Common Financial Data And Tax And Accounting Strategies In Spanish Micro-Enterprises

Guillermo Ceballos-Santamaría, University of Castilla-La Mancha, Spain
Juan-José Villanueva-Álvaro, University of Castilla-La Mancha, Spain

ABSTRACT

In EU governments, there is widespread concern of the current trends in small businesses. Their importance in generating wealth and employment justifies the adoption of economic measures to foster their development and durability. Experience shows that few European micro-enterprises are handed on to a second generation of owners and almost none to a third.

Moreover, in times of crisis, the notion that micro-enterprises (including self-employed or businesspeople with no employees) should become the first link in economic recovery and employment generation appears recurrently.

This paper studies the distinguishing features of such companies in a Spanish province through a descriptive statistical analysis of the basic data and ratios in their accounting statements.

Keywords: Micro-Enterprise; Tax And Accounting Strategy; Balance Sheet Structure

1.   INTRODUCTION

*A*ccording to data on 1 January, 2013, from the Central Companies Directory (DIRCE) at the National Statistical Institute (INE), 53.4% of Spanish companies have no employees. The percentage of companies with two employees or less is as high as 82.7%. The Europe-wide figures are also significant. According to limits set in 2005, the EU defines a small Enterprise, in staffing terms, as any firm employing less than 50 workers and a micro-enterprise as one with less than ten workers. With these parameters, 92% of European firms are regarded as micro-enterprises (European Communities, 2003; 2006). Likewise, self-employment is growing, along with the attention given to it by public administration (Cueto, 2006, García and Martínez, 2003). The limits established by the EU are determined by three criteria - turnover, balance sheet total, and staff headcount (Arrondo, 2002).

These variables are used to differentiate between medium-sized firms, small firms and micro-enterprises. A medium-sized firm is defined as an enterprise employing fewer than 250 persons and with an annual turnover of no more than 50 million Euros, and/or whose balance sheet does not total more than 43 million Euros. A small firm employs 50 persons, its turnover is less than 10 million Euros, and/or it has a balance sheet totaling less than 10 million Euros (Melle, 2001). The category of micro-enterprise or micro-SME covers firms with less than 10 employees and with an annual turnover or assets not exceeding two million Euros. One of the most notable criticisms received by this new system (Morillas, 2002) questions the employee headcount based on the number of annual work units (AWU).

Yet whether or not the criteria are fit for purpose, the micro-enterprise concept is recognizable in all Member States, and although in each country they have distinguishing features, there are common characteristics across Europe in this type of company. All have vital importance in the business fabric of their respective countries. For them to survive, their managers (almost always the owners of the firm) have to strive to continually adapt to the

environment in which their business operates (Ceballos, 2009; Ceballos et. al., 2012). Finally these firms are often hard to study, as it is difficult to procure reliable financial data on them (especially with regard to the smallest companies).

2.   METHODOLOGY AND OBJECTIVES

The Official Journal of the European Communities (OJEC 2003) specifies the staff head counts and financial thresholds defining the various company categories as follows: "(…) a micro-enterprise is defined as an enterprise which employs fewer than 10 persons and whose annual turnover and/or annual balance sheet total does not exceed EUR 2 million."

All Member States, as well as the European Investment Bank and European Investment Fund, which previously used a wide range of non-homogenous criteria for defining SMEs, were to replace the old criteria with the new ones and to adapt the statistics that they prepare in accordance with these categories.

For the sample frame, the authors used information provided by the SABI (Sistemas de Análisis de Balances Ibérico) database of the company Informa, S.A. It contains general information and financial data on Spanish and Portuguese companies and provides details of the accounting statements of firms more than one year old with at least one set of annual accounts registered with the Register of Companies. The authors first decided upon a geographic sampling territory, selecting the province of Cuenca. Of all the firms in that database, 3,741 are located in Cuenca province.

After defining that province as the analytical territory, the authors selected only companies with accounting information available for 2006, thereby limiting the size of the sample. They then set search criteria relating to company size, applying the definition of micro-enterprise proposed by the Official Journal of the European Communities, with a final sample of 1,354 companies.

3.   EMPIRICAL FINDINGS

Having obtained the study sample consisting of 1,354 micro-enterprises in the province of Cuenca (Spain), the authors studied the balance sheet and profit and loss account items liable to provide most financial information for their study.

The account items taken and the ratios obtained from them were the following: Income, Profit on the year, Assets, Net equity, Economic rate of return, Financial rate of return, Level of debt, Number of employees, Growth in sales, Asset rotation, Productivity and Growth in added value. On the basis of the above indicators, the authors obtained the results that they set out below, with an analysis of those that they regard as most representative (Instituto Nacional de Estadística, 2013).

Starting with income, given the importance of this item for a company, the authors found an average value of some €350,000 a year. This figure, together with data on its asymmetry – with a high rate and skewed to the right – shows a low level of sales in micro-enterprises in Cuenca province. In applying a 75% percentile, they find that just a quarter of companies turn over more than 430,000 euros. The data show a population of companies who individually have small market shares. This is a paradigmatic characteristic of the service sector in which principle firms need no great investment in assets or capital contribution to start operating.

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Table 1: Descriptive Statistics

		Ingresos	Resultado	Activo	FPropios	Renteco	Rentfin	Liquidez
N	Válidos	1354	1354	1354	1354	1351	1336	1339
	Perdidos	0	0	0	0	3	18	15
Media		349057,3	2336,9764	282644,3	59287,99	-1,9117	14,3494	2,3191
Mediana		231724,0	2332,5000	181620,0	25692,50	1,2000	9,4750	1,0200
Moda		75140,00[a]	-16075,00[a]	16455,00[a]	3422,00[a]	,34	1,90	1,02
Desv. típ.		357889,5	32102,15	290675,5	132454,1	34,58350	105,06959	10,84018
Varianza		1E+011	1,0E+009	8E+010	2E+010	1196,019	11039,618	117,509
Asimetría		2,076	-2,054	2,062	3,714	-7,042	,412	21,526
Error típ. de asimetría		,066	,066	,066	,066	,067	,067	,067
Curtosis		4,538	34,332	5,021	28,736	121,173	31,460	558,431
Error típ. de curtosis		,133	,133	,133	,133	,133	,134	,134
Percentiles	25	114608,3	-3142,000	87652,00	4952,2500	-,3100	1,9300	,6700
	50	231724,0	2332,5000	181620,0	25692,50	1,2000	9,4750	1,0200
	75	432459,5	9666,2500	373358,0	73871,75	4,1500	23,8275	1,4800

a. Existen varias modas. Se mostrará el menor de los valores.

The average profit figure is 2,337 euros, with a very high kurtosis and asymmetry skewed to the left. In a graphic representation, the peakedness would centre on values near zero (no profit).

Table 2: Descriptive Statistics

		Endeuda	Empleados	CreVentas	Ractivos	Product	CreVA	GasFinan
N	Válidos	1349	1354	1238	1334	1353	1193	1186
	Perdidos	5	0	116	20	1	161	168
Media		84,1473	3,6846	26,8427	1,9625	1,5692	26,7246	3,5327
Mediana		83,4600	3,0000	7,8500	1,3500	1,2400	8,0300	,8100
Moda		,00	2,00	-3,53[a]	,75	1,10	,11[a]	,00
Desv. típ.		52,28113	2,14348	94,48913	3,15260	7,03140	99,94507	30,60291
Varianza		2733,316	4,594	8928,197	9,939	49,441	9989,018	936,538
Asimetría		5,349	,661	4,928	12,767	34,232	5,188	23,967
Error típ. de asimetría		,067	,066	,070	,067	,067	,071	,071
Curtosis		48,333	-,393	31,580	248,299	1226,405	36,270	641,944
Error típ. de curtosis		,133	,133	,139	,134	,133	,142	,142
Percentiles	25	63,8450	2,0000	-7,2050	,7700	1,0600	-9,2800	,2600
	50	83,4600	3,0000	7,8500	1,3500	1,2400	8,0300	,8100
	75	96,1750	5,0000	30,4750	2,2600	1,5700	30,7100	2,1300

a. Existen varias modas. Se mostrará el menor de los valores.

A comparison of profit and equity across all the companies is also significant. The quantity obtained is abnormally low. In this respect, it is worth noting that most of the firms studied had the legal status of limited companies (95%), with the legal minimum of capital of 3,005.06 euros. This is the capital with which such companies are normally set up. If the authors compare these capital figures with total equity, they find that they form a very small portion or, in other words, the greater part of company equity consists of reserves (undistributed profit).

Table 3: Descriptive Statistics

		FM	NFM	Tesoreria	Equilibrio	CreditoC	FPsobreP	Devolucion	LiquidezI
N	Válidos	1354	1354	1354	1327	1319	1353	1351	1329
	Perdidos	0	0	0	27	35	1	3	25
Media		4,7260	-29,5436	34,2504	4,1973	161,8741	59,9944	1,8683	,8404
Mediana		2,0000	-15,5000	12,0000	1,0200	40,0000	70,8600	,5700	,1500
Moda		3,00	-9,00	,00	,91ª	,00	100,00	,31	,00
Desv. típ.		116,55451	116,16115	75,83816	54,53503	2012,286	71,01663	12,45429	6,38615
Varianza		13584,954	13493,412	5751,427	2974,069	4049294	5043,362	155,109	40,783
Asimetría		,307	-1,476	4,814	22,535	31,692	,827	19,346	30,861
Error típ. de asimetría		,066	,066	,066	,067	,067	,067	,067	,067
Curtosis		9,320	16,554	60,541	584,123	1066,631	59,077	419,769	1051,285
Error típ. de curtosis		,133	,133	,133	,134	,135	,133	,133	,134
Percentiles	25	-33,0000	-61,0000	2,0000	,5600	9,0000	25,9150	,3100	,0200
	50	2,0000	-15,5000	12,0000	1,0200	40,0000	70,8600	,5700	,1500
	75	38,0000	11,0000	37,0000	1,8800	93,0000	100,0000	1,0800	,4800

ª. Existen varias modas. Se mostrará el menor de los valores.

In analysing the level of debt, the authors find very high figures in absolute terms, but they believe that the actual data may be better than in the results obtained given that the data used in the sample may be unreliable due to a lack of unbundling. This limitation arises because all the companies studied submit their accounts to the Register of Companies (from which submission the sample data are obtained) as an abridged balance sheet, which distinguishes only between short-term and long-term debts, with no further breakdown. So, it may be that these all-inclusive items include debts that companies have with their own members or shareholders.

Table 4: Micro-Enterprise Employees

		Frecuencia	Porcentaje	Porcentaje válido	Porcentaje acumulado
Válidos	1,00	220	16,2	16,2	16,2
	2,00	260	19,2	19,2	35,5
	3,00	254	18,8	18,8	54,2
	4,00	192	14,2	14,2	68,4
	5,00	145	10,7	10,7	79,1
	6,00	109	8,1	8,1	87,1
	7,00	90	6,6	6,6	93,8
	8,00	46	3,4	3,4	97,2
	9,00	38	2,8	2,8	100,0
	Total	1354	100,0	100,0	

Finally, the descriptive statistics on staff clearly show that we are dealing with very small companies (micro-enterprises). The mean head count is 4.6 employees per company. If a 25% percentile is applied, the figure shows just two employees, only one quarter of companies have more than five employees in their workforce, and just 38 of the 1,354 firms studied have the maximum number of nine workers.

4.   CONCLUSIONS

From this study, the authors may draw the following conclusions on small companies.

The profits of such firms are, in most cases, too low. Just 25% of the companies make a profit of more than 10,000 Euros. The average figure for profits represents just 0.67% of sales.

To account for this situation, the authors should keep in mind that on most occasions in such companies, the shareholder (owner) is normally also a paid employee as he/she works in the company. Moreover, if this shareholder-worker holds more than 33% of the firm's capital (which is quite common), he/she has to make social security contributions as a self-employed worker. This means that the shareholder may raise or lower his/her salary at will without having to contribute more, for contributions and wage levels are independent, which is not the case for employees covered by the general social security system. Thus, by raising or lowering their salary, they can

adjust the tax they have to pay. If they raise it, the company has more expenses, which reduces profit and therefore means that less corporation tax is payable.

So, the authors may be finding deceptive (excessively low) levels of profit due more to tax strategy than to the reality of a company's activity. The lack of correlation between the income and profit variables gives weight to this thesis.

Moreover, the authors find that micro-enterprises do not distribute dividends (in this simple, dividends were distributed by less than 1% of companies). Again the reason is likely to be to save on tax - if companies distribute dividends, the company shareholder is taxed twofold, with income tax on capital income, in addition to the corporation tax paid earlier. This means that dividends are not distributed and shareholders prefer to take funds from the company by other means, such as by taking out a loan, legally or de facto, or simply by keeping a current account with the firm.

From the results obtained, the authors may assume that the profits reported on the accounting statements of micro-enterprises reflect tax and accounting strategy rather than the reality, calling into question the accounting principle of giving a true and fair view.

AUTHOR INFORMATION

Guillermo Ceballos-Santamaria is an Assistant Professor in the Economics Department, Faculty of Social Sciences of Cuenca, at the University of Castilla-La Mancha (Spain) and has a Degree in Business Administration from the University of Valencia as well as a Degree in Advanced Studies in Economic from the University of Castilla-La Mancha. Research interests include economics and tourism. E-mail: Guillermo.Ceballos@uclm.es.

Juan-José Villanueva-Álvaro is an Assistant Professor in the Economics Department, Faculty of Social Sciences of Cuenca, at the University of Castilla-La Mancha (Spain) and has a Degree in Business Administration from the University of Valencia. Research interests include economics and tourism. E-mail: JuanJose.Villanueva@uclm.es.

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<u>**NOTES**</u>