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Financial Reporting Alignment and Tax Compliance in Small and Medium-Sized Enterprises A Two-Year Case Study Based on IFRS for SMEs in Kosovo (2024–2025)

Abstract

The aim of this paper is to examine the practical application of SME accounting within the institutional framework and regulatory context in (KKRF/KCFR), the IFRS for SMEs Accounting Standard, as well as in state tax reporting requirements. Based on a 2-year financial reporting case (2024-2025), the paper prepares the set of general purpose financial statements: statement of financial position, statement of comprehensive income, statement of changes in equity and cash flow statement. The focus of the analysis is on reconciliation of accounting-based measures of income with taxable income, emphasizing the distinction between traceability and numerical identity in accounting–tax conformity. With respect to the methodology, an important contribution lies in the handling of partial accounting data, more particularly missing opening cash balances. Through the classification of the balancing item as owner withdrawals, with statement that this treatment is made for purposes of faithful representation, comprehensibility and adherence to IFRS for SMEs principles without compromising reported profitability, the research shows how these objectives – faithful representation and internal consistency, in particular - do not have to be sacrificed. The results suggest that disclosure-oriented reporting and formal reconciliation processes considerably improve the reliability, comparability, and inspection desirability of SME financial statements. The paper provides pragmatic implications for transition economies, in which institutional barriers and lack of documentation often impede the quality of financial reporting.

Keywords: FRS for SMEs; SME financial reporting; accounting–tax difference and reconciliation; disclosure quality; transition economies;Kosovo Financial Reporting Framework

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1. Introduction

Kosovo's economy consists predominantly of small and medium-sized enterprises and several demanding users' interest in the information they produce. In addition to satisfying the information needs of those charged with governance, SMEs have other users to whom they must provide adequate financial information. These include the tax authorities, their bankers, their suppliers and other business partners, all of whom rely on the published annual financial statements to assess compliance or to facilitate credit and commercial decisions. The quality of general-purpose financial reporting is thus not an elusive theoretical issue in the case of many SMEs; it is a live governance issue. The statutory requirements, the structure of the economy and their impact, and the incorporated listed companies have shaped the accounting framework in Kosovo. The Law on Accounting, Financial Reporting and Auditing contains the relevant accounting requirements and also created the Kosovo Council for Financial Reporting to enforce these requirements. In a nutshell, Kosovo applies a tiered approach to financial reporting, including the use of the IFRS for SMEs Accounting Standard for SME entities. Kosovo's jurisdictional profile reveals that IFRS for SMEs Standard is the applicable financial reporting framework for SMEs, CPA RKS Start Date without jurisdictional modifications with the requirement set out by the Kosovo Council for Financial Reporting, IFRS Foundation+2 the IFRS for SMEs Accounting Standard is a self-contained accounting standard for entities without public accountability that publish general purpose financial statements. Unlike full IFRS, the IFRS for SMEs Accounting Standard is designed to balance decision usefulness with cost-benefit constraints as SMEs simplify recognition, measurement, and disclosure. The IASB issued an updated third IFRS for SMEs Accounting Standard in February 2025 effective for annual periods commencing on or after 1 January 2027 and the acronyms IFRS Foundation+2ICAEW+2. Even though the case study period was between 2024/2025, most entities will use the prior edition; the concepts for faithful representation, consistency, and disclosures remain paramount; the new edition stresses the continuing importance of the IFRS for SMEs regime. The dual nature of these obligations is the root of a persistent challenge in SME reporting, exacerbated by exigencies of completeness and audited archive. SMEs always have two sets of accounts, the financial statement prepared under an accounting framework run by the accounting profession of communicative value and the tax statement prepared under tax law and administrative practice for revenue. Most corporate tax laws require adjustments from accounting profits to taxable profits. Corporate income tax inspectors are trained to reconcile books and declarations, not to find the difference between bad accounting and stealing. The general-purpose financial statements transact with the tax statements through corrvebal opening and closing taxable profits and a cash flow that reconciles to the change in deferred and accrual items. The opening cash position is paramount in accounting. The reconciliation of the statement of financial position to the cash flow statement consists of pulling transactions through the profit and loss into the balance sheet then pulling the balance sheet through the profit and loss. If the opening cash position is not present or verified, the statement of cash flows is inside out and back to front. The IFRS for SMEs indicates that financial statements shall provide relevant and reliable information with material judgments and deficiencies disclosed in a way that sustains the intention of transparent and consistent reporting. Stipulating payments in full adds contemplation of probable inexactitude, for which estimates or conforming datums shall be disclosed. From compliance control is assured by recording old cash withdrawals against the owner's contribution. All the reporting constraints associated with SMEs have a reporting deficiency, bottom on the four primary statements. A cash flow statement lives or dies in the dreary wasteland of undisclosed opening and closing ledger cash balances. They are the black hole into which hopes disappear.This article deals with a specific research issue facing SMEs in Kosovo: Financial Reporting Allocation and Tax Compliance in Small and Medium Enterprises;

A Two-Year IFRS for SME-based Case Study in Kosovo, (2024–2025) (e.g., missing opening bank figures). This paper provides (1) a repeatable method for constructing the four main statements and reconciling them with tax forms, using common reconciliation logic, and (2) a disclosure template ("critical note") that resolves the most common limitation—missing beginning cash—without sacrificing internal consistency or suggesting an economic loss. To underpin the discussion, it discusses a two-year case study (2024–2025) of a trading SME. The case design is deliberately pragmatic, aiming to reconstruct financial statements from the most widely used company data input base (sales and cost of sales through inventory movements, payroll and operating expenses, balances with suppliers and customers, annual tax declaration results). The example illustrates how the balance sheet, profit & loss, equity movements and cash flow statements can be reconciled and checked by arithmetic controls and reconciliation functions. The findings underscore important firm-level structural determinants of trading SMEs (inventory-dominant assests, working capital intensity), and demonstrate how disclosure influence compliance and transparency. The rest of the paper is organized as ordered. The materials, sources of data and method (measurement rules and reconciliation) are described in Section 2. The results are presented in Section 3, starting with major financial ratios (Table 1) and a visual overview of asset composition (Fig. 1). Section 4 considers the implications for financial compliance, readiness for inspection and financing. Section 5 closes with suggestions for SME reporting practice in Kosovo.

2. Materials and Methods

2.1 Research design and scope

This research adopts a longitudinal case study method, to reconstruct and confirm a full annual financial reporting package for the two consecutive fiscal years (2024 and 2025). It is an appropriate approach as it allows probing deep into real-world accounting restrictions and compliance needs, and facilitates cross-year testing for consistency. Our unit of analysis is SME firms, with an extensive focus on wholesale trade to generalize the findings to a great extent of Kosovo small businesses that have inventory-dominated balance sheets and cost-of-sales- sensitive profitability.

The reporting coverage includes all of the primary financial statements that would generally be needed to produce general-purpose reports in accordance with IFRS for SMEs and domestic requirements:

1. Balance Sheet (Statement of Financial Position);
2. Consolidated Statement of Profit or Loss and;
3. Statement of Changes in Equity;
4. Statement of Cash Flows;

three notes/disclosures (disclosure of estimates and significant judgements and disclosure of reatements). The basis for this reporting in Kosovo is laid down in the accounting law and KCFR supervisory mechanisms. CPS RKS Government +1

2.2 Data inputs and documentation bundle

The statement reconstruction is based on documentation set, a comparable sample package to that in an average SME's accounting and ATK reporting. Inputs include:

- Yearly revenue figures backed by sales receipts and invoices.
- Totals of annual purchases, and inventory records to determine the cost of sales through movement in stocks.
- Cost of sales at year end (closed inventory).
- Payroll registers and expense analysis summaries (including wages, other operating expenses).
- Suppliers (accounts payable) and customers (accounts receivable) at the end of the year.
- Corporate tax reconciliation annual reporting outputs (CD-form categories) to be lodged for accounting profit and taxation results.

A date range for the data from 01.01.2024 to 31.12.2025 is given. All amounts are expressed in EUR. The goal is not just to deliver totals, but that internal consistency is achieved: closing balances in a balance sheet are derived from profit or loss, changes in equity and cash flows..

2.3 SCOPE OF ACCOUNTING FRAMEWORK AND RECOGNITION PRINCIPLES

Preparation of the statement is based on IFRS for SMEs regulations implemented in Kosovo regarding SMEs, including basic assumptions:

- Accrual basis: Recognition of transactions in terms of when they take place vs. being paid or received in cash.
- Assumption of Going Concern: Financial statements are prepared under the assumption that entity remains operational.
- Aggregation and materiality: things are added together or disaggregated as they reach the level of materiality.
- Consistency and comparability: put policies in place that are enforced consistently across time with comparative data reported.
- These principles are consistent with the objective of IFRS for SMEs as a general financial reporting standard. IFRS Foundation + 1

2.4 Rules on the measurement in the case

The approach is in line with the commonly applied measurement logic of trading SMEs:

Revenue recognition. 6 (a) Revenue is recognised at point of delivery/transfer of control to the customer based on the trading model that the entity follows.Inventory and cost of sales. Inventories are measured at cost. Cost of sales utilizes the following stock movement formula:

Cost of Sales = Opening Stock + Purchases − Closing Stock.

A Practical and Verifiable Method This is a practical and auditable method that many trading enterprises use and which can still be traced to purchase documents and inventory counts. Operating expenses. Operating expenses (including payroll and other operating expenses) are recorded in the period in which the benefit is consumed or an obligation is incurred.Corporate income tax. Corporation tax expense is calculated by applying the statutory corporation tax rate (10%) to profit before taxation, adjusted for outputs against latest declaration of taxes. The specific context is standard corporate income taxation of tax-remission that applies to all Kosovo companies unauthorized tax rate is approximately 10%, but there are separate rules for less extensive taxpayers who may opt for another regimes, the standard context of by corporate income tax will allow the reconciliation demonstration.

2.5 Internal consistency tests (quality controls)

In order to maintain auditable internal consistency the checks are made to:

Balance sheet equation test:

- Total assets equal the sum of total liabilities and total equity at year end.
- Profit-to-equity linkage:
- The net income for the year is included in equity (undistributed profits) proceeds and withdrawals.
- Cash reconciliation test:
- Closing balances as per cash flow statement are the same as that of cash and case equivalents in the balance sheet.
- Cross-statement plausibility checks:
- Cost of sales and working capital dynamics should mirror the increase in inventories significantly.

Positive net profit and positive working capital changes should lead to positive operating cash flow except in the presence of other movements.

Such controls are practice in financial statement preparation and are particularly relevant in the context of SMEs where source data could be partial.

2.6 Accounting–tax reconciliation technique (ATK readiness)

Since tax reporting may not be the same as accounting reporting, a best practice is to utilize a reconciliation approach–and that’s how the study does it.

- Revenue and cost of sales are tied to tax filing categories; supported by invoice/purchase statements, perhaps inventory calculations.
- Operating costs are allocated to claimed expense categories, and indirect costs for salaries are substantiated with payroll vouchers or statutory deductions.
- The tax charge is based on taxable profits and a provision is made for prepayments/overpayments to the extent that they become recoverable or payable.

This is consistent with the understanding that jurisdictions may reduce dual reporting by framing tax reporting as a reconciliation from IFRS-for-SMEs-based profit (o r an accounting profit equivalent). KPMG Assets

2.7 Treating of missing opening cash data (essential methodological step)

MEs and the opening cash balance A major constraint common to most SMEs is the lack of reliable opening cash balances that can feed into a seamless reconstruction of the HS. For 2024, which has partial opening cash information, the closing balance sheet in that year is posted using a balancing figure as owner withdrawal. The rationale is:

- Operating cash flow is the profit and change in working capital.
- If the closing cash is given (or set to zero based on evidence), but the opening cash is unknown, an owner withdrawal can make the implicit flow of cash come out.
- This process should be disclosed in the significant judgement/ limitation identified on Note 1, preserving fair presentation and transparency.

It is not so much a "correction" of profit as an equity transaction identification that makes sure the cash flow statement does actually reconcile to the balance sheet whilst explicitly flagging both the limitation and judgement exercised.

2.8 Ethical and reporting considerations

The case study is based on aggregated financial information and does not address any sensitive commercial detail. The purpose of the paper is to deliver a replication template, before implying that more general performance claims can be drawn from the sample financial indicators presented.

3. Results

This part presents the reconstructed annual financial statement results for 2024 and 2025, emphasizing (i) profitability and cost generation structure, (ii) balance sheet structure, and (iii) cash flow credibility in an IFRS for SMEs and Kosovo reporting requirement disclosure based approach. The compilation method is consistent with the core objective of IFRS for SMEs to provide general purpose financial statements for external use and is consistent with the legal reporting requirements in Kosovo under Law No. 06/L–032 and adoption of KCFR. The Biggest Merger of the Year Is on It Was Announced More Than a Decade AgoThe IASB and IFAC EMBRACING PICK-AND-MIX With the growing use of international accounting standards, smaller U.S. companies are often adopting some mix of local GAAP alongside them

3.1. Key financial statement outcomes (2024–2025)

In the four quarters of observation period The case firm reveals positive profitability in all years and an impressive growth in net income through 2025 as compared to 2024. This outcome is predominantly led by higher GM (cost of sales to revenue) given OPEX increase in 2025, mirroring scale and cost expansion similar to what's experienced in trading.

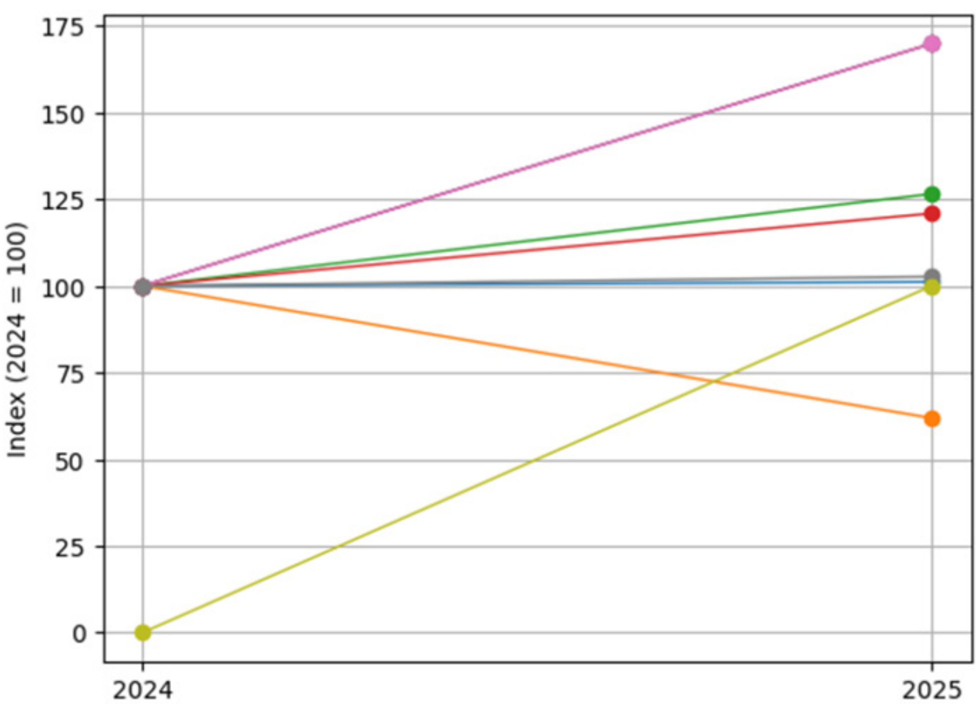
Table 1 Element of Reconstructed Statement Set (Comprehensive Income, Financial Position and Cash Flows) that Used as Key Performance Indicators in the Analysis rallied from: Referring back to the reconstructed statement set (comprehensive income, financial position and cash flows), all key performance indicators were summarized.

.**Table 1. Key financial indicators (EUR), 2024–2025**

Indicator (EUR)	2024	2025
Revenue	94,516.10	95,613.54
Cost of sales	37,089.66	22,957.44
Gross profit	57,426.44	72,656.10
Operating expenses	50,816.61	61,429.81
Profit before tax	6,609.83	11,226.29
Corporate income tax expense (10%)	660.98	1,122.63
Net profit	5,948.85	10,103.66
Closing inventory	171,240.00	175,814.59
Closing cash and cash equivalents	0.00	5,500.38

From a balance sheet point of view the company shows a working-capitalRintensive structure, typical for wholesale trade: other inventories account for most of current assets in both years. This is why stock valuation, purchase documentation quality and year end stock counting procedures gain still greater importance when the asset mix consists of such elements and financial institution regulators are forced to rely on for example The Cost Of Sales which is mechanically sensitive to the measurement of opening/closing stocks.

Fig. 1. 2024-25 indexed Trend in the main financial rates (2024–2025)



(The figure indexes values of some financial indicators, using 2024 as a base year (value = 100)). This indexing method is used to increase comparability between variables with widely different absolute magnitudes (e.g. inventories, revenues, taxes, and net profit). Values in 2025 are shown with respect to the 2024 baseline to stress year-to-year dynamics rather than scaly effects. The indicators come from the annual financial statements Can be read by Kosovar Institute of Accountancy standards (KKRF/KCFR) and Accounting standard for small entities IFRS for SMEs. For cash and cash equivalents, a base year value of zero will cause the index to change from zero in 2024 to any positive closing balance in 2025.)

3.1.1. Compliance and reconciliation outcomes (accounting–tax coherence)

The essential pragmatic objective of the reporting package is to ensure: readiness for inspection by ATK and faithful representation under IFRS for SMEs. Kosovo: In Kosovo, SMEs must apply the IFRS for SMEs Standard (per jurisdictional profile and KCFR adoption), and tax is levied on taxable corporate income— the general corporate tax rate being usually described as 10%. IFRS Foundation+2atk-ks. org+2. Here, the calculation of accounting profit before income tax and the income tax expense are in each period computed as a multiple at 10% and then structured according to annual description categories (revenue, expenses deductible for tax purposes) and taxable base. This model is consistent with the idea of traceability, generally believed to be more critical (as a rule of inspection) than perfect identity between (taxable or accounting) profit and taxable profit (since in tax law there may be add-backs; limitations; or specific regimes for some taxpayers). PwC Tax Summaries +1

Numbered list (required block):

1. No, the entity is profitable in both years which confirms the going concern and refutes any suggestion of loss-making.
2. Gross margin rebounds in 2025, indicating better product and or or lower shrinkage/discount impact.
3. Inventory levels are structurally high, so inventory valuation and physical stock counts are the primary financial reporting risk areas.
4. The closing cash balance in 2025 is positive, reflecting positive annual net operating cash generation and enhanced liquidity.
5. A crucial disclosure was demanded in the 2024 cash flow statement because the opening cash revelation was not full; the balancing figure is owner withdrawal and clearly disclosed to ensure fair representation and consistency.

4. Discussion

he case illustrates that Kosovo SMEs can generate a credible annual reporting package compliant with both (i)(i) KKRF/KCFR-aligned needs and IFRS for SMEs' general-purpose reporting as well as(ii) documentation and reconciliation levels to which ATK will most often increasingly hold such financial reports. The accounting and financial reporting regulatory framework in Kosovo deems IFRS for SMEs to be applicable, under Law No. 06/L–032. IFRS Foundation + 2CPS RKS Government + 2

4.1. The central role of disclosures in SME "inspection readiness"

One of the recurring practical problems with SME accounts is the lack of proper or formal documentation - and this for cash, owner's drawings (and deposits), ad hoc settlements. IFRS for SMEs does not 'allow silence' where limitations are material, and it depends explicitly on disclosure of significant judgements and constraints to ensure faithful representation. The IASB retaining the IFRS for SMEs Standard, 2025 third edition (effective 2027) cements the view that there continues to be a stable disclosure-focused platform preserved for the SME community. IFRS Foundation + 2 KPMG Resources + 2. In this scenario the key reporting risk revolved around 2024 opening cash. As with any reconciliation procedure, it is not possible to use the template that follows for reconciling a cash flow statement unless there is sufficient credible evidence of an opening cash balance. This adopted method of "closing the cash column" with an owner withdrawal balancing item is defensible,so long as:

- Used consistently and not as a performance gimmick,
- Clearly disclosed as a limitation/judgment,
- Consistent with the equity line (since owner transactions are movements in equity — not expenses),
- And reconciled to the balance sheet.

This is not being offered as something economically, and empirically proven beyond doubt to have happened but the best interpretation of the classifying task at hand that preserves within statement coherence according to all we know presently. And thus, the disclosure becomes significant in legal and professional terms: it is holding of back, a reasoning applied and the reason why all utterances can stay internally consistent.

4.2. Working-capital intensity and risk concentration

In case of wholesale bodies inventory dominates, consolidating risk on (i) stock takes, calculation accuracy and completeness of purchase documents. Small mistakes in the closing inventory impact both profit and taxable profit. As such, the most significant material control recommendation of the reporting package is a year enveloping inventory-count system with reconciliations to purchase records and stock cards.

4.3. Tax alignment without "identity"

Corporate income tax is levied on taxable corporate income, with the standard practice point being to a 10% rate (with certain turnover-based elections for smaller taxpayers). www.atk-ks.org. In a neat turn of phrase, inspection-readiness is determined by reconciliation logic: the entity needs to be able to explain how revenue, cost of sales (through inventory movements), payroll and operating expenses reconcile with annual tax declaration line items. Systemize the package -this will be your biggest reduction of risk and generally also makes external finance seem 'more credible' (banks like reliable statements with clear notes – they do not like 'perfectly clean but unexplained median plumbed' numbers).

5. Conclusions

This 2-year case study demonstrates a replicable method for Kosovo SMEs to generate a full annual reporting package which is consistent with IFRS for SMEs and the Republic of Kosovo's reporting law and KCFR adoption and preparedness for ATK inspection readiness through reconciliation and documentation practice. IFRS Foundation +D2CPS RKS Government + 2

Key conclusions are:

- The same statement building process (position → performance → equity → cash flow) promotes internal consistency and minimizes the potential for compilation errors.
- Without optional disclosures in SMEs under evidence constraints they are a fundamental compliance mechanism for the faithful representation.
- The area of highest influence for financial reporting as well as tax results are in small/medium organisations trading, and these are inventory controls and costing disciplines.
- An open fair treatment of missing opening cash (through business owner withdrawal) can be practiced if disclosures are made, and reconciliation of them prevent wrong classifications as expenses/loss incurred during operations.

Supplementary Materials

Supplemental Data Includes the Following Annual revenue and purchase summaries Inventory information (opening/closing stock, valuation basis of cost, notes on inventory count as at year end) Employee payroll registers/statutory reports Operating expense ledgers/related bills/bank statements List of balances for customers/vendors as at year end All 2024-25 output of annual corporate income tax declaration (CD) outputs The file set also contains a (i) reconciliation worksheet between accounting profit and the tax return categories (revenue, cost of sales through movements in inventory, deductible operating expenses and taxable profit) and (ii) cash-flow reconstruction schedule using the indirect method. A separate disclosure note outlines the policy for dealing with incomplete 2024 opening cash details, eg where to report the balancing item (owner drawings/ withdrawals) and why this achieves faithful representation and internal consistency across the statement set (balance sheet, movements in equity, cash flows). IFRS Foundation + 1

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