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**ASSESSING THE USEFULNESS OF SMALL BUSINESSES'
FINANCIAL REPORTING INFORMATION:
THE NATIONAL ASPECT OF THE REPUBLIC OF MOLDOVA**

Abstract

Much research has been aimed at resolving such issues as the quality of financial reporting and harmonization of report preparation methodology. In this regard, the objective is to identify a number of problems in the accounting system of the Republic of Moldova, which reduce the usefulness of small business financial reports, and develop practical recommendations to improve the quality of the financial reporting information content. The research has been conducted using both the general scientific and special methods, i.e., system approach, comparison and content analysis, synthesis, modeling. The main methods, on the basis of which the research algorithm has been constructed, entail content analysis and comparison. A conceptual analysis of the accounting and reporting system's regulatory provisions and legal framework has been carried out; individual accounting methodology terms have been conceptually interpreted; a conceptual assessment 'Changes in Equity Statement' information perimeter and its usefulness has been conducted. The research is of scientific significance in terms of improving the conceptual apparatus and determining the development prospects for the national accounting system. The proposed changes in the regulatory and legal framework of the RM accounting system, as well as the recommended reconstruction of the Changes in Equity Statement are of practical importance.

The study show a perspective on eliminating the ambiguity and paralogism in the conceptual apparatus of the national accounting system. It also presents a viewpoint on the modeling of financial reporting and the formation of optimal parameters for the quality and informativeness thereof.

Keywords: Financial Statements, reporting paradigm, usefulness, accounting methodology, information quality.

**OCENA UŻYTECZNOŚCI INFORMACJI ZAWARTYCH
W SPRAWOZDAWCZOŚCI FINANSOWEJ MAŁYCH PRZEDSIĘBIORSTW:
ASPEKT KRAJOWY REPUBLIKI MOŁDAWII**

Streszczenie

Wiele badań poświęcono rozwiązaniu takich kwestii jak jakość sprawozdawczości finansowej i harmonizacja metodologii sporządzania sprawozdań. Mając to na uwadze, celem artykułu jest zidentyfikowanie szeregu problemów w systemie ra-



chunkowości Republiki Mołdawii, które zmniejszają użyteczność sprawozdań finansowych małych przedsiębiorstw, a także opracowanie praktycznych zaleceń, w celu poprawy jakości zawartości informacyjnej sprawozdawczości finansowej. Badania zostały przeprowadzone z wykorzystaniem zarówno ogólnych metod naukowych, jak i specjalistycznych, tj. podejścia systemowego, porównawczego oraz analizy treści, syntezy, modelowania. Główne metody, na podstawie których skonstruowano algorytm badawczy, obejmują analizę treści i porównanie. Przeprowadzono analizę konceptualną przepisów regulacyjnych i ram prawnych systemu rachunkowości i sprawozdawczości; dokonano interpretacji pojęciowej poszczególnych terminów metodologii rachunkowości; przeprowadzono ocenę konceptualną "Sprawozdanie ze zmian w kapitale własnym" i jego użyteczność. Badania mają znaczenie naukowe polegające na udoskonaleniu aparatu pojęciowego i określeniu perspektyw rozwoju systemu rachunkowości narodowej. Proponowane zmiany w zakresie ram regulacyjno-prawnych systemu rachunkowości, a także zalecana rekonstrukcja rachunku zmian w kapitale własnym mają znaczenie praktyczne. Opracowanie ukazuje perspektywę eliminacji niejednoznaczności i paralogizmu w aparacie pojęciowym systemu rachunkowości narodowej. Prezentuje również punkt widzenia na modelowanie sprawozdawczości finansowej i kształtowanie optymalnych parametrów jej jakości i informacyjności.

Słowa kluczowe: Sprawozdania finansowe, paradygmat sprawozdawczości, przydatność, metodologia rachunkowości, jakość informacji.

Introduction

The transition to a more advanced technological mode is predetermined by the development of economic relations and productive forces. Today it is realized under the conditions of a new socio-economic paradigm of development and is characterized by the participation of only three subjects – corporations, small business enterprises and the state. Compared to corporations, small business (hereinafter, SB) enterprises have limited own potential and, as a consequence, are in worse economic conditions. Nevertheless, they contribute to a significant increase in gross domestic product, and sometimes create "success stories" of economic development of an individual state¹. The importance of the small business sector for Moldova's economy is outlined in the Small and Medium Enterprise (SMEs) Support Strategy and is formulated by the following thesis: it is a factor of sustainable economic development and national competitiveness. According to the National Bureau of Statistics of the Republic of Moldova, as of December 31, 2021, SB enterprises constitute 98.6% of the total number of enterprises operating in the country. Officially presented data on the struc-

¹ Golochalova I., *Analysis of the Statement of Stockholders' Equity in the Context of an Institutional Platform for Small Business Sector of the Republic of Moldova*, "Journal of Finance and Accounting", Vol. 7, No. 5, 2019, retrieved from: doi: <https://10.11648/jjfa.20190705.12> [accessed: 20.02.2022].

ture, areas of activity and economic condition of the SB sector indicate a new attitude to it on the part of the state.

Its essence is in shifting the emphasis from positioning as a unit in need of state support to positioning the SB as an economic unit².

However, in a tough and highly competitive business environment, businesses in the SB sector face challenges, the key ones being:

- insufficient own financial resources and limited external funding³;
- lack of standardized and reliable information in financial reporting, based on which it is possible to make decisions about investment projects carried out by the SB sector, including innovative ones⁴;
- limitations of time resources critical to the formation of professional competencies of financial statement preparers⁵.

According to some researches, similar situations are also recorded in Ukraine, where the proportion of small enterprises is 95%, which lack the financial capacity, qualified staff and the motivation required to prepare financial statements in accordance with IFRS⁶.

To overcome the identified challenges facing the SB sector and, consequently, the national economy, state support is needed. Modernization and implementation of an effective regulatory framework for financial reporting is one of the forms of state support.

According to modern accounting methodology, the purpose of financial statement is to provide useful information to its main group of users – potential and existing investors. They are interested in information about the changes and reasons for changes in the economic resources of a business, on the basis of

² Dolghii Cr., Golochalova I., Tsurcanu V., *The Financial Reporting of Micro and Small Enterprises in Moldova*, [In:] *Financial Reporting of Micro and Small Enterprises (MSE) in Transition economies of Central and Eastern Europe*, Polskie Wydawnictwo Ekonomiczne, Warszawa 2020.

³ Guohui H., Meimei Z., Le Z., *Quality of Accounting Information, Executives' Background and Loans of Small and Medium-Sized Enterprises*, „International Journal of Economics, Finance and Management Science” 2018, retrieved from: 6 (5), retrieved from: <https://doi.org/10.11648/ijefm.20180605.13> [accessed: 08.07.2022].

⁴ Setyaningsih S., Kelle P., *Barrier factors of supply chain management implementation in small and medium-sized enterprises: Evidence from Hungary and Indonesia*, „Economics and Sociology”, 14(4), 2021. retrieved from: <https://doi.org/10.14254/2071-789X.2021/14-4/4> [accessed: 10.07.2022].

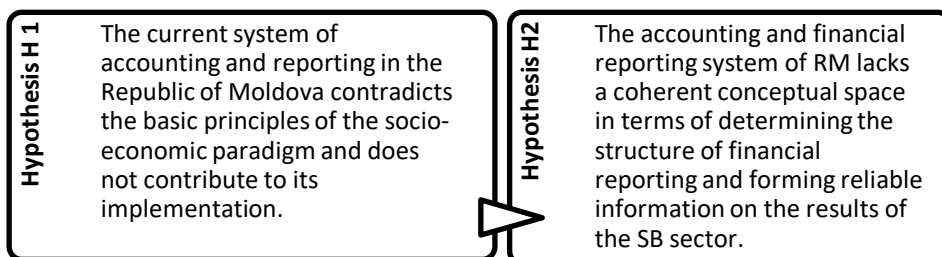
⁵ Kot S., Goldbach I.R., Ślusarczyk B., *Supply Chain Management in SMEs-Polish and Romanian Approach*, „Journal Economics and Sociology” 2018, 11 (4), retrieved from: doi: 10.14254/2071-789X.2018/11-4/9. [accessed: 22.02.2022].

⁶ Grigoroii L., N. Muntean, *The Experience of the Republic of Moldova in Reforming the Accounting System and its Harmonization with IFRS and European Directives*, „Bulletin of Taras Shevchenko National University of Kyiv”, Economics 6 (201)/2018, retrieved from: <https://doi.org/10.17721/1728-2667.2018/201-6/9> [accessed: 10.06.2022].

which investment decisions are made. Since financial statements are the main, though not the only, source of such information, the need to introduce new standards that meet modern requirements for financial reporting is steadily growing⁷. Moreover, due to the implementation of the concept of sustainable development, which interprets any business as a system of balanced economic, social and environmental aspects of activity, the traditional format of financial reporting, which does not provide disclosure of ESG (Environmental, Social, Corporate Governance)-indicators limit the information potential of investors.

Therefore, the main direction of modernization of the legislative and regulatory framework in the field of financial reporting is the development of the concept of presenting information about the results of activities of organizations operating in the new paradigm of socio-economic development. This includes those belonging to the SB sector. In this context, the study of the current state and the reform of the national accounting system is appropriate, relevant, important, interesting and instructive, as well-founded conclusions of a permanent nature will be drawn. Or, knowing the past, you build the future⁸.

In this regard, the following questions arise: is the conceptual space for presenting information that meets the principles of the socio-economic reporting paradigm formed and, consequently, is the system of accounting and financial reporting of the Republic of Moldova (hereinafter, RM) effective for the implementation of the socio-economic reporting paradigm? The answer will be a methodological study in which the author puts forward the hypotheses (H):



Substantiation of hypotheses *is aimed at achieving the purpose of this study*: is to identify a number of problems in the accounting system in the RM, which re-

⁷ Imaningati S., Ghozali I., Yuyetta E-N., *The Role of Investor Pressure on the Effect of Integrated Reporting Disclosure on the Intellectual Capital Disclosure*, "Academy of Accounting and Financial Studies Journal" 2022, Volume 26, Special Issue 1, retrieved from: <https://www.abacademies.org/articles/The-role-of-investor-pressure-the-effect-of-integrated-reporting-disclosure-the-intellectual-capital-disclosure-1528-2635-26-S1-005.pdf> [accessed: 08.07.2022].

⁸ Grigoroi L., N. Muntean, op. cit.

duce the usefulness of financial reporting prepared by small business sector organizations, and to develop practical recommendations for improving the quality of information content of financial statements.

This research is conducted on the basis of general scientific and special methods: system approach, comparison and content analysis, synthesis, analysis, modeling, study of special literature. The systematic approach of this research is the optimal combination of specific scientific methods aimed at building research methodology: formulation of the problem, proposing a hypothesis and its justification. In the process of research the author was guided by methods:

- axiomatic – to formulate the thesis;
- induction, the application of which made it possible to put forward the hypotheses H1, H2 to be argued;
- analysis, which highlighted decomposition elements and distinctive features of RM accounting and reporting methodology (table 1);
- content analysis and comparison of provisions of the regulatory framework of RM in the field of accounting and reporting, as well as IFRS and EU Directive/2013/34 (table 1), which allowed forming the evidence base of its inconsistency and substantiating the need for its modernization (table 2);
- synthesis, which allowed formulating conclusions and arguing the hypotheses put forward;
- abstraction in assessing the quality of the utility of the Changes in Equity Statement (table 4);
- finally, modeling, which achieved visualization of the format of the evidence base of the hypotheses put forward H1 and H2 (fig.1), and – proposed the general format of the Changes in Equity Statement (table 4).

In order to achieve the goal of the research - justification of the hypothesis, the author studied the works of famous scientists, published in scientific journals and as monographs. When forming the evidence base of the hypotheses, official materials were also used: legislative and normative acts, data from the Bureau of Statistics.

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1. Literature Review

The problem of the quality of financial reporting and the use of its information field by interested parties has been discussed in scientific and professional circles since the end of the 20th century. The reason for the emergence of this problem is the unresolved theoretical issue of differences and harmonization of the two main accounting models: Anglo-Saxon and continental.

Since the beginning of the XXI century the discussion has become particularly acute in the context of the adoption of International Financial Reporting Standards (IFRS) by some jurisdictions as the regulatory framework for the preparation and presentation of financial statements. In this regard, let us focus on some scientific works, some of which are methodological in nature, while others are empirical.

So, in the work of Felyage et al it is noted that the anglo-saxon model is dominated by the liberal form of registration of economic events and the preparation of reports is guided by the concept of reliable representation. The liberal model underlying the IFRS system allows for different professional judgments and interpretations regarding the provisions of the regulatory framework for the preparation of financial statements. However, despite the widespread adoption of IFRS, national accounting traditions continue to influence financial reporting behavior, which leads to the problem of financial reporting quality⁹.

According to Grigoroï and Munteanu, for the Republic of Moldova accounting reform and legislative harmonization is a necessity. This follows, first of all, from the adopted fundamental option of reforming and creating a market economy and, at the same time, fulfilling the obligation to the EU partners¹⁰.

In this context, the work of Lazarus et al, in which the reform of the accounting and financial reporting system in the RM is assessed, deserves attention. The fact of the reform is the enactment in 2019 of the Law No. 287 of the Republic of Moldova „On Accounting and Financial Reporting” and the National Accounting Standards (NAS), which are the result of the transposition of European and international norms¹¹. As the author emphasizes, the new national accounting and reporting system was supposed to mitigate the differences between the two accounting models: anglo-saxon and continental. In the process of research, Lazarus et al. (2021) concludes that decisions about the orientation of the national accounting and financial reporting system of accounting were often based on a short-term vision of it, to the detriment of quality. In order to align with international practice, many amendments were subsequently introduced, which led to the modification of NAS and, at the same time, indicates the haste in their adoption. As time has shown, the application of the eclectic

⁹ Feleaga L., Feleaga N., Dumitrashcu L-M., *IFRS financial accounting*, Publishing ASE, Bucuresti 2017. p.167.

¹⁰ Grigoroï L., N. Muntean, op. cit.

¹¹ Law No. 287 of December 15, 2017 of the Republic of Moldova „On Accounting and Financial Reporting”, with modification 27.02.2020, retrieved from: https://www legis.md/ cautare/getResults?doc_id=120938&lang=ru [accessed: 22.02.2022]; National Accounting Standards “Presentation of Financial Statements”, approved by Order of the Ministry of Finance No. 118 from August 06, 2013, with modification 09.12.2020, retrieved from: https://www legis.md/cautare/getResults?doc_id=125371&lang=ru [accessed: 14.02.2022].

approach did not justify itself in the development of the regulatory framework of accounting in RM.

Erhan and Gaugas focuses on the problem of the effectiveness of the regulatory framework of the enterprises of the SB sector of the Republic of Moldova. The author notes that, in general, the legal and institutional framework has been created, but it is characterized by inconsistency and their application is ineffective. This leads to the vulnerability of the SB sector: the regulatory framework in the field of accounting and reporting is constantly modified, the information in reporting is not useful enough for investors to make decisions, there are no sources of financing, the technological and managerial capacity is insufficient¹². Van Greuning and Koen points out in his work that not only the government, but also enterprises are interested in improving the quality of financial reporting. This is due to the fact that the timeliness and reliability of financial information play a significant role in ensuring the stability of current economic markets. The government promotes the development and application of regulatory and legal frameworks in the field of accounting and reporting, while enterprises improve the quality of their own information systems in order to improve the reputation of the company and attract investment¹³.

The importance of the quality of financial information on the adoption of economically viable decisions is devoted to the work of Rotaru et al., which proposes an original approach to the formation of the evidence base of the hypothesis. As part of this approach, a large body of scientific articles was analyzed, with the main search keyword "financial information". It was found that the largest group covers topics related to the quality of accounting and financial information, IFRS, comparability, accounting expertise. As a result of the study, the author concluded that the adoption of appropriate business decisions depends on the quality and quantity of information provided by the accounting information system. Moreover, it treats financial statements as the epicenter of information and the source of decision-making¹⁴. Herbert and Harto examines the impact of the quality of financial reporting in the SB sector on the effectiveness of decision-making¹⁵. The author concludes that financial reporting

¹² Erhan L., Gaugas T., *Policies for Small and Medium Sized Enterprises. Development in the Republic of Moldova: Results and Challenges*, IBIMA Publishing, "Journal of Innovation and Business Best Practice" 2022, Vol. 2022, retrieved from: <https://doi.org/10.5171/2022.706025> [accessed: 06.07.2022].

¹³ Van Greuning H., Koen M., *International Accounting Standards. A Practical Guide*, Sec. ed., Publishing "Vesi Mir", Moskow 2004, p. 15.

¹⁴ Rotaru D., Mihaila S., Codrean V., *The role of financial-accounting information in the decision making process*, "Journal of Social Sciences", No.5 (2), 2022, pp.155-163, [https://doi.org/10.52326/jss.utm.2022.5\(2\).14](https://doi.org/10.52326/jss.utm.2022.5(2).14), retrieved from: <https://jss.utm.md/2022/06/09/10-52326-jss-utm-2022-5-2-14/> [accessed: 10.07.2022].

¹⁵ Herbert J., Harto P., *The Influence of Financial Reporting Quality, Family Ownership, and Audit Quality on Investment Efficiency*, "Academy of Accounting and Financial Studies Journal" 2022, Vol. 26, Issue 1S, retrieved from: <https://www.abacademies.org/>

that meets the quality criterion mitigates the existing problem of asymmetry of information due to the different interests of owners and managers. Furthermore, it is argued that the quality of financial reporting is not the main "driver" for investors' decision-making. This is justified by the fact that since financial statements are prepared on the basis of accounting standards that provide for the application of professional judgment, manipulation of financial reporting is inevitable to achieve the objectives of the enterprise. Achieving the quality of financial reporting for investment decisions is the prerogative of the audit¹⁶.

In this context, attention should be paid to the work of Alekseev et al., whose work presents and discusses the results of a study on establishing the direction of likely manipulation of financial reporting data and identifying user groups of users whose professional judgments and decisions may be affected by distortions in financial reporting¹⁷. The study is to analyze the paradoxes of accounting, the emergence due to the eclecticism of the modern concept of preparing financial statements. This fact is noted in the works of famous scientists Alexander and Sokolov.

In the work of Alves the problem of the quality of financial information is considered through the prism of the influence of the principle of conservatism (prudence)¹⁸. According to the results of the study, the author concludes that the presence of institutional and management investors contributes to the increasing influence of the conservative factor on the accounting and preparation of financial statements. This is due to the fact that, owning certain shares in the capital of the enterprise, these investors are interested in protecting their interests and reducing the asymmetry of financial information¹⁹.

Let us also note the work of Golochalova, in which an analysis of the on Changes in Equity Statement as one of the forms of financial reporting of the accounting system of RM was carried out. The author highlights the peculiarities of the construction of this report and assesses the feasibility of using its information field, including by small business enterprises. The article emphasizes that the disadvantage of the report is the lack of information on the causes of changes in the elements of capital. This leads to a violation of such qualitative characteris-

articles/the-influence-of-financial-reporting-quality-family-ownership-and-audit-quality-on-investment-efficiency-13125.html [accessed: 08.07.2022].

¹⁶ Ibidem.

¹⁷ Alekseev M., Glinskiya V., Serga L., Pyatov M., *On Evaluating Likely Misstatements in Financial Statements of Economic Entities*, "Statistics Issues" 2019, Vol. 26. No. 7., retrieved from: <https://voprstat.elpub.ru/jour/article/view/934>, <https://doi.org/10.34023/2313-6383-2019-26-7-20-32> [accessed: 10.07.2022].

¹⁸ Alves S., *Ownership Structure and Accounting Conservatism: Evidence from Portuguese and Spanish Listed Companies*, "Academy of Accounting and Financial Studies Journal" 2020, Vol 24, Issue 6, retrieved from: <https://www.abacademies.org/journals/month-december-year-2020-vol-24-issue-6-journal-aafs-j-past-issue.html>. [accessed: 11.06.2022].

¹⁹ Ibidem.

tics as clarity and reliability, which in turn reduces the usefulness of financial reporting for interested parties²⁰.

Al-Smadi also dwells on the problem of disclosure in the capital report prepared by SB enterprises. The need to develop the structure of the capital report is due to the fact that the activities of the SB sector in terms of disclosure are less transparent than those of large enterprises, which often causes the problem of asymmetry of information. The key to solving the problem the author considers the establishment of factors influencing the optimization of capital structure in SMEs. Among the factors on the basis of which the choice of capital structure components is made, he refers to the theory of capital structure and the composition of assets used by enterprises of the SB sector²¹.

These and other studies published in the specialized scientific literature have undoubtedly made a significant contribution to the development of the concept of qualitative financial reporting, but the problem of assessing the usefulness of the financial reporting information of SB organizations in the Republic of Moldova, remains open. This confirms the relevance of the research.

2. Conceptual Analysis and Research Hypotheses

The new vision of the SB sector in the Republic of Moldova required an appropriate institutional platform, the basic component of which are legislative framework and acts regulating the activity and development of the small business sector. The assessment of the usefulness of financial statements prepared in accordance with the national accounting system is carried out in accordance with the developed research algorithm, which is based on the methods of content analysis and comparison.

In the study, the method of content analysis has been applied to the study of the content of Law No. 287 of the Republic of Moldova „On Accounting and Financial Reporting”²² and the NAS, the Conceptual Framework for Financial Reporting (hereinafter, Concept of IFRS) and Directive 2013/34/EC, which, although invariant in structure, are different in terms of conceptual apparatus²³.

²⁰ Golochalova I., op. cit.

²¹ Al-Smadi M- O., *A Study of Capital Structure Decisions by SMES: Empirical Evidence from Jordan*, “Academy of Accounting and Financial Studies Journal” 2019, Vol. 23, Issue 1. retrieved from: <https://www.abacademies.org/articles/A-Study-of-Capital-Structure-Decisions-by-SMES-Empirical-Evidence-from-Jordan-1528-2635-23-1-340.pdf> [accessed: 20.06.2022].

²² Law No. 287 of December 15, 2017 of the Republic of Moldova „On Accounting and Financial Reporting”, with modification 27.02.2020...; National Accounting Standards “Presentation of Financial Statements” ...

²³ Conceptual Framework for Financial Reporting, retrieved from: <http://www.ctcp.gov.co/files/documents> [accessed: 14.02.2022].

2.1. Conceptual analysis of the efficiency provisions of the regulatory and legal framework of accounting and reporting system of Republic of Moldova

It is well known that the tendency of European integration of the RM requires the fulfillment of a number of conditions by the Government of the Republic of Moldova. One of them is the reform of the national system of accounting and financial reporting, which was implemented in the period of 2015–2021. The result of this process is the adoption of the new Law No. 287 and modernization of the NAS. The peculiarity of the reformed accounting system is the accumulation of the provisions of both the European Directive 2013/34/EC and IFRS regulatory frameworks that embody the methodology of different accounting models: anglo-saxon and continental.

There is no doubt that the drafters of Law No. 287 and NAS took into consideration the fact that 98.6% of the total number of operating enterprises in the RM is in the SB sector. In this regard, the provisions of these normative legal acts are mainly oriented to the needs of interested persons for information on the financial situation of this subject of the national economy. For large enterprises, the Law No. 287 provides for the use of IFRS when keeping accounts and preparing financial statements. The enterprises that qualify as medium-sized ones are free to choose, according to which standards they will keep their accounts and prepare their reports - according to the NAS or according to the IFRS²⁴. The issue of organization of accounting and preparation of financial statements by the enterprises of the SB sector in the Republic of Moldova is covered in depth enough in the work²⁵. Now let's focus on the effectiveness of the national accounting and financial reporting system, and to do so let's make a conceptual assessment of it. So, the first stage of the conceptual assessment is a content analysis of the legislative and regulatory framework in the field of accounting of RM, the Concept of IFRS and Directive 2013/34/EC (table 1)²⁶.

²⁴ National Accounting Standards "Presentation of Financial Statements"...

²⁵ Dolghii Cr., Golochalova I., Tsurcanu V., op.cit.

²⁶ Law No. 287 of December 15, 2017 of the Republic of Moldova „On Accounting and Financial Reporting”, with modification 27.02.2020...

Table 1. Content analysis of the provisions of legislative and regulatory framework of international and national level.

n/n	Criteria for comparison	Concept of IFRS	Directive 2013/34/EU and EVS 2	Legislative and regulatory framework of the RM
1	The purpose of financial reporting is to provide information:	that is relevant and truthful to existing and potential investors, creditors of the organization, when they make decisions about providing resources.	that is reliable and objective to achieve various goals while balancing the interests of its users.	necessary and accurate for a wide range of users to make economic decisions.
2	Users	are existing and potential investors, lenders and other creditors.	are a wide range, not limited to investors in the stock markets.	are owners, creditors, customers, employees, public bodies and the public.
3	A key element for assessing the financial situation:	economic resources is a right that has the potential to create economic benefits.	is an economic transaction identified on the basis of its commercial essence.	is an economic fact treated as: 1) an element of accounting along with assets, liabilities, capital, income, costs and expenses, 2) phenomena that change other elements of accounting.
4	The definition of an asset:	of an asset is an existing and controllable economic resource.	There is no clear definition. It is assumed that these are different rights to property (ownership and use, based on its purpose).	is economic resources identified and controlled by an entity as the result of past economic facts from which economic benefits are expected to flow.

n/n	Criteria for comparison	Concept of IFRS	Directive 2013/34/EU and EVS 2	Legislative and regulatory framework of the RM
5	The notion of comparability as a characteristic of reporting quality	allows users to identify and understand the similarities and differences between items	provides a common mechanism for recognizing, measuring, and presenting information.	implies comparing information about the elements of financial statements for two consecutive reporting periods.
6	The efficacy of the concept of financial statement disclosure:	is to provide useful information on: 1) the entity's economic resources; 2) its claim rights; and 3) the effect of events on changes in 1) and 2).	is the preparation of information about the assets and liabilities of an enterprise, its financial condition, profits or losses on the basis of the principle of reasonableness.	in the clear compilation and presentation of information about the financial position, financial result and other information relating to the activities of the entity.
7	The definition of fair value:	is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.	the price that would be received on the sale of property or paid on the transfer of a liability in an ordinary transaction between identified market participants with full knowledge of the transaction for its intended purpose.	the price of an asset in a sale transaction under normal conditions. The transaction is conducted between interested, independent and well-informed parties.

Source: own elaborations.

We emphasize that the Concept of IFRS flexibly responded to the requirements of the socio-economic reporting paradigm, which are reflected in the 2018 version of the concept.

It is a well-known fact that the national accounting and reporting system of RM gravitates toward the continental model of accounting. Its characteristic features are the prevalence of the legal approach based on the application of the concept of "clarity and accuracy" of financial reporting, the dominant role of the cost principle, the prescriptive chart of accounts and forms of financial statements.

On a consistent basis, the EU Council has enacted special directives regulating the accounting and reporting procedures of businesses operating within European jurisdictions. However, these directives took into account the need:

1. to implement a strategy for sustainable and inclusive growth;
2. for consistency in national standards of presentation and content of financial statements for the benefit of shareholders of businesses and third parties;
3. to improve the financial reporting rules for various types of enterprises, including those in the SB sector.

The content analysis allows us to draw the following conclusions:

- in accordance with the rules of European regulation, a legal approach is applied in the preparation of financial statements, the basis of which is the principle of the priority of property right over the control of economic resources. At the same time, in such fundamental aspects as the transition to the concept of reliability and objectivity of presentation of information and the concept of fair value for the adequate valuation of assets, Directive 2013/34/EC converges with the Concept of IFRS (table 1);
- the accounting system of RM has retained all the attributes of the continental accounting model, despite the fact that both Directive 2013/34/EC and IFRS are legally enshrined as its regulatory framework. Moreover, the national system has "acquired" such features as paralogous and uncertainty, accumulating the features of two different accounting models (table 2).

2.2. Conceptual interpretation of the units of analysis of the RM accounting and financial reporting system and assessment of its quality

The content analysis allowed the author of the study to identify differences in the approaches to the preparation of financial statements adopted in the national accounting system and the IFRS system and to identify methodological errors in the provisions of the legislative and regulatory acts of the RM governing this procedure. Undoubtedly, the identified shortcomings are the result of combining in one accounting system the properties of two essentially different international accounting models. So, at the second stage of conceptual evaluation the elements of comparison of the IFRS system and the national system of accounting and reporting are established and their general characteristics are given (table 2).

Table 2. Differences from the IFRS Concept of RM accounting system and its methodological errors.

n/n	Element of content analysis	General characteristics of the content analysis element:	
		of the IFRS	according to the legislative and regulatory acts of RM
<i>Differences between the Concept of IFRS and the provisions of the national accounting and reporting system</i>			
1	The concept of financial reporting	"Usefulness of information": 1) focused on decision-making to increase economic potential; 2) investors and creditors - the main user group; 3) based on the concept of fair value; 4) the basic element - economic resources.	"Accuracy of information": 1) is necessary for making economic decisions by a wide range of users; 2) the range of users includes public authorities and the public; 3) is based on the concept of cost; 4) the basic element is an economic fact.
2	Fair value	is focused on the assessment of future events	is focused on the evaluation of the event
3	Method of determining the revalued value	Revalued amount = Fair value at revaluation date - (Subsequent accumulated depreciation and impairment loss)	On the date of revaluation: Revalued amount = Fair value - (Accumulated depreciation and impairment loss)
<i>Methodological errors in the provisions of the national accounting and reporting system</i>			
4	The essence of information comparability	Clearly identified and different from the sequence.	Identified with the consistency
5	The essence of the key element of assessing the financial situation	Unequivocal and concrete	The dual and paralogical nature
6	Criteria recognition for asset:	<ul style="list-style-type: none"> • A right with the potential to create economic benefits; • Exists as a result of past events; • Controllable. 	<ul style="list-style-type: none"> • It is an economic resource resulting from economic facts; • Identifiable; • Controllable; • It brings economic benefits, when used.

Source: own elaborations.

The analysis of the content of Table 2 allows us to draw the following conclusions regarding the effectiveness of the accounting and reporting system of RM:

- Its methodological errors lead to a decrease in the quality of financial reporting, on the basis of which the decisions of interested persons are made;
- the identified differences with the principles of the IFRS system indicate the existing conceptual contradiction between them, which will make difficult the implementation of the socio-economic paradigm of reporting without making changes in the legislative and regulatory framework of the RM.

In this regard, the author is of the opinion that the accounting and financial reporting system of the RM lacks a coherent conceptual space in terms of preparing financial statements and forming qualitative information about the results of small business organizations²⁷. The conducted conceptual evaluation of the provisions of the effectiveness of the regulatory and legislative framework for accounting and reporting system of RM is part of the justification of hypothesis H1. Since the hypotheses proposed by the author are interdependent, the justification of hypothesis H1 predetermines the justification of hypothesis H2. Nevertheless, below we present the author's argumentation of hypothesis H2 and on its basis we make practical suggestions aimed at improving the quality of financial reporting.

Let us disclose each of the methodological contradictions revealed by the conceptual evaluation of the accounting and reporting system of the Republic of Moldova (see table 2).

Let us first discuss the interpretation of comparability as a qualitative characteristic of financial reporting. In exploring the problem of comparability of information, Bezruchuk and Myskiv reveals its essence according to:

- philosophical definition – it is a search for similarities and differences between objects of cognition, their features and relations between them;
- methodological context – it is a method of systematic comparison of objects, phenomena, etc. on the basis of establishing equivalence between them²⁸.

Well-known scientists Hendriksen and Van Breda treat the concept of comparability through the prism of accounting theory. In their opinion, comparability is a property of information that allows users of financial statements to determine the similarities and differences between two series of economic phenom-

²⁷ Golochalova I., op. cit.

²⁸ Bezruchuk S., Myskiv L., *Problematic issues of comparability as a qualitative characteristic of useful information in financial statements*, "Problems of theory and methodology of accounting, control and analysis" 2021, 3(50), retrieved from: [https://doi.org/10.26642/pbo-2021-3\(50\)-3-7](https://doi.org/10.26642/pbo-2021-3(50)-3-7) [accessed: 14.02.2022].

ena²⁹. Exploring the problem of multivariant accounting methodology, Adintsova and Jhuravleva formulates the conclusion that changes in accounting methodology cannot affect the comparability of financial statements. From her point of view, comparability is achieved by using the same accounting methods for the same business operations at two different enterprises³⁰. Kurt 2020 holds a similar point of view, asking the question: is the freedom to choose an accounting policy useful from the point of view of the owners and managers of the company? Maybe the use of non-standard solutions in the development of accounting policies only harms and leads to a lower degree of comparability? In his opinion, the application of different valuation methods, accounting models, and disclosure approaches can lead to deviations on specific items of financial statements. As a result a low level of comparability, and consequently a decrease in the usefulness of the financial statements³¹.

Obviously, the above authors are united in the understanding that comparability is achieved by identifying objects of observation, based on the establishment of their similarities and differences. In addition, the use of a unified approach in the methodology of assessment of objects of observation makes it possible to achieve consistency in the presentation of information about the change in their value.

This interpretation of comparability corresponds to the definition of comparability in the Concept of IFRS. Thus, according to the concept of qualitative characteristics, consistency implies using the same methods for the same items either in different periods within the same entity or in the same period but by different entities. The concept of consistency is not identical to the concept of comparability, although it is related to it. Since comparability is considered a qualitative attribute of information usefulness for investors and other stakeholders, its achievement is the goal of reporting. In this process, one of the ways to achieve this goal is to present information in a consistent manner.

The national accounting and reporting system focuses on the temporal nature of information presentation to qualify it as comparable (see table 1). According to this interpretation, comparability is identified with consistency, which is methodologically incorrect.

Methodologically contradictory is also the duality of interpretation of the economic fact, which according to the Law No. 287 is designated as the key element of the assessment of the financial situation (see table 1). A visual format

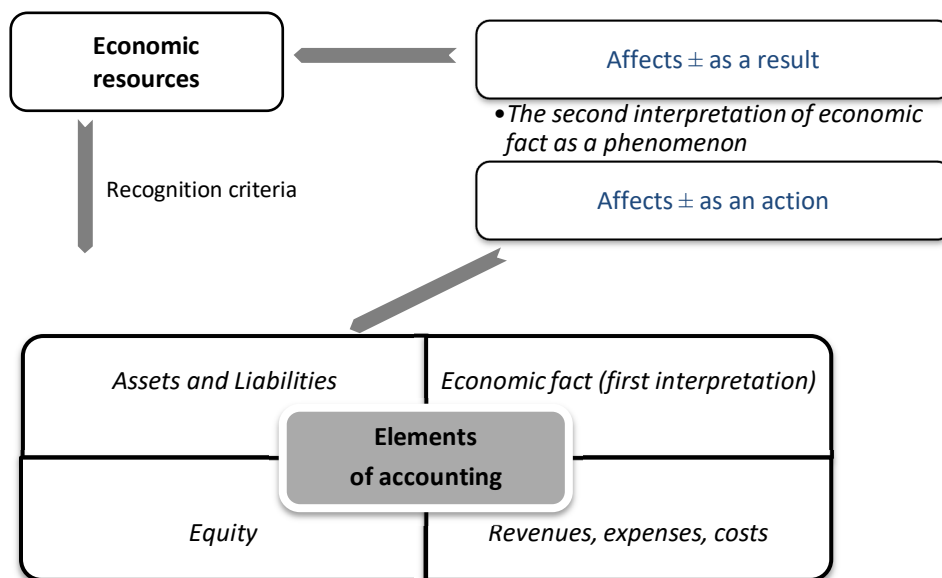
²⁹ Hendriksen El. S., van Breda M. F., *Accounting Theory*, Moscow 2000, p. 97.

³⁰ Adintsova N., Zhuravleva E., *Unification of Accounting Methodology: The Problem of Correlation Between the Concept of Multivariance and Comparability of Financial Statements*, "Bulletin of the North Caucasus Federal University", № 2 (77), 2020, retrieved from: <https://dspace.ncfu.ru/bitstream/20.500.12258/13945/1/25-29.pdf> [accessed: 20.02.2022].

³¹ Kurt A., *Why and why is comparability of reporting so important?*, "Bulletin GAAP", 2020, retrieved from: <https://gaap.ru/news/160893/> [accessed: 14.07.2022].

of the evidence base for this contradiction is the diagram presented in Figure 1³².

Fig. 1. Scheme of interrelation and interdependence of accounting elements in the reporting system of RM.



Source: own elaboration.

In accordance with the definition of an economic fact as an element of accounting (the first interpretation), it is included in the same classification grouping with assets, liabilities, equity, etc. The content of the scheme (fig.1) is based on this approval.

It is well known that the criterion for determining the element of accounting is the right of an economic entity, which it implements in relation to the object of these rights by virtue of its powers. The exception is an economic fact. An economic fact (transaction, event, phenomenon) is characterized as an action (the second interpretation), in the performance of which the objects of the subject's rights arise. Recognized rights of the subject change the state of elements of accounting: directly the state of assets, liabilities, income, expenses, and indirectly the state of equity (see fig.1). The following inference will serve as the result of these reflections: the accounting element is independently capable of changing its state, and thus affects the financial position of the reporting entity.

The paralogous of the situation is confirmed by the definition of recognition given in Law No. 287. Recognition means the reflection in the accounting and

³² Law No. 287 of December 15, 2017 of the Republic of Moldova „On Accounting and Financial Reporting”, with modification 27.02.2020...

presentation in the financial statements of an element of accounting that meets the definition and meets the criteria for its recognition. However, what are the recognition criteria for an economic fact? Of course, they do not exist in the Law, because they do not actually exist. In our opinion, there is a methodological error, made as a result of ignoring the rule of classification on the basis of a common criterion inherent in all the objects under study. This error led to the fact that in the accounting system of RM the economic fact has a dual and paralogical nature³³.

Now let us dwell on the evidence base for the third identified methodological error (see table 2). In the RM accounting system, assets are understood as economic resources, which must meet a number of criteria in order to be recognized as such. In this regard, the following questions arise: 1) what should be understood as economic resources? Neither the legislative, nor the regulatory framework of the RM in the field of accounting provides a definition of this concept. But as you know, the success of the development of any theory, concept or paradigm depends on the clarity of the conceptual apparatus; 2) is the list of criteria for recognizing economic resources as an asset indicated in NAS appropriate? The answers to these questions lie in the plane of economic theories.

So, the concept of "economic resources" owes its origin to the resource concept of strategic management. Gradually it was adopted first by management theories, and then, as by the end of the XX century came the understanding that accounting is the "language of business", and the theory of accounting. Initially, the resource concept treated resources as sources of competitive advantage and capabilities of the firm. Exploring the problem of the genesis of ideas and notions in the resource concept Katkalo emphasizes that the evolution of this concept led to the transformation of the notion of "resources". In modern concepts of management are treated as resources that have economic efficiency and form the competitive advantage of the organization³⁴:

- factors of production available in the market, if resources are undifferentiated,
- specific assets of the organization (goodwill, experience) if resources are differentiated.

This interpretation lies at the heart of the definition of "economic resources" enshrined in the Concept of IFRS, version 2018 (see table 1), which, responding to the economic approach to the preparation of financial statements, negates the meaning of the property right to a certain physical object. In addition, in order to recognize a resource as an asset as an element of financial statements,

³³ Ibidem.

³⁴Katkalo V., *Resource Concept of Strategic Management: Genesis of Main Ideas and Concepts*, "Vestnik (Herald) of Saint Petersburg University", Series 8, Issue 2 (32), 2002, p. 33, retrieved from: <https://cyberleninka.ru/article/n/resursnaya-kontseptsiya-strategicheskogo-upravleniya-genezis-osnovnyh-idey-i-ponyatiy-1> [accessed: 14.07.2022].

a necessary condition is the existence of the right of control over the economic benefits that can potentially be derived from its effective use. In this context, the Concept of IFRS notes that the assessment of the existence of control provides for the identification of specific rights to an item of accounting. That is why the IFRS system does not provide identification as a separate condition for the recognition of an asset. This approach is conceptually different from the approach to the recognition of elements of financial statements adopted by the RM accounting system.

As it was mentioned earlier, the legislative and regulatory framework of accounting of RM declared the adoption in their basis of the provisions of both Directive 2013/34/EC and the IFRS system. At the same time, the national accounting system is dominated by the methodology of the continental model of accounting. Since the continental model of accounting is based on the legal approach to the preparation of reporting, where the right of ownership prevails over the function of control, the key element, designated economic operation as determining the financial condition of the enterprise (see table 1).

In this context, it is advisable to clarify the conceptual apparatus of the national accounting system, namely: 1) to use the concept of "resource embodying a property right" instead of the concept of "economic resource"; 2) to exclude "controllability" as a condition for recognizing a resource as an asset.

The above is the argumentation of the *hypothesis H1*: the obvious need for methodological improvement of the accounting system of RM indicates the lack of conceptual space for reporting information that meets the principles of socio-economic paradigm. In this context, we cannot but agree with Grigoroi and Munteanu that, in fact, the structure of the previously existing Law on Accounting has been preserved, so we can talk about its editing, but not about a new law. The new Law No. 287 has not resolved some old problems faced by its predecessor, and therefore the application of the provisions of the law creates confusion regarding its application in practice³⁵.

3. Conceptual assessment of the usefulness of the information perimeter of the Changes in Equity Statement

The effectiveness of the accounting system is evident in the financial report formats used and the methods used to prepare them. It has already been noted that the Concept of IFRS flexibly responded to the requirements of the socio-economic development paradigm, so let us dwell on its provisions, which affect the modeling of financial statements, and in particular, the Changes in Equity Statement (hereinafter, CES). So, according to point 1.12 of the Concept of IFRS in order to fulfill the purpose of the financial statements of the compiling organizations must provide not only information about economic resources, but also about the reasons for their changes. This information is not only useful for the

³⁵ Grigoroi L., N. Muntean, op.cit.

main users of reports when they make decisions such as increasing the efficiency of equity use, attracting new investors, forecasting the growth of capital of the organization as a whole. It allows to estimate the activity of management, how rationally and effectively he fulfilled his obligations on the use and management of economic resources of the reporting organization. Since resources are a set of different rights that can create economic benefits, it is necessary to clearly separate the sources of formation of these rights: borrowed funds and capital, which consists of such forms as financial, human, social and natural capital.

It should be noted that in the context of the transition to the socio-economic development paradigm, many academic economists address the problematic issues of the impact of different forms of capital on the sustainability of economic systems through the prism of interpretation of capital, known as the capital model of Sprugg. This model is adopted by management theory, and in a general sense treats capital as – "this is what I am worth". It is important to emphasize that Sprugg's model is considered the starting point of modern accounting theory.

Now let's dwell on the structure of the CES, adopted by the current accounting system of RM, analyze its structure and evaluate with regard to compliance with the requirements of the socio-economic paradigm. According to Article 167 of the NAS "Presentation of Financial Statements", the format of this report is prescriptive and allows to characterize the existence and changes in the elements of capital during the reporting period. However, along with the generally accepted elements, the NAS provides for disclosure of such sub-elements of capital as unrecorded capital, net profit and used profit, amendments to results, etc. In a generalized form the format of the CES used by the system of NAS is presented in Table 3³⁶.

Table 3. Summary format of the CES according to NAS.

Elements	Sub-elements	Balance at the beginning	Value change		Balance at the end
			Increase	Decrease	
1. Social capital	1.1. Registered capital	X			X
	1.2. Unregistered capital		X		X
.....	X		(X)	X
5. Other elements of equity capital	5.1	X	X		X
	5.2,....		X		X

Source: own elaboration.

³⁶ National Accounting Standards "Presentation of Financial Statements"...

Nevertheless, at the first stage of its analysis it becomes clear – in its structure and content it completely duplicates the "Equity" section of a financial report such as the Balance Sheet. In this context, the author asks questions: What is the conceptual purpose of this statement? In this context, the debatable question for which organizations is the national system used to CES? What is the necessity of its preparation or is it only a "tribute" to modern trends?

Let's try to answer these questions. According to the author, in the context of the transition to the socio-economic paradigm, the format of CES is determined by the following factors:

1. *the theory of capital*, which establishes its five elements: 1) authorized capital, 2) share premium, 3) reserves (maintaining the amount of capital and others), 4) revaluation reserves, 5) accumulated profits (the sixth element – the interest of non-controlling shareholders is characteristic of capital only in business consolidation);
2. *the selected equity model*: outsider (anglo-saxon) or insider (continental), the qualitative parameters of which are widely enough considered in the special economic literature. It is appropriate to emphasize that it is the outsider model of equity that is used by the IFRS system. This fact explains the requirement to disclose both changes in the value of equity and the reasons for these changes. In the context of this requirement, the structure of the CES should include a separate segment for disclosure of the reasons for changes and their cost impact on the relevant element of equity;
3. *variety of reasons for equity changes*. Depending on the type of economic events, some changes have a corrective nature, others are the result of profit redistribution; the purpose of others is to maintain the value of capital. Finally, the fourth reasons are caused by the need to assess the contribution of business in the sustainable development of society and the environment;
4. *recognition of new "drivers" of capital growth and business value in general* – such forms of equity as human capital, social-reputation capital, natural capital, which also requires representation.

Assessing the applicability of the above factors to the structure of the CES (see table 3) confirms that the national accounting and reporting system belongs to the continental model.

Guided by the above considerations, the author proposes a reconstruction of the CES format, which meets the methodology of capital accounting and provides a link between the elements of the Balance Sheet and the Income Statement, without duplicating either their structure or content. The generalized structure of the proposed CES format is presented in Table 4.

Table 4. Suggested format of the Changes in Equity Statement.

Type and reasons for changes	Elements of Equity					
	1)	2)	3)	4)	5)	Result
Corrective changes: changes in accounting policies; material errors		X	X	X	X	X
Changes related to the redistribution of profits: net profit, dividend accrual, etc.		X	X	X	X	X
Changes related to financial activities: issue of shares and repurchase of shares, placement of financial instruments, etc.		X	X	X	X	X
Changes related to the assessment of ESG behavior of business: contributions to human capital, social and reputation capital, natural capital; transformation of forms of capital	X	X	X			X
Result	X	X	X	X	X	X

Source: own elaboration

The author's approach, presented in Table 4, agrees with the vision of the structure of CES of such a number of researchers. So according to the estimates of Guohui et al. the accounting and reflection in the financial statements of the accumulated human and social capital of enterprises of the SB sector is a prerequisite for their development. In their view, this information can be used not only to improve the availability of credit or attract investment, but also to attract workers with high professional skills and competencies, political or financial standing³⁷. At the same time, as stressed by Gallardo-Vázquez and Lizcano-Álvarez it is important to establish which ESG indicators are specific to the SB sector, evaluate them and reflect them appropriately in financial statements³⁸.

It is appropriate to emphasize that in the reporting format adopted by the RM reporting system, the causes of changes and their cost impact (adjustments of the results of previous years, net profit, profit used) are presented. However, they are treated as elements of capital, which is methodologically incorrect. So, the answer is obvious - the modification of the CES format in the national accounting system is an objective necessity. In this context, the author is of the opinion that the content of the CES prepared according to NAS does not meet the requirements of the socio-economic paradigm in which the enterprises of RM, including SB, are functioning. The above is a theoretical justification and practical argumentation of the hypothesis H2 put forward.

³⁷ Guohui H., Meimei Z., Le Z., op.cit.

³⁸ Gallardo-Vázquez D., Lizcano-Álvarez J. L., *CSR-related competitiveness and legitimacy in MSMEs*, "Economics and Sociology", 13(1), 2020, retrieved from: <https://doi:10.14254/2071-789X.2020/13-1/4> [accessed: 11.06.2022].

Conclusions. The implementation of the research methodology was carried out on the basis of the developed algorithm:

1. conceptual analysis of the efficiency provisions of the regulatory and legal framework of accounting and reporting system of RM;
2. conceptual interpretation of units of analysis of accounting and financial reporting system of RM and assessment of its quality;
3. conceptual assessment of the usefulness of the information perimeter of the Changes in Equity Statement.

As a result of the *first step of the algorithm*, the author found that the current accounting and reporting system in the RM is qualified as mixed, because it contains the requirements of both IFRS and Directive 2013/34/EU. At the same time, the fact of domination of the continental model of accounting in the national accounting and reporting system was revealed (table 1). In addition, on the basis of the application of the comparison method, methodological errors that reduce the level of usefulness of the information in the financial statements of the enterprises of the SB sector of the Republic of Moldova were identified. The result of the application of this scientific method is embodied in Table 2. The result of the *second step* of the algorithm was a conceptual interpretation of the identified methodological contradictions and justification of the reasons for their occurrence. In this part, the author proved the duality of interpretations and paralogism of concepts accepted by the national accounting system. On the basis of the method of modeling, the scheme (fig. 1) was developed to visualize the proof of the dual and paralogical nature of the concept of economic fact, adopted in the regulatory framework of accounting and reporting of the RM. As a result of this part of the study, proposals for improving the conceptual apparatus of the NAS system have been made. As a *result of the third step* of the algorithm, the structure and information field of the CES, adopted in the national reporting system, were assessed. The factors determining the content of the report were also identified and a brief justification of their importance was given. As a result of the study, a model of the specified report (table 4), meeting the requirements of the socio-economic paradigm, was proposed. This model takes into account the provisions of the modern theory of capital and at the same time provides the relationship between the elements of the Balance Sheet and Income Statement, without duplicating either their structure or content. The results of the first two steps of the research algorithm are theoretical in nature, while the results of the third step are applied, and represent practical recommendations for modeling financial reporting forms in the NAS system. An important result of the study is the justification of the hypotheses H1 and H2, and the synthesized general and private conclusions.

Based on the results of the study, this paper formulates the main conclusions:

- 1) The current accounting and reporting system of RM is contradictory and ambiguous, which reduces the usefulness of financial reporting of organiza-

tions; 2) The accounting and financial reporting system of RM lacks a coherent conceptual space in terms of determining the structure and formation of useful information on the results of activities of enterprises of the SB sector, functioning under the conditions of the socio-economic paradigm.

Particular conclusions of the study include: 1) the identified differences with the principles of the IFRS system indicate the existing conceptual contradiction between them, which will make it difficult to implement the socio-economic reporting paradigm without making changes in the legislative and regulatory framework of RM; 2) the problems of the current national accounting system, qualified as mixed, are due to its intermediate position between the IFRS system and the EU Directive; 3) Changes in Equity Statement in the financial reporting system of the Republic of Moldova has a formal character and in order to meet the socio-economic orientation of reporting its modernization is an objective need; 4) the provisions of the Concept of IFRS provide for the design of the Changes in Equity Statement according to the requirements of socio-economic paradigm; 5) it is important to continue to improve the accounting system and develop a methodology that meets modern requirements for the presentation of useful financial statements to investors and other interested parties.

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