County and the way these policies are understood by practitioners and implemented in order to prepare financial statements. Surprisingly, we have found that only 93.33% of the respondents agree that the elements presented in the annual financial statements of the entity are evaluated in accordance with the general accounting principles stipulated in Order 3055/2009, according to the accrual accounting. Half of the people interviewed had in view all four qualities of accounting information (intelligibility, relevance, credibility, comparability) in drawing up the annual financial statements, and most of them (56.67%) are not aware of the possibility to use a significance threshold (10%-15%) of the total value of that particular category of assets, liabilities, expenditure, income and results for an as faithful as possible presentation of information in the balance sheet and in the profit and loss account.

Key words: accounting policies, financial reporting, disclosure, SMEs

JEL codes: M41, M10, C81

1. Introduction

Our research hold forth to initiate a questionnaire based research in order to see the main perceptions of the accountant working in a small or medium sized enterprise, on accounting policies and their utility in providing the faithful image given by the accounting. The central objective of our research is to determine the degree of sensitivity regarding the formulation of written accounting policies by the Bihor county SMEs and the setting up of a manual of accounting policies and procedures at a certain entity level. We used directly applied questionnaires, on selected SMEs. Within each firm, we wanted to ask a person from the accounting department or from the management team to fill the questionnaire. Almost in all the cases the respondents belong to the accounting department, in most of the cases being the chief accountant or the firm's economic director. The structuring of the questionnaire was made on 3 essential levels: 1. general information about the respondent; 2. questions testing the managers or the accountants' perception on the enterprise accounting policies; 3. personal data about the respondent. In total, the questionnaire had 30 questions out of which, 11 require answers from a scale from one to five, varying between strongly agree (5) to strongly disagree (1).

In this paper we intend to continue the research regarding the enterprise accounting policies and the manner in which these are perceived by the practitioner accountants, Assistant Lecturers of financial statements. This time too, in order to carry out the research, we made up a new questionnaire applied to the same sample, containing a number of 100 SMEs in Bihor County, selected according to the criterion of the average number of employees and that of the level of net turnover at the end of 2008. Continuing previous conducted research we have investigated this time the specific accounting policies of the sampled SMEs from Bihor County and the way these policies are understood by practitioners and implemented in order to prepare financial statements.

2. Literature review

Several researchers (Hagerman & Zmijewski, 1979; Zmijewski & Hagerman, 1981; Francis, 1987; Leftwich, 1981; Gopalakrishnan, 1994) have been trying to explain the motivation of the managers in choosing the accounting methods and why the capital market reacts to the accounting changes imposed. In the literature regarding accounting policies, the researchers have used the following perspectives in order to identify the determinants of the accounting policies: the opportunistic behaviour, the efficient contacting and the perspective of the information.

On the other hand, in other studies (Tarca, 2002; Gernon and Meek, 2001; Saudagaran, 2001; Schipper, 1999; Nobes, 2000) the impact of international harmonisation pressures on companies' choices of accounting policies is investigated. Demands for greater comparability in reporting have arisen from increased international business activities and greater participation in global financial markets. Companies may seek more harmony in their reporting if they expect greater comparability to have more benefits than costs. If a company selected policies that were consistent with IFRS, then it would increase comparability of reporting with other companies using IFRS. An interesting research is presented in Gietzman and Trombetta (2003) study regarding disclosure interactions: accounting policy choice and voluntary disclosure effects on the cost of capital. In their research the authors considered how disclosure of accounting policy interacts with subsequent choice over voluntary disclosure of a non-financial performance metric. Other previous research works (Myers and Majluf, 1985; Healy and Palepu, 2001; Lang and Lundholm, 2000; Paprocki and Stone, 2004; Levine and Smith, 2006) build their study on investigating or examining choices of critical accounting policies, testing whether the quality of critical accounting policy disclosures is significantly associated with a proxy for information asymmetry. Critical accounting policies are the three, four or five policies that are very important to the portrayal of the company's financial condition and results and that require management's most difficult, subjective or complex judgments often because they require estimates about the effect of matters that are inherently uncertain. Such disclosures are intended to reduce information asymmetry.

Domestic accounting literature is mainly preoccupied with the conceptual aspects of the accounting policies and the analysis of the motivations leading to the selection of a certain policy by the management of enterprise. Authors like Dușescu (2003), Feleagă and Malciu (2002), Cernușca (2004), Diaconu (2004), Bunea (2006) are preoccupied in their research with the meanings of defining the concept of accounting policies as well as with the essential estimation criteria of accounting choices. Thus, according to Bunea (2006), if we make a review of the opinions regarding the content of the concept of accounting policies, in order to identify its nucleus, we will notice that it does exist and it is made up of an objective – restriction, represented by getting in the financial statements a superior quality piece of information, useful to different categories of users, but also from the estimation policies binomial – drafting and presentation policies of financial statements. Feleagă and Malciu (2002) are more incisive when referring to the delineation between the accounting policies and the estimation techniques: *„actually different accounting policies represent the same set of events in different ways or*

different aspects of the same set of events; on the contrary, the estimation techniques are used to get to the events that must be presented.”. Cernușca (2004) considered that accounting policy requires licit and concerted actions supported by the research of the objectives suggested by the managers of the enterprise, but it can also be the expression of some implicit accounting options. The enterprise management, through the accounting policy it draws up, sets up certain objectives regarding the size of the result. The accounting policy chosen by the enterprise management has consequences on the determination of the size of result, represent a true decision of strategic management.

There are not many studies in the Romanian accounting literature preoccupied in investigating or exploring different aspects of SMEs concerning financial reporting, accounting regulation, disclosure of information or analyzing the used accounting policies. Nevertheless, it is worth mentioning the studies conducted by Deaconu *et al.* (2008), Pășcan, Neag and Virag (2009), Neag, Pășcan and Mașca (2010), Briciu, Ivan and Groza (2010). While authors like Deaconu *et al.* (2008) are mainly interested in analyzing the future accounting regulations for SMEs in the context of adopting at European level the IFRS for SMEs, Pășcan, Neag and Virag (2009) and Neag, Pășcan and Mașca (2010) focused on studies concerning financial statements or different accounting requirements for small or micro entities in Mureș County. Briciu, Ivan and Groza (2010) are concerned in aspects of development SMEs analyzing the role of accounting software and the way it encourages this segment of market.

3. Research methodology

The methodology used in the current paper is the human behaviour research methodology, whose methods are the interview, the questionnaire, the survey, the laboratory studies, the experiments etc. Regarding the investigation of the perception of the Bihor county SMEs Romanian accountants on the necessity to set up written accounting policies at the enterprise level, we used a questionnaire based survey. Thus, the empirical research was based on a pilot study constituted on a questionnaire applied in the territory. We wanted in this way to take the pulse of the population studied which is constituted of Bihor county SMEs, sampled according to size criteria: the net turnover reported at the end of 2008 financial year and the average number of employees reported at the end of the same period.

The central objective of our research is to determine the degree of sensitivity regarding the formulation of written accounting policies by the Bihor county SMEs and the setting up of a manual of accounting policies and procedures at the level of an entity. Within each firm, we wanted to ask a person from the accounting department or from the management team to fill the questionnaire. Almost in all the cases the respondents belong to the accounting department, in most of the cases being the chief accountant or the firm's economic director. It is important to emphasize the fact that in our research we have used the aleatory sampling procedure. The structuring of the questionnaire was made on 3 essential levels: 1) general information about the respondent; 2) questions testing the managers or the accountants' perception on the enterprise specific accounting policies; 3) personal data about the respondent.

4. Descriptive statistics and results

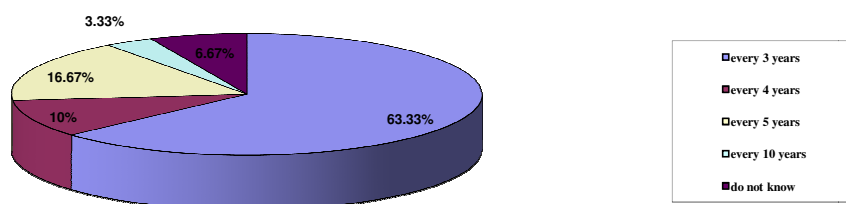
Out of the 17 enterprises which have not filled in our questionnaire, 7 have been found in a difficult financial situation, meaning insolvency and 10 enterprises expressed their clear intention not to fill in the questionnaire. Out of the total of 83 questionnaires processed, in a number of 80, the general information section was filled in, but only 77 mentioned the name of the entity where the subjects work as well. We consider that is worth mentioning that out of the total of the answers received, a number of 65 subjects have declared that they have more than 5 year experience in making financial statements, these having a weight of more than 85% of the total of

the sample, the rest having 1 to 5 year experience. Out of the 83 people interviewed, 66% were females and the distribution on age groups was the following: 41% were between 25 and 34 years old, 39% between 35 and 44 years old and the rest – over 45 years old. Regarding the subjects' professional qualification, the distribution of the sample showed that 44% of respondents are chartered accountants that have also economic college education, 7% of respondents are certified accountants with college education and 5% have economic average education.

Our attention was focused on the 24 questions in the second part of the questionnaire, those regarding the enterprise specific accounting policies, as they are provided in Order 3055/2009.

The first 3 questions tackle the problem of presenting the accounting information in the financial statements and only 93.33% of the respondents agree that the elements presented in the annual financial statements of the entity are evaluated in accordance with the general accounting principles stipulated in Order 3055/2009, according to the accrual accounting. Half of the people interviewed had in view all four qualities of the accounting information (intelligibility, relevance, credibility, comparability) in drawing up the annual financial statements, and most of them (56.67%) are not aware of the possibility to use a significance threshold (10%-15%) of the total value of that particular category of assets, liabilities, expenditure, income and results for an as faithful as possible presentation of information in the balance sheet and in the profit and loss account. Out of 83 people interviewed, only 53.33% are aware of the fact that when entering into management the purchased tangible assets are evaluated at the purchase cost and 3.33% are not aware or have a vague opinion about the fact that the depreciation policy is based on the detailed depreciations periods used for each tangible asset and the depreciation methods correspond to the manner in which these tangible assets are used and they start producing effects the moment they are used. As a depreciation accounting method used to recover the input value of the tangible assets, 95% of the entities prefer the linear method, 1.67% use only the accelerated method and the rest apply the accelerated method for machinery and means of transport and the linear method for the rest of the tangible assets.

In accordance to the provisions of OMFP 3055/2009 *re-evaluations must be carried out with sufficient regularity so that the accounting value of the tangible assets do not substantially differ from that which would be determined by using the equitable value on the date of the balance sheet. The equitable value of the tangible assets is generally determined starting with their market value.*” As it results from figure 1, 63.33% of the interviewed companies have in view the re-evaluation of the tangible assets every 3 years, 10% every 4 years, 16.67% every 5 years and the rest either uses a too high interval of re-evaluation or they are not aware of this aspect.



(Source: authors' calculus)

Figure 1. The distribution of answers in the sample regarding the time interval of the tangible assets' re-evaluation

Regarding the significance threshold established for the recording of differences in the assets' re-evaluation, an important percentage (18.33%) of the people interviewed are not aware of its percentage or the usefulness of its usage, 40% apply a percentage of 5%, 38.33% use a significance threshold of 10%, a company 15%, and another only 1%. The following table (Table 2.) presents in a grouped manner the distribution of answers regarding the accounting policy of tangible assets in sample, noticing that only 86.67% of the respondents are aware of the fact that the modernization expenditure and capital repair services are included in the accounting value of tangible assets if these increase productivity or the life of the asset.

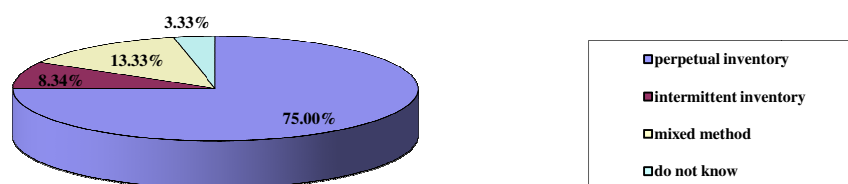
Table 2. The distribution of answers regarding the accounting policy of tangible assets in the sample

Nature of problem investigated	Answers	Correct	Vague	Incorrect	Total
	Evaluation of purchased tangible assets		53.33%	0%	46.67%
The depreciation policy is based on the depreciation periods and methods corresponding to each asset, starting to produce effects the moment they are used		96.67%	1.67%	1.67%	100%
Inclusion of modernization expenditure and capital repair services in the accounting value of the tangible assets – capitalization of costs		86.67%	1.67%	11.67%	100%
Estimation and creation of provisions when there are litigations with the suppliers or lessors/lessees of an asset at the end of the financial year		75%	8.33%	16.67%	100%
Essential changes regarding the evolution of litigations occurred between the closure date of the financial year and the date when the annual financial statements are subdued to approval are considered “an event subsequent to the date of the balance sheet, requiring accounting adjustments”		90%	3.33%	6.67%	100%
Evaluation of asset at the lessee in case of a financial leasing contract		18.18%	0%	81.82%	100%

(Source: authors' calculus)

From the analysis of data presented in the table above, it results that many of the prepares of financial statements do not abide by the principle of prudence and that of financial year independence in presenting the accounting information for a quite low percentage (75%) resort the estimation and creation of provisions for litigations when they deal with this kind of situations. Moreover, 10% do not follow the evolution of these litigations and if an essential change occurs between the closure date of the financial year and the date when the annual financial statements are subdued for approval to the Annual General Meeting, they do not consider it as “an event subsequent to the date of the balance sheet requiring accounting adjustments”. Less than a quarter of those interviewed evaluate the asset sampled in financial leasing (the case of the lessor) at the value of the minimal leasing payments, the rest of them considering the equitable value, the cost or the minimum between the equitable value and the

value of the leasing payments more appropriate. The following 6 questions concern the inventory accounting policy. Three quarters of the analyzed enterprises prefer the perpetual inventory method as an accounting method used for the stock valuation, 8.33% intermittent inventory and 13.33% use the mixed method, according to the following figure:



(Source: authors' calculus)

Figure 3. The distribution of answers in the sample regarding the accounting method used for inventory valuation

The organization of inventories is made according to the quantitative-value method for raw materials, consumables, finished goods and other inventory goods. The global-value method is used for merchandise. Only 78.33% of the respondents agree with this provision, the same percentage being recorded also in the case of acknowledging in the profit and loss account of the period of the loss from the depreciation of the hardly marketable stocks when re-evaluating them (see Table 4.).

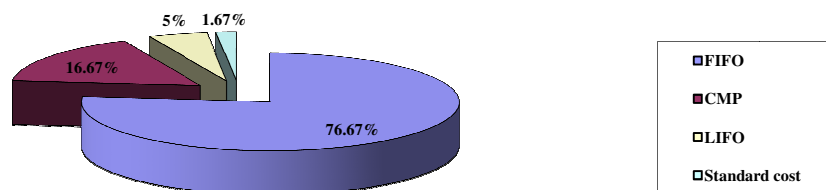
Table 4. The distribution of answers regarding the accounting policy of inventory in the sample

Nature of problem investigated	Answers	Correct	Vague	Incorrect	Total
The use of quantitativ-value and global-value methods for the organization of inventory management		78.33%	8.34%	13.33%	100%
Re-evaluation of hardly marketable inventories and acknowledgement of loss from their depreciation in the profit and loss account of the period		78.33%	8.34%	13.33%	100%
Evaluation and presentation of inventories in the balance sheet		16.67%	0%	83.33%	100%

(Source: authors' calculus)

A very small percentage (16.67%) of the total of practitioner accountants answering this interview are aware of the fact that inventories are evaluated and presented in the balance sheet at the smallest value between the cost and the net achievable value, the rest choosing either the first value or the second one. 63.33% of the entities organize internal control procedures of inventories, on each category. More than three quarters of the respondents evaluate the

indistinguishable inventories by using FIFO method, the rest use the other methods in accordance with the percentages in the following figure:



(Source: authors' calculus)

Figure 5. The distribution of answers in the sample regarding the evaluation method of inventories

The last 5 questions are the object of accounting policies regarding the accounts receivable, income and expenditure. Only 76.67% of those interviewed agree that short term accounts receivable are evaluated at their nominal value, on the date of their occurrence, periodical updates not being necessary anymore. The long term accounts receivable are emphasised at the updated value, in accordance with an average rate of the inter-banking interest, an exchange rate or in accordance with the graph of collections staging. A significant percentage (20%) does not agree with these regulations. From the table below, it results another unsatisfying aspect, the fact that there are respondents (36.67%) who do not consider that for the clients who have not paid for more than 60 days, adjustments for depreciation are required. Also, all the accounts receivable whose age of bad payment is more than 90 days are uncertain accounts receivable and will be presented as such, with the presentation in the explanatory notes of the professional judgment applied and those particular clients will be prosecuted.

Table 6. The distribution of answers regarding the accounting policy of accounts receivable, debts, income and expenditure in the sample

Nature of problem investigated	Answers	Correct	Vague	Incorrect	Total
Evaluation of short term accounts receivable at their nominal value and of long term accounts receivable at their updated value		76.67%	3.33%	20%	100%
Setting up adjustments for depreciation, for the accounts receivable which have not been cashed in 60 days and those outrunning 90 days are uncertain accounts receivable and these particular clients will be prosecuted		63.33%	0%	36.67%	100%
Evaluation of accounts receivable and foreign currency debts by acknowledging the income or expenditure from the differences		95%	1.67%	3.33%	100%

Nature of problem investigated	Answers	Correct	Vague	Incorrect	Total
in the exchange rate					
Adjustment of income and expenditure entailed of fundamental errors		95%	3.33%	1.67%	100%

(Source: authors' calculus)

It is rejoicing the fact that regarding the evaluation at the end of each month of the accounts receivable and foreign currency debts and of the accounts receivable and debts expressed in lei, whose settlement is made according to a foreign currency's exchange rate, 95% agreed (60% strongly agree and 35% agree) that this is made in accordance with the exchange rate of the foreign currency market, communicated by the National Bank of Romania on the last banking day of the month in discussion. The recorded exchange rate differences are showed in accounting in the expenditure or income from the exchange rate differences or other financial income or other financial expenditure, may be the case. The situation is similar in the case of correction policy of fundamental errors observed in income or expenditure. If the errors are afferent to a period of current year, they will be corrected in the period in which the error is discovered. If the error is discovered in the following years, its correction will not affect anymore the income or expenditure accounts but the result account reported from corrections of fundamental errors and changes in the accounting policies. Regarding the drawing up of cash-flow statements, 48.33% of the SMEs in the sample state that they carry out this statement, while 51.67% do not carry out this document.

5. Conclusions, limits and future research

As we presented in the previous sections, our study is a questionnaire based research, applied on a sample formed by 100 SMEs from Bihor county, selected using size, annual turnover at the end of 2008 as well as the average number of employees criteria. Only 83 of the applied questionnaires were validated. It is important to note that 65 of the respondents have over 5 years experience in preparing financial reports, that is over 85% of the sample, the others have an experience of 1 to 5 years, in the meantime, 44% of the respondents have economic higher education and other 44% are chartered accountants. The most interesting results were obtained from the answers to the questions from the second section of the questionnaire. Our attention was focused on the 24 questions in the second part of the questionnaire, those regarding the enterprise specific accounting policies, as they are provided in Order 3055/2009. The first 3 questions tackle the problem of presenting the accounting information in the financial statements and only 93.33% of the respondents agree that the elements presented in the annual financial statements of the entity are evaluated in accordance with the general accounting principles stipulated in Order 3055/2009, according to the accrual accounting. Half of the people interviewed had in view all four qualities of the accounting information (intelligibility, relevance, credibility, comparability) in drawing up the annual financial statements, and most of them (56.67%) are not aware of the possibility to use a significance threshold (10%-15%) of the total value of that particular category of assets, liabilities, expenditure, income and results for an as faithful as possible presentation of the information in the balance sheet and in the profit and loss account.

Out of 83 people interviewed, only 53.33% are aware of the fact that when entering into management the purchased tangible assets are evaluated at the purchase cost and 3.33% are not aware or have a vague opinion about the fact that the depreciation policy is based on the detailed depreciations periods used for each tangible asset and the depreciation methods correspond to the manner in which these tangible assets are used and they start producing effects the moment they

are used. As a depreciation accounting method used to recover the input value of the tangible assets, 95% of the entities prefer the linear method, 1.67% use only the accelerated method and the rest apply the accelerated method for machinery and means of transport and the linear method for the rest of the tangible assets. As regards accounting policy of inventories three quarters of the analysed enterprises prefer the perpetual inventory method as an accounting method used for the stock valuation, 8.33% intermittent inventory and 13.33% use the mixed method. A very small percentage (16.67%) of the total of practitioner accountants answering this interview are aware of the fact that inventories are evaluated and presented in the balance sheet at the smallest value between the cost and the net achievable value, the rest choosing either the first value or the second one. 63.33% of the entities organize internal control procedures of inventories, on each category. More than three quarters of the respondents evaluate the indistinguishable inventories by using FIFO method, the rest use the other methods.

Finally, only 76.67% of those interviewed agree that short term accounts receivable are evaluated at their nominal value, on the date of their occurrence, periodical updates not being necessary anymore. The long term accounts receivable are emphasized at the updated value, in accordance with an average rate of the inter-banking interest, an exchange rate or in accordance with the graph of collections staging. A significant percentage (20%) does not agree with these regulations. Cash-flow statements, only for 48.33% of SMEs in the sample is relevant to be completed, while 51.67% do not carry out this document. The main result of our investigative research on the SMEs from Bihor county sample is the identification of the need of specialists' training in the development of specific accounting policies, according to the entity's features, as well as the necessity of specialized assistance in the elaboration of a policy and procedure manual(guide) for the accounting department, which should comprise the specific theoretical framework for the development of strong accounting policies, premise of a believable and comparable financial reports, reflecting the economic substance of events and transactions. The limits of our study are related especially to the elaboration of the questionnaire, the formulation of the questions as well as the choice of the sample. Future research will be centered on the investigation of specific accounting policies used in the region of North West Romanian SMEs, their presentation in the financial reports and the motivations behind the choose of an accounting policy or method in the detriment of another one.

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