

Preparedness for and perception of IFRS for SMEs: evidence from Turkey

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Abstract: The International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs) is adopted by Turkey in November 2010. Turkey initially decided to apply IFRS for SMEs starting from 2013, but recently postponed application to 2014. This research has two primary purposes. The first is to analyse the awareness, information level, preparedness, and perception of the accounting professionals regarding IFRS for SMEs. The second is to examine the effect of several factors such as experience, education level, and preparedness of the accounting professionals on their perception of the IFRS for SMEs. For those purposes, a telephone questionnaire is administered to accounting professionals. The findings of the study show that most of the accounting professionals are aware of IFRS for SMEs adoption process; have a moderate information level of IFRS for SMEs; are optimistic regarding the adoption process; and attended trainings about IFRS for SMEs. Although the majority of the accounting professionals made some preparation for the IFRS for SMEs, there still is a considerable number of participants who did not. Respondents list as the advantages of IFRS for SMEs as comparability, reliability, transparency and understandability of financial statements and effective financial reporting. On the other hand, lack of training and costs are seen as the main obstacles to the IFRS for SMEs implementation. This study has some implications for several parties, including national and international standard authorities, regulatory bodies, managers, professionals, and academicians. National and international standard authorities should take into consideration the preparedness and perceptions of the parties while organizing the adoption process in their countries. Accounting professionals should make necessary preparations and inform their customers (entities) as early as possible for a successful adoption process. This research will make a significant contribution to the existing literature

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because the number of studies analysing the IFRS for SMEs adoption is small, especially in emerging countries.

Keywords: IFRS for SMEs, preparedness, perception, accounting professionals, Turkey

JEL codes: M41, M48

1. Introduction

As a result of globalization, current international trade seeks opportunities not only to import and export physical goods across borders, but also to invest and raise capital internationally. With the growing internationalization of trade and the globalization of financial markets, financial information that is prepared in accordance with national regulations may no longer satisfy the needs of international decision makers (Zeghal & Mhedhbi, 2006). This situation creates a need for effective communication about corporations' financial position, activities, and future goals to an internationally diversified audience of shareholders, creditors, and other stakeholders (Murphy, 1999). To understand an entity's financial statements which are compatible with its own jurisdiction's regulations is time-consuming, costly, complicated, and difficult. International comparability in financial reporting can be possible with the adoption of globally accepted standards not only by listed entities, but also by small and medium-sized entities (SMEs). Hence, parties including, entities, financial institutions, auditors, accounting professionals etc. Have recognized the need for internationally accepted financial reporting standards, and thus studies to develop such a standard set have gained momentum. Firstly, the needs of listed entities have been met with a set called the International Financial Reporting Standards (IFRS) and the needs of SMEs with the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs).

SMEs are the main engines of countries' economies due to their significant role in economic development (Siam & Rahahleh, 2010; Maseko & Manyani, 2011; Bohusova & Blaskova, 2012). Over 95% of the entities in the world are small and medium-sized, whereas the number of listed companies is about 46,000 (Vasek, 2011; IASB, 2012). Therefore, the expected comparability of entities' financial statements cannot be maintained with the application of international standards solely by listed entities. Further, the use of internationally accepted financial reporting standards increases the quality of the financial information. Not only listed entities, but also unlisted entities need comparable high-quality financial information (Pacter, 2009). Hence, the use of the IFRS for SMEs will provide internationally understandable and comparable financial statements in a more

simplified and less costly way for SMEs. The use of the IFRS for SMEs is becoming more widespread day by day.

We analyzed the perceptions and preparedness of the accounting professionals regarding IFRS for SMEs in Turkey because of several reasons. Firstly, emerging countries are more willing to adopt IFRS for SMEs with the intention of improving the flow of capital, financial reporting system, and country image. Turkey is one of the most important emerging countries with a rapidly developing and growing economy (Uyar & Güngörmüş, 2013). Further, Turkey follows new developments in the financial reporting area and has become one of the earlier adopters of the IFRS for SMEs in the world. Initially, the full set of Turkish Financial Reporting Standards (TFRS) as a translation of the IFRS was published for the use of publicly listed entities. Then, the IFRS for SMEs was translated as the Turkish Financial Reporting Standard for Small and Medium-sized Entities (TFRS for SMEs) and was issued in the *Official Gazette*, dated November 1, 2010 and numbered 27746. Turkey decided to implement IFRS for SMEs starting from January 1, 2013. However, necessary communiqué has not been published by the Turkish Standard Authority for the application of the IFRS for SMEs yet; so, the date of the application of the IFRS for SMEs has been postponed to 2014.

Accounting professionals are one of the most important actors in the adoption process of IFRS for SMEs in Turkey. An effective adoption process requires their support and commitment. The problems and obstacles in the adoption process will be overcome by the collaboration of entities, regulatory bodies, and accounting professionals. Hence, accounting professionals' preparedness for and perception of the IFRS for SMEs will play a very significant role in a successful adoption process. This study aims to investigate the preparedness, information level, and perception of the accounting professionals about the IFRS for SMEs. Further, the effect of several factors such as experience, education level, and preparedness on the accounting professionals' perceptions regarding IFRS for SMEs is examined.

This study will contribute to the existing literature significantly in several ways. Firstly, the full set IFRS is an earlier project for the harmonization process; most of the studies in the literature have dealt with the issues related to the full set IFRS. There are few studies that analyse the adoption process regarding the IFRS for SMEs. This research will fill this gap by investigating the IFRS for SMEs adoption process in Turkey. Therefore, this study provides new insights into the adoption process of the IFRS for SMEs in Turkey and should be interesting to regulators who must determine appropriate enforcement actions in similar emerging countries. Secondly, the preparedness of the accounting professionals is not investigated as intensively in prior literature. Moreover, studies that analyse the effect of factors such as experience, and education level on the preparedness and perception of accounting professionals about IFRS for SMEs are relatively few.

The next section reviews the literature. Then, methodology and data are presented. In the fourth part, the results of the research are discussed. Finally, last section concludes the paper.

2. Literature review

Traditionally, large and listed international entities have been the target of international standard-setting authorities because the need for comparable financial information was necessary for international investors and decision makers (Wittsiepe, 2008). A need for a separate financial reporting standard set for SMEs has now emerged because they also need comparable financial information as a result of the globalizing world. However, the know-how, experience, and financial resources necessary to adopt international financial reporting standards in smaller entities require a streamlined and cost-efficient approach (Wittsiepe, 2008). For this purpose, in July 2009, the IASB issued a new IFRS designed for the financial reporting needs of SMEs. The IFRS for SMEs is proposed and designed for entities that produce general purpose financial statements to meet the financial reporting needs of small companies and to maintain easy and accurate economic decision making by a broad range of resource providers and other users, such as non-manager owners, lenders, vendors, creditors, customers, and employees (Pacter, 2009). This standard was the result of a five-year development process, with extensive consultation with SMEs worldwide (Epstein & Jermakowicz, 2010). It has been simplified and shortened by modifying the accounting standards for the use of SMEs. As a result of all those simplifications, the IFRS for SMEs consists of 230 pages and includes 35 chapters (Walton, 2011). In September 2010 and in January 2011, there were 66 and 73 jurisdictions, respectively, that have either adopted the IFRS for SMEs or stated a plan for such transition (Vasek, 2011).

As an emerging country, Turkey also needs high-quality financial information to access international financing resources (Alp & Ustundag, 2009). For this reason, many changes have taken place in the financial reporting practices of companies in Turkey. The changes were related not only to listed entities, but also to unlisted and small ones. For instance, the new Turkish Commercial Code aims at supporting transparency and quality of accounting information and requires the application of corporate governance principles by all entities (Albu *et al.*, 2013).

When the European Union (EU) declared that full set IFRS would be effective in 2005, Turkey also promulgated it for the use of listed entities, and banks (Koc Yalkin *et al.*, 2006). The adoption of the IFRS for SMEs is vitally important because SMEs have a significant role in the economic development of Turkey, especially on the employment level (Poroy Arsoy & Sipahi, 2007). A working commission was established to launch the process for the implementation of IFRS

for SMEs. Hence, the IFRS for SMEs was issued in the *Official Gazette*, (dated November 1, 2010, numbered 27746), and included within the scope of the new Turkish Commercial Code. The IFRS for SMEs has become mandatory for entities that do not have public accountability with the publication of the new Commercial Code. Turkish entities were expected to present their financial statements in accordance with the IFRS for SMEs starting from January 1, 2013. Some discussions emerged regarding several issues such as exclusion of entities based on quantitative criteria (micro-entities) from the scope of the standard and issuance of additional guidance (a chart of accounts) (Albu *et al.*, 2013). The necessary communiqué has not been published by the Turkish Public Oversight, Accounting and Auditing Authority for the application of the IFRS for SMEs, so the date of the application of the IFRS for SMEs has been postponed to 2014. Further delays may be also expected in the application date.

Most of the studies dealt with full set IFRS in prior literature because it is an earlier project of the IASB. However, there is a growing body of research analyses the issues regarding IFRS for SMEs (see, for example, Nerudova & Bohusova, 2008; Eierle & Haller, 2009; Albu *et al.*, 2010; Atik, 2010; Bunea *et al.*, 2012; Litjens *et al.*, 2012; Albu *et al.*, 2013; Uyar & Güngörmüş, 2013).

Nerudova & Bohusova (2008) found that the main problem will be the suitability of the IFRS for SMEs for all types of SMEs in the implementation process. According to their study, the first application of the IFRS for SMEs will be expensive and time consuming for the Czech SMEs. On the other hand, the gains are expected to exceed the costs of the IFRS for SMEs implementation.

Eierle & Haller (2009) explored the suitability of the IFRS for SMEs for entities of different sizes. The findings of the study indicated that there is no significant relationship between size and assessment of accounting methods. This shows that the IFRS for SMEs is suitable for all types of entities, regardless of their size.

Atik (2010) investigated the perception of the owners, managers, or accountants of SMEs about the IFRS for SMEs. The findings showed that SMEs generally carry out financial reporting for tax purposes; SMEs want to apply the new standard; they prefer the application of the standard to be voluntary rather than mandatory; and international enterprises support the new standard more than others.

Albu *et al.* (2013) investigated the perceptions of stakeholders in four emerging countries including the Czech Republic, Hungary, Romania, and Turkey regarding the possible implementation of the IFRS for SMEs by conducting semi-structured interviews. They found that most of the interviewees support the convergence approach for the IFRS for SMEs implementation. On the other hand, users preferred mandatory adoption for some SMEs rather than convergence.

Uyar & Güngörmüş (2013) investigated the knowledge and perceptions of the accounting professionals regarding IFRS for SMEs in Turkey via questionnaire survey. They found out that the proponents of the IFRS for SMEs outnumber its opponents; the respondents are not highly informed about the omission of certain topics in IFRS for SMEs; and awareness of the participants regarding valuation methods and concepts in IFRS for SMEs is at a moderate level.

3. Advantages and disadvantages of and obstacles to IFRS for SMEs adoption

The adoption of universally accepted financial reporting standards that require high-quality, transparent, and comparable information has been welcomed by investors, creditors, financial analysts, and other users of financial statements (Ankarath *et al.*, 2010). The motivation of the parties to attain a common set of standards stems from the demand for financial information that is prepared in accordance with a global set of standards rather than local accounting standards (El-Gazzar *et al.*, 1999). The advantages of using a common set of standards are listed in literature as improved efficiency and effectiveness in financial reporting and auditing (Joshi & Ramadhan, 2002; Uyar & Güngörmüş, 2013); enhanced comparability (Ball, 2006; Daske & Gebhardt, 2006; Epstein & Jermakowicz, 2007; Jeanjean & Stolowy, 2008; DeFond *et al.*, 2011; Jones & Finley, 2011; Uyar & Güngörmüş, 2013); greater transparency and reliability (Ball, 2006; Dumontier & Raffournier, 1998; Akyüz *et al.*, 2006; Neag *et al.*, 2009; Madawaki, 2012; Uyar & Güngörmüş, 2013); increased opportunities for external financing (El-Gazzar *et al.*, 1999; Joshi & Ramadhan, 2002; Uyar & Güngörmüş, 2013); reduced cost of capital (Beck *et al.*, 2008; Ankarath *et al.*, 2010; Cai & Wong, 2010; Defond *et al.*, 2011; Kim *et al.*, 2011); and decreased risks and uncertainty for international financial statement users and resource providers (El-Gazzar *et al.*, 1999; Chorafas, 2006).

On the other hand, some parties have criticized the IASB concerning the development of a common standard for SMEs due to several reasons, including two main arguments. Firstly, they asserted that the IASB developed standards throughout the world, irrespective of each country's culture and level of economic development, as a universal standard (Al-Shammari *et al.*, 2008). Having the same set of accounting standards may not be enough to maintain comparability between the financial statements of entities because of country factors (Schultz & Lopez, 2001; Evans *et al.*, 2005; Zeghal & Mhedhbi, 2006; Stainbank, 2008; Djatej *et al.*, 2009; Cole *et al.*, 2011; Nobes, 2011), the company-specific factors (Evans *et al.*, 2005), and the incentive of preparers (Cole *et al.*, 2011). Another argument concerned the IASB's experience and expertise in the field of accounting. In their view, the IASB may not be an appropriate body to develop a simple standard for

non-listed entities because most of its members have expertise in the financial reporting of large listed entities rather than small ones (Mantzari *et al.*, 2009).

Other disadvantages and obstacles which are proposed by the researchers can be summarized as associated costs (Larson & Street, 2004; Taylor, 2009; Winney *et al.*, 2010; Ballas *et al.*, 2010; Jones & Finley, 2011); complexity and difficulties in interpretation (Hora *et al.*, 1997; Zeff, 2007; Alali & Cao, 2010; Chand *et al.*, 2010; Bunea-Bontas *et al.*, 2011); and lack of trained personnel (Ballas *et al.*, 2010; Jones & Finley, 2011; Uyar & Güngörmüş, 2013).

Effective adoption of IFRS for SMEs require commitment and reinforcement from accounting professionals, the international standard-setting authorities, regulatory bodies, auditors, and academicians. The problems and obstacles in the adoption process will be solved only by the collaboration of those parties. So, accounting professionals have a vital role in the adoption process of the IFRS for SMEs in Turkey. This study extends the literature on the IFRS for SMEs adoption in an emerging country by analysing the perception of accounting professionals regarding IFRS for SMEs.

Research questions of the study are developed as follows:

Research question 1: What is the preparedness level of the accounting professionals and CPA firms regarding IFRS for SMEs?

Research question 2: What is the perception and expectation of accounting professionals about the accomplishment of IFRS for SMEs implementation process in Turkey?

Research question 3: What are the perceptions of the accounting professionals regarding the advantages, disadvantages of and obstacles to the IFRS for SMEs adoption?

Research question 4: Do the experience and education level of the accounting professionals affect their preparedness and perception regarding IFRS for SMEs?

4. Data and method

The sample of the study consisted of 450 accounting professionals selected randomly from several lists of professional accounting bodies in Turkey. Questionnaires were administered over the telephone. 210 accounting professionals participated in the survey representing a response rate 46.67%. The telephone surveys were conducted during the months of April, May, and June of 2012.

The perception of the respondents was measured on a five-point Likert scale from 1 to 5 (1=strongly disagree, 5=strongly agree). The questions in the survey were determined by taking into consideration the previous literature (see, for example, Poroy Arsoy & Sipahi, 2007; Ballas *et al.*, 2010; Müllerova *et al.*, 2010; Navarro-

Garcia & Bastida, 2010; Rezaee *et al.*, 2010). The questionnaire included two main sections to measure the perception of the accounting professionals about the advantages and disadvantages of the IFRS for SMEs. The questionnaire included a section to collect demographic information of the accounting professionals for classification purposes. We applied Kruskal-Wallis Chi² analysis to investigate differences in responses.

Descriptive statistics of the respondents are given in Table 1. Experiences of accounting professionals range between 1 to 5 years and more than 20 years. According to the findings, most of the participants have an experience of between 6 to 15 years in the field of accounting (40.0%). 75.7 % of the respondents have at least bachelor's degree. A total of 74.7% of the accounting professionals are certified public accountants. All these findings show that experienced and competent people in the field of accounting participated in the survey. Further, the size of the CPA firms is examined in terms of number of clients. The majority of the CPA firms are medium-sized and have between 10 to 50 (57.1%) clients. Other details regarding the survey respondents are presented in Table 1.

Table 1. Descriptive statistics

Characteristic		No.	%
1. Experience	1–5 years	42	20.0
	6–15 years	84	40.0
	16–20 years	34	16.2
	More than 20 years	50	23.8
	Total	210	100
2. Education level	High school	14	6.7
	Vocational school (two-year)	11	5.2
	Bachelor's degree	159	75.7
	Master's degree	26	12.4
	Total	210	100
3. Position	Public accountant	44	21.0
	Certified public accountant	157	74.7
	Sworn-in CPA	7	3.3
	Intern	2	1.0
	Total	210	100
4. CPA firm size (number of clients)			
	Fewer than 10	17	8.1
	10–50	120	57.1
	51–100	60	28.6
	More than 100	13	6.2
	Total	210	100

5. Results and discussion

5.1. Awareness regarding IFRS for SMEs

The participants were asked whether they are aware of IFRS for SMEs adoption process. Remarkably, most of them are aware of the IFRS for SMEs adoption process and know that the implementation of this standard set will be mandatory for SMEs starting from the beginning of 2013 (95.71%) (Figure 1). This finding shows that accounting professionals are informed about the adoption process of the IFRS for SMEs in Turkey. Awareness of the related parties, such as entities, professionals, academicians, and all of the other stakeholders, have a vital role in an effective and successful adoption process. Coordination and communication of those parties will ease the transition process to the IFRS for SMEs.

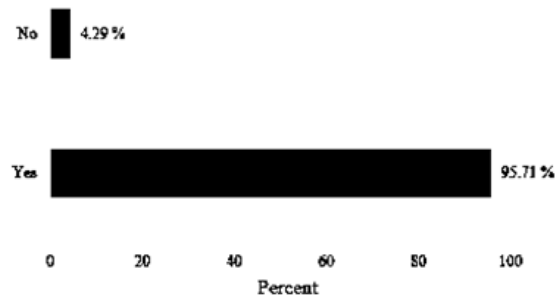


Figure 1. Awareness of the respondents regarding IFRS for SMEs

5.2. Information level regarding IFRS for SMEs

Information level of the respondents about the IFRS for SMEs is also examined which is also an indicator of their preparedness for the adoption process. Majority of the respondents stated that they have moderate knowledge regarding IFRS for SMEs (50.00%). 16.19% of the participants declared that they have good knowledge, while 29.05% stated that they have only a little knowledge. Only 1.43% of the respondents have very good knowledge regarding IFRS for SMEs. On the other hand, 3.33% of the accounting professionals stated they have no information about IFRS for SMEs. Details of the information level of respondents regarding IFRS for SMEs are reported in Figure 2. Those findings may show that a considerable number of the respondents did not have sufficient preparations for IFRS for SMEs yet.

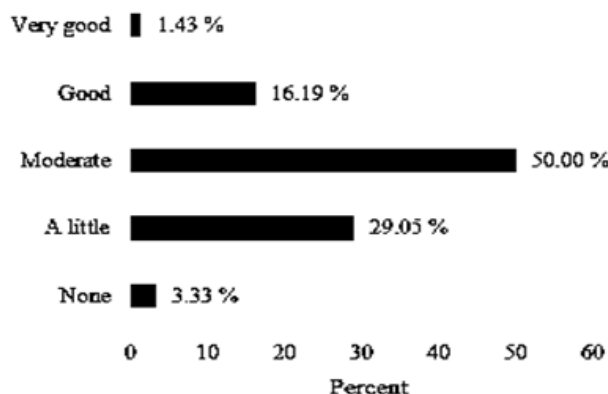


Figure 2. Information level of respondents regarding IFRS for SMEs

5.3. Perception regarding IFRS for SMEs implementation process

The views of the accounting professionals about the implementation process of the IFRS for SMEs in Turkey were ascertained. The results showed that participants are optimistic about the implementation process of the IFRS for SMEs in Turkey. 40.00% of the respondents expects that IFRS implementation will be accomplished within 1-2 years, whereas 33.80% expects implementation process will be accomplished within 3-4 years. Only 3.33% of the respondents stated that the implementation process of the IFRS for SMEs will never be accomplished. Hence, participants expect early implementation of IFRS for SMEs in Turkey. Details regarding the perception of the accounting professionals on the implementation process of the IFRS for SMEs are presented in Figure 3.

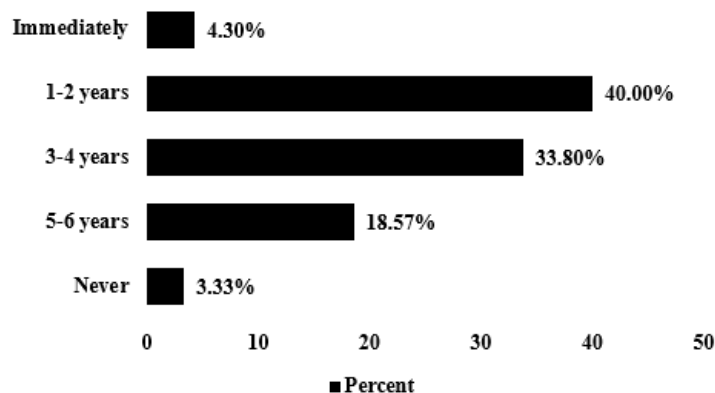


Figure 3. Perception of respondents regarding IFRS for SMEs implementation process

The association between information level and perception of the implementation process is examined by employing Spearman's rho correlation (Table 2). We determined a negative relationship between information level and perception of accounting professionals about IFRS for SMEs. This finding may show that as the information level of accounting professionals regarding IFRS for SMEs increases, they become more optimistic and expect sooner accomplishment of the implementation process.

Table 2. Spearman's rho correlation analysis

	Information level	Perception regarding IFRS for SMEs implementation process
Information level	1.000	-0.180**
Perception regarding IFRS for SMEs implementation process	-0.180**	1.000

** Significant at the 0.05 level

5.4. IFRS for SMEs or existing applications

The participants were asked whether the IFRS for SMEs is better than the existing applications in Turkey. More than half of the respondents indicated that IFRS for SMEs is better than existing applications (59.53%). 25.70% of the accounting professionals were undecided, whereas 14.77% stated that IFRS for SMEs is not better than existing applications. The percentage of the proponents of the IFRS for SMEs is significantly higher than the opponents, nevertheless. Details of the findings are presented in Figure 4.

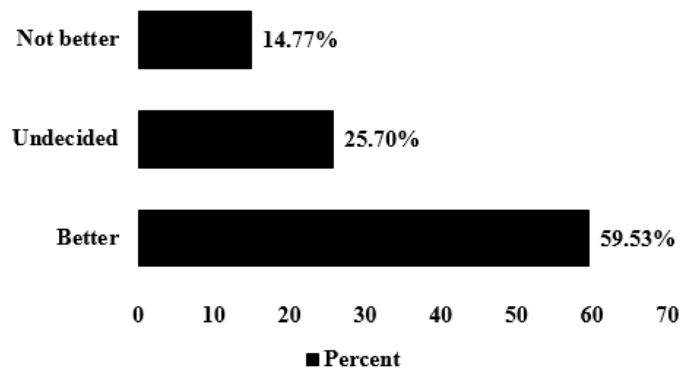


Figure 4. IFRS for SMEs or existing applications

5.5. Preparedness and training of the accounting professionals regarding IFRS for SMEs

Preparedness and training of accounting professionals regarding IFRS for SMEs are measured (Guerreiro *et al.*, 2008; Ballas *et al.*, 2010; Uyar & Güngörmüş, 2013). In total, 210 accounting professionals answered the survey, of whom 144 have made preparations related to the IFRS for SMEs (68.6%), and 142 have taken training for the IFRS for SMEs (67.6%). The findings show that a large percentage of the respondents have attended training related to the IFRS for SMEs. Training is the most widespread activity that is preferred by the accounting professionals to make preparations for IFRS for SMEs. The effects of several characteristics on the preparedness level of the accounting professionals are investigated by employing non-parametric tests. Experience is one of the variables that may affect the preparedness of the accounting professionals for IFRS for SMEs. As the experience of an accounting professional increases, his knowledge in the field of accounting will also increase. More experienced accounting professionals may be more curious about the new accounting frameworks. According to the findings of this study, experience has a significant positive effect on the preparedness of the accounting professionals for the IFRS for SMEs. Further, the experienced accounting professionals have had more training regarding the IFRS for SMEs. On the other hand, education levels of accounting professionals do not affect their preparedness and training of accounting professionals in line with Uyar & Güngörmüş (2013). Details of those findings are presented in Table 3.

Table 3. Preparedness and training of accounting professionals regarding IFRS for SMEs

	Overall		Experience				Kruskal-Wallis Chi ²	Education level				Kruskal-Wallis Chi ²
	No (%)	Yes (%)	Mean	SD	0–15 years	More than 15		Mean	SD	Mean	SD	
Preparation for IFRS for SMEs	31.4	68.6	0.57	0.497	0.69	0.46	53.014*	0.64	0.490	0.62	0.48	80.053
Training about IFRS for SMEs	32.4	67.6	0.63	0.486	0.75	0.43	63.467*	0.72	0.458	0.67	0.47	10.248

* Significant at the 0.1 level

5.6. Preparedness of the CPA firms regarding IFRS for SMEs

Preparedness of CPA firms is determined with four statements including arranging meetings, informing clients, sighting new accounting program compatible with IFRS for SMEs, and adopting current program for the IFRS for SMEs (Guerreiro *et al.*, 2008; Ballas *et al.*, 2010). According to the findings, altogether 41 of the CPA

firms have arranged meetings about the IFRS for SMEs in their firms (19.5%); 19 of the CPA firms have informed their clients (9.0%); 17 of them have searched for new accounting programs compatible with IFRS for SMEs (8.1%); and only 8 of the CPA firms have adopted their current program for the IFRS for SMEs (3.8%). The details of the analysis are presented in Table 4.

Table 4. Preparedness of the CPA firms regarding IFRS for SMEs

Item	Yes		No	
	No.	%	No.	%
We have arranged meetings about the IFRS for SMEs adoption.	41	19.5	169	80.5
We have informed our clients about the IFRS for SMEs.	19	9.0	191	91.0
We have sought new accounting program compatible with the IFRS for SMEs.	17	8.1	193	91.9
We have adopted our current program for the IFRS for SMEs.	8	3.8	202	96.2

No.: frequency

5.7. Advantages of the IFRS for SMEs

There are many expected advantages of applying international reporting standards, such as improved transparency, comparability, and quality of financial information, which will help in making efficient investment decisions and lower the cost of capital for entities as discussed and cited in the literature review part (Jermakowicz & Gornik-Tomaszewski, 2006; Poroy Arsoy & Sipahi, 2007; Ballas *et al.*, 2010; Müllerova *et al.*, 2010; Navarro-Garcia & Bastida, 2010; Rezaee *et al.*, 2010; Uyar & Güngörmüş, 2013). A 10-item list was created based on those prior studies as presented in Table 5. The respondents were asked to evaluate statements on a five-point Likert scale from 1 to 5 (1=strongly disagree, 5=strongly agree).

According to the respondents, comparability of financial statements (mean=3.84) is the highest ranking advantage of the IFRS for SMEs. Comparability means “financial statements should be consistent from one period to the next and between different entities” (Mackenzie *et al.*, 2011). There are many studies that deal with financial statement comparability (Street *et al.*, 1999; Taylor & Jones, 1999). The “expected” comparability or “perceived” comparability has rarely been investigated (Cole *et al.*, 2011). The prior literature indicated that the adoption of the IFRS for SMEs will increase the comparability of financial statements at national and international level (Albu *et al.*, 2010; Madawaki, 2012; Uyar & Güngörmüş, 2013).

According to the participants, IFRS for SMEs will improve the effectiveness and efficiency of financial reporting of the entities (mean=3.80). The effectiveness of financial reporting can be ensured as a result of effective communication with related parties, such as the government, banks, shareholders, and partners (Rezaee *et al.*, 2010). The IFRS for SMEs will improve this effective communication between related parties. This finding is compatible with the previous literature (Siam & Rahahleh, 2010).

Further, most of the respondents agree that the transparency of information will increase (mean=3.80). Prior literature indicated that the application of the IFRS for SMEs will increase the transparency of financial reporting of entities (Poroy Arsoy & Sipahi, 2007; Tyrrall *et al.*, 2007; Albu *et al.*, 2010; Madawaki, 2012). The improved transparency of the financial information will increase its quality. There are also several studies in the prior literature that contradict this finding. According to Jeanjean & Stolowy (2008), financial reporting standards affect the observed reporting quality merely because their application necessitates considerable judgment and the use of private information. They found that the application of financial reporting standards does not improve the earnings quality. Moreover, there is still a high level of expectation that the transparency of financial information will be enhanced as a result of the application of internationally accepted financial reporting standards.

According to the respondents, the IFRS for SMEs will increase the reliability (mean=3.82), accountability (mean=3.80), and understandability (mean=3.72). Those statements are generally related to the proposed financial reporting characteristics of the IFRS for SMEs. Reliability means “information that is free from material error and bias and able to be depended on to represent faithfully the transactions or events that it claims to represent” (Alfredson *et al.*, 2009, p. 16). Understandability means “the quality of information that enables users to comprehend its meaning” (Alfredson *et al.*, 2009, p. 19). Several prior studies suggested that entities’ financial statements will be more understandable and reliable as a result of the application of a unique set of standards (Ataman & Altuk Özden, 2009). The presentation of understandable and reliable financial information will also increase the accountability of an entity. According to Nuhoglu (2008), an efficient accounting system based on financial reporting standards will allow the production of reliable financial statements for stakeholders.

The respondents also agree with the remaining proposed advantages of the IFRS for SMEs, but not at the same level. They agree that adopting the IFRS for SMEs will improve the opportunities to obtain financial assistance from the banking sector (mean=3.65). Kim *et al.* (2011) explained the effect of IFRS adoption on the financing of entities from banks. According to them, banks charge lower borrowing

rates to IFRS adopters and impose more favourable non-price terms on those entities. According to the respondents, the IFRS for SMEs will ease the transition to the full set of IFRS for growing SMEs (mean=3.58). This finding is compatible with the prior literature (Elena *et al.*, 2009; Müllerova *et al.*, 2010). According to Elena *et al.* (2009), the IFRS for SMEs will provide an infrastructure for entities that are growing and preparing to enter public capital markets. Most of the respondents also agree that the SMEs will be able to reach cross-border markets by applying the IFRS for SMEs (mean=3.44). Prior literature suggested that the application of international reporting standards will enhance cross-border financing and trade (El-Gazzar *et al.*, 1999; Ball, 2006; Tyrrall *et al.*, 2007; Ballas *et al.*, 2010; Rezaee *et al.*, 2010; Madawaki, 2012; Uyar & Güngörmüş, 2013). The participants are not sure that the IFRS for SMEs will inhibit the underground economy (mean=3.37). In fact, the underground economy is one of the most important problems in Turkey. SMEs especially have a large amount of unregistered accounts (Poroy Arsoy & Sipahi, 2007). The application of the IFRS for SMEs may solve this problem by providing more transparent financial reporting.

Further, we investigated whether there is significant difference in responses to advantages of IFRS for SMES based on experience, education level, and preparedness as shown in Table 5. The results indicate no significant effect of experience and education level of accounting professionals on their perception of advantages of IFRS for SMEs. In fact, there is some evidence that experience affects the perception of accountants negatively about the advantages of the new financial reporting sets in prior literature. According to Cole *et al.* (2011), more experienced accountants are pessimistic about the advantages of the IFRS, such as comparability. Our finding is not compatible with Cole *et al.* (2011). The accounting professionals are classified into two groups based on their preparedness for the IFRS for SMEs. It is expected that prepared accounting professionals are more aware of the advantages of IFRS for SMEs. The differences in responses between prepared and unprepared accounting professionals are statistically significant only for two of the perceived advantages of easy transition to the full set of IFRS for growing SMEs and inhibiting the underground economy in Turkey.

Table 5. Advantages of the IFRS for SMEs

	Overall		Experience					Education level				
	Mean	SD	0–15 years		More than 15 years		Kruskal –Wallis Chi ²	High school and bachelor's degree		Master's degree		Kruskal –Wallis Chi ²
			Mean	SD	Mean	SD		Mean	SD	Mean	SD	
1. The IFRS for SMEs will ease the transition to the full set of IFRS for growing SMEs.	3.58	0.845	3.62	0.838	3.52	0.857	0.542	3.36	0.952	3.61	0.827	2.296
2. Adopting the IFRS for SMEs will improve the opportunities to obtain financial assistance from the banking sector.	3.65	0.927	3.58	0.933	3.76	0.913	2.435	3.84	0.688	3.63	0.953	0.880
3. Adopting the IFRS for SMEs will improve the efficiency and effectiveness of our company's financial reporting.	3.80	0.748	3.75	0.779	3.89	0.695	2.416	3.68	0.748	3.82	0.749	1.059
4. The IFRS for SMEs will increase the reliability of the information.	3.82	0.753	3.83	0.760	3.82	0.747	0.000	3.76	0.723	3.83	0.758	0.262
5. The IFRS for SMEs will inhibit the underground economy.	3.37	0.966	3.36	1.008	3.39	0.905	0.016	3.20	1.080	3.39	0.950	0.734
6. The transparency of information will increase.	3.80	0.685	3.77	0.706	3.83	0.656	0.471	3.84	0.688	3.79	0.687	0.192
7. Financial statements will be more understandable.	3.72	0.796	3.69	0.815	3.76	0.770	0.441	3.64	0.952	3.73	0.775	0.067
8. The accountability of entities will increase.	3.80	0.718	3.77	0.695	3.85	0.752	1.159	3.92	0.572	3.78	0.735	0.628
9. SMEs will be able to reach cross-border markets by applying the IFRS for SMEs.	3.44	0.968	3.40	0.981	3.49	0.952	0.344	3.68	0.802	3.41	0.985	1.512
10. The financial reports of SMEs will be comparable in sectors at the international level.	3.84	0.740	3.87	0.685	3.80	0.818	0.312	3.88	0.726	3.83	0.744	0.121

		Preparedness				Kruskal –Wallis Chi ²
		Yes		No		
		Mean	SD	Mean	SD	
1.	The IFRS for SMEs will ease the transition to the full set of IFRS for growing SMEs.	3.67	0.783	3.38	0.941	5.411**
2.	Adopting the IFRS for SMEs will improve the opportunities to obtain financial assistance from the banking sector.	3.63	0.930	3.71	0.924	0.376
3.	Adopting the IFRS for SMEs will improve the efficiency and effectiveness of our company’s financial reporting.	3.79	0.718	3.83	0.815	0.632
4.	The IFRS for SMEs will increase the reliability of the information.	3.80	0.725	3.88	0.814	1.038
5.	The IFRS for SMEs will inhibit the underground economy.	3.27	0.977	3.59	0.911	5.608**
6.	The transparency of information will increase.	3.81	0.661	3.77	0.740	0.086
7.	Financial statements will be more understandable.	3.74	0.738	3.68	0.917	0.049
8.	The accountability of entities will increase.	3.79	0.698	3.82	0.763	0.110
9.	SMEs will be able to reach cross-border markets by applying the IFRS for SMEs.	3.43	0.936	3.45	1.040	0.197
10.	The financial reports of SMEs will be comparable in sectors at the international level.	3.83	0.713	3.86	0.802	0.507

5.8. Disadvantages of and obstacles to the IFRS for SMEs

Global financial reporting convergence causes several problems and challenges for entities, accountants, auditors, and all users of financial statements as discussed and cited in the literature review part (Jermakowicz & Gornik-Tomaszewski, 2006; Poroy Arsoy & Sipahi, 2007; Ballas *et al.*, 2010; Müllerova *et al.*, 2010; Navarro-Garcia & Bastida, 2010; Rezaee *et al.*, 2010; Uyar & Güngörmüş, 2013). The participants were asked to indicate their perceptions regarding 10 items on a five-point Likert scale from 1 to 5 (1=strongly disagree, 5=strongly agree).

The findings, as can be seen in Table 6, showed that the majority of the respondents agree that the training of personnel about IFRS for SMEs will be time-consuming (mean=4.0). Most of the professionals in Turkey are not familiar with international reporting standards. They should acquire the necessary training and learn the IFRS for SMEs. Besides learning the standards, accounting professionals should also learn the different approaches in the new financial reporting approach (Müllerova *et al.*, 2010). Thus, the training of professionals will be a time-consuming process. The training of accounting personnel will be one of the most important challenges in the adoption process of IFRS for SMEs not only for Turkey, but also for other countries, such as Romania (Albu *et al.*, 2010), the Czech Republic (Müllerova *et al.*, 2010), Croatia (Cirkveni, 2011), and Nigeria (Madawaki, 2012).

According to the respondents, the adoption of the IFRS for SMEs will be difficult because of translation flaws (mean=3.81). This finding is compatible with prior studies (Poroy Arsoy & Sipahi, 2007; Tyrrall *et al.*, 2007; Alp & Ustundag, 2009; Ballas *et al.*, 2010). According to Alp & Ustundag (2009), there are several difficulties in the translation of the standards, such as the use of lengthy English sentences, inconsistent use of terminology, the use of the same terms for different concepts, and the use of terminology that is difficult to translate.

The majority of the participants agree that the adoption of the IFRS for SMEs will be costly for entities (mean=3.67). There are several costs related to the application of the IFRS for SMEs, including training, new accounting software, information system changes, reformatting of financial statements, purchasing of new accounting literature, and the need for consulting services (Tyrrall *et al.*, 2007; Taylor, 2009; Winney *et al.*, 2010; Bunea-Bontas *et al.*, 2011). Entities will also continue to prepare financial statements for tax purposes, and thus they will endure costs relating to the application of two systems (Ballas *et al.*, 2010). All in all, the cost of the implementation of IFRS for SMEs seems one of the most important obstacles to the adoption process. Further, most of the participants stated that costs of the IFRS for SMEs implementation will exceed its benefits (mean=3.39). This means that the total costs of the generation of information compatible with the

financial reporting standards will exceed the benefits to be obtained from having this information (Alfredson *et al.*, 2009). The IFRS for SMEs application will be burdensome especially for small entities in terms of cost–benefit analysis because those entities have limited staff and resources to adopt the standard (Poroy Arsoy & Sipahi, 2007; Bunea-Bontas *et al.*, 2011). In fact, there have been several revisions in full set IFRS to decrease the burden on SMEs, such as omission of irrelevant topics, simplification of measurement and reporting requirements, and reduced number of disclosures (Albu *et al.*, 2010; Müllerova *et al.*, 2010). Accounting professionals still perceive the IFRS for SMEs as burdensome for the entities.

Moreover, findings showed that participants perceive IFRS for SMEs as too complex (mean=3.35) and detailed (mean=3.63). Principle-based nature of the IFRS for SMEs may increase its complexity. According to Chand *et al.* (2010), financial reporting standards generally do not contain certain expressions, and thus require the professional judgment of the applicants. The need for professional judgment to interpret IFRS for SMEs seems to be one of the most compelling factors for accounting professionals in Turkey because majority of them are familiar with rule-based applications.

The respondents also agreed that the IFRS for SMEs requires too much information for disclosure (mean=3.79); the IFRS for SMEs is too subjective for application because of several alternatives in some parts (mean=3.58); the SMEs in Turkey will not be able to employ accountants who are qualified in IFRSs (mean=3.56); and the IFRS for SMEs has not enough sector-adapted regulation (mean=3.42).

Further, we examined whether there is significant difference in responses to disadvantages of IFRS for SMES based on experience, education level, and preparedness as shown in Table 6. The findings showed little significant difference among participants. Less experienced respondents have higher means than more experienced ones for “the IFRS for SMEs is complex”. Accounting professionals who have an educational level of at least a master’s degree have significantly higher means for “the first adoption of the IFRS for SMEs will be costly for entities” and “the IFRS for SMEs is detailed”. Prepared respondents have significantly higher means than unprepared ones for “the IFRS for SMEs requires too much information for disclosure”. On the other hand, unprepared participants have significant higher means than prepared ones for “costs of the IFRS for SMEs implementation will exceed its benefits”. The accounting professionals who have not made any preparations may consider only the costs rather than the benefits of IFRS for SMEs implementation. Prepared respondents are better informed regarding IFRS for SMEs and may see its benefits besides its disadvantages and costs.

Table 6. Disadvantages of and obstacles to the IFRS for SMEs

Table 6. Disadvantages of and obstacles to the IFRS for SMEs													
Overall			Experience				Kruskal –Wallis Chi ²	Education level				Kruskal –Wallis Chi ²	
		0–15 years		More than 15 years		High school and bachelor's degree		Master's degree					
Mean	SD	Mean	SD	Mean	SD			Mean	SD	Mean	SD		
1.	The first adoption of the IFRS for SMEs will be costly for entities.	3.67	0.871	3.71	0.895	3.61	0.836	1.039	3.32	1.180	3.71	0.814	2.799*
2.	Costs of the IFRS for SMEs implementation will exceed its benefits.	3.39	0.958	3.43	0.950	3.32	0.971	0.355	3.36	1.114	3.39	0.938	0.000
3.	Training of staff will be time-consuming.	4.00	0.536	4.00	0.551	4.00	0.515	0.053	3.92	0.702	4.01	0.511	0.182
4.	The IFRS for SMEs is too subjective for application because of several alternatives in some parts.	3.58	0.839	3.63	0.786	3.50	0.912	0.961	3.44	0.917	3.60	0.829	0.608
5.	The IFRS for SMEs has insufficient sector-adapted regulation.	3.42	0.926	3.34	0.989	3.55	0.813	1.937	3.36	1.036	3.43	0.913	0.050
6.	The adoption of the IFRS for SMEs will be difficult because of the translation weaknesses.	3.81	0.759	3.77	0.792	3.87	0.708	0.400	3.60	1.041	3.84	0.711	0.600
7.	The IFRS for SMEs is complex.	3.35	1.026	3.48	1.033	3.17	0.992	4.642**	3.24	0.970	3.37	1.035	0.393
8.	The IFRS for SMEs is detailed.	3.63	0.861	3.63	0.883	3.63	0.833	0.005	3.08	0.909	3.70	0.830	11.211** *
9.	The IFRS for SMEs requires too much information to disclose.	3.79	0.781	3.79	0.733	3.79	0.851	0.073	3.76	0.831	3.79	0.776	0.011
10.	The SMEs in Turkey will not be able to employ accountants who are qualified in IFRSs.	3.56	1.067	3.66	0.965	3.40	1.194	1.857	3.52	1.159	3.56	1.057	0.000

	Preparedness				Kruskal–Wallis Chi²
	Yes		No		
	Mean	SD	Mean	SD	
1. The first adoption of the IFRS for SMEs will be costly for entities.	3.65	0.873	3.71	0.873	0.383
2. Costs of the IFRS for SMEs implementation will exceed its benefits.	3.32	0.958	3.53	0.948	2.547*
3. Training of staff will be time-consuming.	4.01	0.535	3.98	0.540	0.152
4. The IFRS for SMEs is too subjective for application because of several alternatives in some parts.	3.60	0.814	3.55	0.898	0.083
5. The IFRS for SMEs has insufficient sector-adapted regulation.	3.38	0.907	3.53	0.964	1.845
6. The adoption of the IFRS for SMEs will be difficult because of the translation weaknesses.	3.83	0.723	3.77	0.837	0.058
7. The IFRS for SMEs is complex.	3.31	1.007	3.44	1.069	0.928
8. The IFRS for SMEs is detailed.	3.66	0.799	3.56	0.994	0.174
9. The IFRS for SMEs requires too much information to disclose.	3.87	0.722	3.61	0.875	5.182**
10. The SMEs in Turkey will not be able to employ accountants who are qualified in IFRSs.	3.51	1.077	3.65	1.045	1.008

6. Conclusions

Turkey has adopted the IFRS for SMEs in November 2010, and thus has become one of the earlier adopters in the world. Initially, Turkey planned to implement IFRS for SMEs starting from 2013, but recently postponed application to 2014. Further delays are also expected in the application date. The Turkish Standard Authority is expected to issue an announcement that will require the application of the IFRS for SMEs. This exploratory research extends the literature on IFRS for SMEs by analysing the awareness, information level, preparedness, and perception of accounting professionals regarding this standard in Turkey.

The findings of this study showed that most of the accounting professionals are aware of IFRS for SMEs adoption process; have a moderate information level of IFRS for SMEs; and attended training on the IFRS for SMEs. Majority of the accounting professionals expect that the IFRS for SMEs implementation process will be accomplished in 1-2 years in Turkey. Further, we determined that as the information level of accounting professionals regarding IFRS for SMEs increases, they expect sooner accomplishment of implementation process. The results of Kruskal-Wallis test showed that experienced accounting professionals are more prepared and trained about the IFRS for SMEs. Comparable, reliable, transparent, and understandable financial statements and effective financial reporting are considered as the most important advantages of the IFRS for SMEs implementation. On the other hand, lack of training and costs are seen as the main obstacles to the IFRS for SMEs implementation. Most of the participants indicated that costs of the IFRS for SMEs implementation process will exceed its benefits. We could determine little significant differences in responses of accounting professionals regarding advantages and disadvantages of and obstacles to IFRS for SMEs based on their experience, education level, and preparedness.

The results of this study will be insightful for several parties, including standard authorities, regulatory bodies, entities, accounting professionals, and academicians. Firstly, national and international standard authorities make plans to promote the adoption of IFRS for SMEs. The findings about perception of financial statement preparers' on the advantages and disadvantages of the IFRS for SMEs will be useful for them. The results of this study may be beneficial also for the standard authorities of other emerging countries. The Turkish Standard Authority follows all of the developments in international financial reporting for several reasons, and especially for the EU candidate process. Although the EU has not introduced the IFRS for SMEs as mandatory yet, Turkey has adopted it with the intentions of high quality financial reporting. Other emerging countries' standard authorities will face similar problems in their adoption process. They can take into consideration the findings of academic studies in similar countries to achieve a more effective adoption process. Regulatory bodies are also one of the parties that may benefit

from the findings of this study. There are several issues related to the application of the IFRS for SMEs that should be solved by the regulatory bodies. Regulatory bodies should be decisive about the application of the IFRS for SMEs. The communiqué still has not been published by the Standard Authority in Turkey. The publication of this communiqué will speed up the implementation process of the IFRS for SMEs in Turkey. The results of this study show that majority of the accounting professionals attended IFRS for SMEs trainings. On the other hand, there is still a significant percentage of accountants who have not acquired necessary trainings yet. Inadequacy of accounting professionals' training seems to be one of the most critical obstacles to the ongoing implementation process in Turkey. Lack of comprehensive training regarding the technical aspects of the standard set is the major source of other difficulties, such as wrong applications, incomparable financial statements, and reduced reliability (Ballas *et al.*, 2010). Hence, training of accounting professionals has a vital role in the proper and effective application of the IFRS for SMEs.

Although the adoption of the IFRS for SMEs is less costly compared with the adoption of the full set of IFRS, implementation costs remain to be one of the main perceived obstacles for SMEs in an emerging country as Turkey. In fact, most of the implementation costs will be incurred in the first application of the IFRS for SMEs and will be removed in the long run. The Standard Authority and other regulatory bodies should highlight this fact to entities with the support of the accounting professionals.

This study has several limitations. Firstly, this research was conducted before the application of the IFRS for SMEs; so only the preparedness for and perception of the entities about the IFRS for SMEs could be investigated. After the application date, SMEs' compliance with the IFRS for SMEs can also be measured. Further, this research was carried out only in Turkey. The study can be extended to other emerging countries and their adoption processes can be compared.

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