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IN WHAT WAYS ARE COUNTRIES WHICH HAVE ALREADY ADOPTED IFRS FOR SMEs DIFFERENT

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Abstract

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Small and medium sized companies have an important position in the economy, mainly in the area of employment. SMEs are crucial to most developed and developing economies. SMEs are a heterogeneous group, possessing different size, sector, or location. Their activities on the international markets are limited by a great deal of obstacles in comparison to large enterprises. Different national financial reporting and tax systems can be considered as the most important obstacles (European Commission, 2003).
The International Accounting Standards Board (IASB) published an International Financial Reporting Standard (IFRS) designed for use by small and medium-sized entities on July, the 9th 2009. The IFRS for SME is designed to meet the financial reporting needs of entities that (a) do not have public accountability and (b) publish general purpose financial statements for external users.
The aim of the paper is to evaluate the current approach to the IFRS for SME adoption and implementation over the world, and to analyze the problems connected with harmonization of financial reporting legislation used by SMEs all over the world. In the paper are identified common characteristic of countries which have already the IFRS for SME adopted.
The statistical methods were used for comparison of countries which have already the IFRS for SMEs adopted with those which have not adopted it yet. The level of economic development of the particular country and other characteristics were used for comparison.

SME, IFRS for SME, harmonization, adoption of IFRS for SME

Small and medium sized companies have an important position in the economy, mainly in the area of employment. SMEs are crucial to most developed and developing economies. In the European Union, SMEs contribute to over 99% of all enterprises and 100 million jobs, representing 67.1% of private sector employment (IFAC, 2010). SMEs are a heterogeneous group, possessing different size, sector, or location. Their activities on the international markets are limited by a great deal of obstacles in comparison to large enterprises. Different national financial reporting and tax systems can be considered as the most important obstacles (European Commission, 2003). SMEs worldwide do however not necessarily engage in similar activities; for example UK SMEs are mainly involved in the agricultural, business and construction sectors; South African SMEs are prominent in community, social and personal services and the finance, real estate, wholesale and agriculture sectors; and in Kenya SMEs are mainly involved in agricultural activities (ACCA, 2000).

In Europe, full International Financial Reporting Standards as a tool of financial reporting harmonization are required for about 7,000 listed companies while more than 7,000,000 unlisted companies (SMEs) mostly follow, thus not providing a satisfactory level of international comparability (Epstein, Jermakowicz, 2008). The IASB published an International Financial Reporting Standard (IFRS) designed for use by small and medium-sized entities on July, the 9th 2009. The IFRS for SME is designed to meet the financial reporting needs of entities that (a) do not have public accountability and (b) publish general purpose financial statements for external users. The IFRS for SMEs is a self-contained standard of about 230 pages tailored for the needs and capabilities of smaller businesses. The IFRS for SMEs is separate from full IFRSs and is therefore available for any jurisdiction to adopt whether or not it has adopted the full IFRSs. It is also for each jurisdiction to determine which entities should use the standard. This standard could be a suitable instrument for a SME financial reporting harmonization. The IFRS for SME is aimed at millions of companies, which represent over 99% of all companies all over the world. More than 60 jurisdictions have already the IFRS for SME adopted or stated a plan to adopt (IASB, 2010).

METHODOLOGY

The aim of the paper is to evaluate current approach to the IFRS for SME adoption and implementation over the world, and to analyze the problems connected with harmonization of financial reporting legislation used by SMEs all over the world. There is compared the approach to the adoption in the EU and developing countries in this study. In the paper are identified common characteristic of countries which have already the IFRS for SME adopted.

In the frame of methodology the secondary research was used. The survey of the current stage of implementation process in approximately 50 countries across the world was made. The information of IASB and other resources were used for evaluation of the IFRS for SME implementation process in the world.

The statistical methods were used for comparison of countries which have already the IFRS for SMEs adopted with those which have not adopted it yet. The level of economic development of the particular country and other characteristics were used for comparison.

Countries, which adopted IFRS for SME, consider adopting it or decline adopting it, differ in selected indicators of economic development. GDP per capita and strength of auditing are indicators for evaluation of level of financial reporting were selected as appropriate indicators. The values of selected indicators are based on The Global Competitiveness Report 2011–2012. The data used in this Report represent the best available estimates at the time the Report was prepared. The strength of auditing is weighted average (1 = extremely weak; 7 = extremely strong). To verify the inequality hypothesis, t-test was used. T-test is a method of mathematical statistics, which allows verifying the hypothesis of equality in mean values (Ott, 1993).

Null hypothesis – H_0: $\mu_1 - \mu_2 = 0$.

Alternative hypothesis – H_1: $\mu_1 - \mu_2 \neq 0$ (means are different).

This test exists in several variants depending on whether population variances are known or unknown or whether the variances are equal (homogeneous) or different (heterogeneous). In our paper, we used the variant of t-test, where variances are unknown. Test statistics under homogeneous variances is

$$t = \frac{\overline{X}_1 - \overline{X}_2}{\sqrt{\frac{n_1+n_2}{n_1 n_2} \frac{(n_1-1)S_1^2 + (n_2-1)S_2^2}{n_1+n_2-2}}} \sim t(n_1+n_2-2).$$

Test statistics under heterogeneous variances is

$$t = \frac{\overline{X}_1 - \overline{X}_2}{\sqrt{\frac{S_1^2}{n_1} + \frac{S_2^2}{n_2}}},$$

distributed as Student t distribution with Satterwhite approximation of degrees of freedom

$$\nu = \frac{\left(\frac{S_1^2}{n_1} + \frac{S_2^2}{n_2}\right)^2}{\left(\frac{S_1^2}{n_1}\right)^2 \frac{1}{n_1-1} + \left(\frac{S_2^2}{n_2}\right)^2 \frac{1}{n_2-1}}$$

under H_0. H_0 is rejected, if p-value < α.

Where $\overline{X}_1$, $\overline{X}_2$ is the arithmetic mean, μ_1, μ_2 is the mean, S_1^2, S_2^2 is the dispersion, n is the range of the data file, 1 = group one, 2 = group two, α is the significance, t is test statistics with Student distribution, is degrees of freedom for Student distribution.

Theoretical background

In 2001 the IASB was authorized to develop internationally acceptable accounting standards for companies which are not the subjects of public interest – SMEs. The objective of the project was to develop an IFRS expressly designed to meet the financial reporting needs of entities that (a) do not have public accountability and (b) publish general purpose financial statements for external users such as owners who are not involved in managing the business, existing and potential creditors, and credit rating agencies.

In 2007 the Exposure Draft of IFRS for SMEs was issued. It was derived from full IFRSs with appropriate modifications based on the needs of users of SMEs financial statements and cost-benefit considerations. In the IFRS for SMEs development the IASB conducted a number of field tests to assess the relevance of the accounting standard in different countries which encompassed the restatement of a sample of SMEs financial statements in accordance with the IFRS for SMEs requirements.Thetesting program was applied to the 116 small entities (each of them with a total of up to 50 employees) in 20 countries. There were some main problems identified in the tests (for example the need to use fair value as the main method of evaluating the closing of each financial year due to market fluctuations; the need to simplify the information presented and the need to use full IFRSs to address certain situations much less developed in the IFRS for SMEs).The project was finished by publishing the final version of IFRS for SMEs on July the 9th 2009.

The IFRS for SMEs is a self-contained standard of about 230 pages tailored for the needs and capabilities of smaller businesses. The IFRS for SMEsis separate from full IFRSs and it is therefore available for any jurisdiction to adopt whether or not it has adopted the full IFRSs. It is also up to the particular jurisdiction to determine which entities should use the standard. It is built on an IFRS foundation. Many of the principles in full IFRSs for recognizing and measuring assets, liabilities, income and expenses have been simplified, topics not relevant to SMEs have been omitted, some accounting policies options in full IFRSs are not allowed because a more simplified method is available to SMEs and the number of required disclosures has been significantly reduced.

In comparison to full IFRS which are intended for listed companies (only 45 000 over the world) the IFRS for SME is aimed at millions of companies, which represent over 99% of all companies all over the world. There are over 25 million private sector enterprises in Europe and over 20 million in the USA. Over 60 jurisdictions have already adopted IFRS for SME or stated a plan to adopt (IASB, 2010).

In the PricewaterhouseCoopers study concerning the development of the IFRS for SMEs (2006) is stated that the adoption of IFRSs would provide a lot of benefits to SMEs. The adoption will improve the comparability of financial information of SMEs at either national or internationallevels will make easier to implement plannedcross-border acquisitions and to initiate proposed partnerships orcooperation agreements with foreign entities. It can help SMEs to reach internationalmarkets. It can have a positive effect on the credit rating scores of enterprises, this can strength SMEs' relationships with credit institutions. The adoption of IFRSs will enhance the financial health of the SMEs, as well.

RESULTS

The research made by Baker, Noonan (1995), Demartini (2005), Eierle, Haller (2009) demonstrated that SMEs are not a homogenous group and these entities should be differentiated into groups, e.g. medium sized entities, small entities and micro entities.The Recommendation 2003/361/EC regarding the SME definition was adopted in May 2003. This document categorized SMEs into three groups – medium, small a micro enterprises.

On the other side, there is the IASB definition of SMEs. It does not include quantified size criteria for SMEs determination, because this standard could be used in over 100 countries. It is not feasible to develop quantified tests that would be applicable and long-lasting in all these countries. In deciding which entities should be required or permitted to use the IFRS for SMEs, jurisdictions may prescribe quantified size criteria in each particular country. Despite this fact, the IASB approach focuses on "the typical SME" with about 50 employees. It is a quantified size test for defining SME but, rather, to help it decide the kind of transactions, events and conditions that should be explicitly addressed in the IFRS for SMEs. There could arise any problems, because the IFRS for SMEs could not be suitable for all kinds of entities in the SMEs spectrum, especially for very small entities (micro entities). This kind of entities prepares financial statements especially for taxation purposes.

Tax authorities are considered as key users of SME financial statements (Sian & Roberts, 2009). Despite this fact, accounting standards are not intended to meet the reporting needs of tax authorities in different countries (IFAC, 2006; IASB, 2009). Different tax jurisdictions worldwide are the main reason for it. Apart from tax authorities, others frequent users of small company financial reports include owner-managers and providers of finance (Saracina, 2005). The research of Deaconu, Nistor and Popa concerning financial statements users needs (2009) examined SME stakeholders' needs and their inference upon SME financial reports. Their research contained public authorities, financial creditors, shareholders and managers as main user groups of SME financial statements. Schiebel's research (2008) concludes that the IASB failed to determine the information needs of external users of SMEs' financial statements and the kind of information those external users require from SMEs.

The attitude to the financial reporting system for SMEs harmonization in the EU

The European Commission decided to seek the opinion of the EU financial statements users on the IFRS for SME.

Divergent opinions were obtained by respondents on the potential adoption of the IFRS for SMEs in Europe. Based on EC consultation results, Austria, Belgium, Italy, Finland, France, Germany are the major opponents of the mandatory adoption of IFRS for SMEs within the EU while the Great Britain and Ireland will adopt the IFRS for SMEs regardless of the EU attitude toward the adoption.

In some Member States the linkage between taxation and capital maintenance rules could make the implementation of the IFRS for SMEs more burdensome for some companies by duplicating reporting requirements. Supporters of the widespread use of IFRS for SMEs argued that the standard is best suited for large and Medium-sized companies. The main support for the IFRS for SMEs implementation was from companies with subsidiaries in different Member States, companies seeking international finance and companies listed on non-regulated markets.

A universal accounting code was seen as essential in attracting foreign investors, the preparation of consolidated accounts in multi-national groups would be easier and the costs of their preparation could decrease. Opponents highlighted the standard's complexity for the smallest companies.

Adoption of the IFRS for SMEs in the developing countries

Although the IFRS for SMEs was not intended for a specific user group, the majority of the respondents to the Exposure Draft on IFRS for SMEs were from Europe and other developed countries while only limited respondents from Africa and developing countries were involved (Shutte, Buys, 2011). Also Schiebel (2007) concluded that the IASB did not conduct serious worldwide empirical analyses in deciding the contents of the ED on the IFRS for SMEs. The summary of responses to the ED on the IFRS for SMEs shows that a substantial number of responses were received from the UK. Furthermore, if the responses are grouped per continent it is evident that 58 per cent of the responses were from Europe alone.

According to the United Nations (2008) the concept of applying global reporting standards to SMEs in developing countries is believed to be more difficult than elsewhere. Oberholster (1999) found that the unique challenges and the heterogeneous nature of developing countries are not necessarily accommodated when International Accounting Standards are adopted by these countries. In the Simpson's opinion (2008) the IASB did not take into account the uniqueness and challenges of SMEs in developing countries. According to Sacho and Oberholster (2008) developing countries do not have historically developed accounting standards and are often required by global market players to apply IFRS, which, according to them, might result in distorted and incongruous results. According to Correa-Cortes (2008), SMEs from developing countries find it more difficult to cope with typical SME challenges such as limited financial and human resources. Zeghal and Mhedhbi (2006) suggested that the decision to adopt IFRS by developing countries, in particular, is influenced by:

- economic growth;
- educational levels;
- the degree of external economic openness;
- cultural considerations;
- existence of capital markets.

It is therefore possible that the IASB did also not incorporate the distinctive and unique SME attributes from developing countries, as opposed to SMEs from developed countries. Chand *et al.* (2006) argued "a two-tier model" that encompasses the distinctive characteristics of developing and developed countries:*If distinctions between developed and emerging economies are not made, then SME IFRSs may have deplorable shortcomings, especially when applied in emerging economies.*

As seen from the following survey, there are manycountries that have already the IFRS for SMEs adopted or will adopt in the near future. Most of them are developing countries while developed countries are restrained to the IFRS for SMEs adoption. It is necessary to remind that according to Deloitte (2009) the adoption of full IFRS is required in those jurisdictions which do not have developed their own accounting system (Armenia, Bahrain, Chile, Costa Rica, Cyprus, Dominican Republic, Ecuador, Fiji, Ghana, Guatemala, Guyana, Haiti, Honduras, Jamaica, Kenya, Kuwait, Kyrgyzstan, Mongolia, Montenegro, Nepal, Nicaragua, Oman, Panama, Republic of Serbia, Sierra Leone, Tajikistan, Trinidad and Tobago, Ukraine, Venezuela). There will be differences in the application of the IFRS for SMEs between countries given their previous accounting background as well (Deaconu, 2006).

A study done by the IASB for around 31,000 small companies in 68 developing countries and emerging markets found that private firms with greater financial transparency experience have significantly lower problems with gaining access to external finance (and obtain those funds at a lower cost) than other private firms. There is strong evidence that accounting quality positively affects investment efficiency (Mage, 2010).

Based on the IASB information following countries have already the IFRS for SMEs adopted: Argentina, Belize, Brazil, Bahamas, Barbados, Cambodia, Costa Rica, Dominican Republic, Egypt, El Salvador, Ethiopia, Chile, Guatemala, Guyana, Ghana, Honduras, Hong Kong, Jamaica, Lebanon, Malaysia, Mauritius, Namibia, Nepal, Nigeria, Nicaragua, Panama, Peru, Philippines, Republic of Fiji Islands, South Africa, South Korea, Sierra Leone, Tanzania, Uganda, Venezuela, Zambia, Zimbabwe, Singapore.

Before testing by the t-test, the countries were divided in three groups. The Group 1 included countries that have already the IFRS for SMEs adopted, the Group 2 included countries that are ready for adoption, group 3 are countries that refuse the IFRS for SMEs. The survey of researched countries is in the Tab. II. The difference among these groups in the indicators of economic development was examined by the t-test.

Because different types of the t-test are used for homogeneous and heterogeneous variances, the F-test of variance equality was performed first. In researched data, hypothesis of variance equality was rejected.

The t-test revealed significant differences (α = 1%) between group 1 and 3 for indicator Strength of auditing, where 1 = extremely weak and 7 = extremely strong (See Tab. III).

For the countries in the group 1, it was confirmed, that the average value of the indicator is lower than in the group 3 ($t = -3.2881$ with p-value 0.0029).

I: *Specific information on adoption of IFRS for SME over the world*

Country	Datum of adoption	Entities	Mandatory or optional
Argentina	1. 1. 2011	All entities not required to use full IFRS	Optional
Brazil		SMEs	Optional
Bahamas	1. 1. 2012	All companies that do not have public accountability	Optional
Botswana			
Cambodia		All companies except 'public interest entities'	Optional
Dominican Republic	1. 1. 2010	All companies whose shares are not quoted on the stock exchange	
Chile	1. 1. 2013	All entities that have no public accountability	
Ghana	1. 1. 2010	All SMEs	Mandatory
Guatemala	1. 1. 2011	SMEs	
Hong Kong	immediately	SMEs	Optional
Honduras	1. 1. 2012	SMEs	
South Korea		Unlisted companies (with the exception of financial institutions and state-ownedcompanies)	Optional
Jamaica	1. 1. 2011	All companies without public accountability, except for companies that (a) elect to use full IFRSs or (b) are government owned. 'Government-owned entities' as those subject to The Public Bodies Management and Accountability Act.	
Lebanon	1. 1. 2010	SMEs	Optional
Mauritius	1. 1. 2010	As an option for small state owned enterprises	Optional
Namibia	After 17. 2. 2010	All entities that have no public accountability	Optional
Nepal	1. 6. 2011		
Nigeria	1. 1. 2014	All entities that do not have public accountability (except micro-entities)	Mandatory
Panama	1. 1. 2011	SMEs	Optional
Peru	1. 1. 2012	All companies except those whose securities are publicly traded and large unlisted companies	Mandatory
Philippines	1. 1. 2010	SMEs except micro-entities	Mandatory
Republic of Fiji Islands	1. 1. 2011		
South Africa	1. 1. 2008	Limited interest companies that have no public accountability	Optional
Singapore	1. 1. 2011	Small entities ● total revenue of not more than $10 million ● total gross assets of not more than $10 million ● total number of employees of not more than 50.	
Tanzania		Non publicly accountable entities with less than 100 employees and capital investment under 600.000 $	Optional
Venezuela	1. 1. 2011	SMEs and large unlisted companies	
Zambia	1. 1. 2011	SMEs (turnover over 4milion $)	Optional
Zimbabwe	1. 1. 2011	SME	Optional

Source: author's research based on the IASB information and national legislations

II: *Groups for testing*

Group 1	Argentina, Azerbaijan, Barbados, Belize, Botswana, Brazil, Cambodia, Costa Rica, Dominican Republic, Egypt, El Salvador, Ethiopia, Ghana, Guatemala, Guyana, Honduras, Hong Kong, Chile, Jamaica, Jordan, Kenya, Kyrgyzstan, Lebanon, Lesotho, Malawi, Malaysia, Mauritius, Moldova, Namibia, Nepal, Nicaragua, Nigeria, Panama, Peru, Philippines, Qatar, Singapore, South Africa, Sri Lanka, Suriname, Swaziland, Tanzania, Trinidad and Tobago, Turkey, Uganda, Venezuela, Zambia, Zimbabwe
Group 2	Denmark, Ireland, Latvia, United Kingdom, United States
Group 3	Austria, Belgium, Canada, France, Germany, Italy, Japan, Malta, Mexico, Netherlands, Poland, Slovak Republic, Slovenia, Switzerland

Source: author's work based on IASB information

III: *T-test for Strength of auditing*

Group	No.	Average	Standard error
1	48	4.7813	0.1010
3	14	5.3714	0.1484
All data	62	4.9145	0.0852

Source: author's work

The second indicator of economic strength of the country – GDP per capita, appeared significantly different ($\alpha = 0.01$) in the mean value between the group 1 and the group 2 ($t = -3.9371$ with p-value 0.0138) and between the group 1 and the group 3 ($t = -5.7407$ with p-value < 0.001) (Tab. IV).

The results of the t-tests concluded that countries which have a higher GDP per capita are not considering adoption of the IFRS for SME. The economically stronger countries have lower willingness to adopt the IFRS for SME.

IV: *T-test for GDP per capita*

Group	No.	Average	Standard error	Group	No.	Average	Standard error
1	48	7.6381	1.8381	1	48	7.6381	1.8381
2	5	39.1870	7.7996	3	14	34.8715	4.3733
All data	53	10.6144	1.8083	All data	62	13.6032	1.7276

Source: author's work

SUMMARY

The IASB issued the IFRS for SMEs in 2009. This standard has been a result of a five-year development process with extensive consultation of SMEs worldwide. The IFRS for SMEs is available for any jurisdiction to adopt regardless it has the full IFRS adopted. Its publication was connected with great expectations. The IFRS for SMEs adoption over the world has been associated with certain distrust, particularly in countries that are economically strong and have a relatively high quality financial reporting system. On the other hand, countries with lower economic performance approach to the adoption of IFRS for SMEs with high expectations. Based on the secondary research made in less developed countries such as South Africa, Turkey, Kenya, Ghana (Bohušová, 2011) it is supposed that the adoption of the IFRS for SMEs would improve their access to financial funds, would help them to penetrate foreign markets and thus their financial situation and performance would be improved. The verifiable information regarding the attitude towards the adoption of the IFRS for SMEs from 67 countries worldwide was obtained by using primary and secondary research.

The application of statistical methods has shown that the countries which the IFRS for SMEs already adopted have significantly lower level of GDP per capita in comparison to countries, which are the adoption of IFRS for SMEs refusing. Highly significant difference in the average value of GDP per capita for these two groups of countries was found. Similar hypothesis in connection with a willingness to adopt the standard and quality of the current financial reporting system of the country was used. The indicator of strength of auditing (range 1–7) was used for the quality of a financial reporting system measurement. With 99% probability the different level of the average indicator of the quality of financial reporting was shown. The average lower level of indicators was established in case of countries which the IFRS for SMEs have already adopted.

Based on the result of the analysis, it could be expected that the adoption of the IFRS for SMEs would rather join the countries that are economically weak with a lower quality of a financial reporting system. Economically developed countries with a high quality financial reporting system would rather reject the adoption. The implementation of the IFRS for SME would be associated with extra costs that would exceed its benefits in these countries.

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