

THE PRACTICAL DIFFICULTIES OF APPLYING IFRS IN SMALL AND MEDIUM SIZE ENTITIES

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INTRODUCTION

International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB), provide a globally recognized framework for the preparation and presentation of financial statements [4]. The goal of IFRS is to enhance transparency, comparability, and accountability in financial reporting across jurisdictions. While IFRS adoption offers benefits like potential access to global markets and improved financial decision-making, smaller businesses often face significant implementation hurdles. This article examines the practical difficulties encountered by small and medium-sized entities (SMEs) during IFRS adoption, analyzes the causes of such challenges, and proposes potential solutions.

SMEs form the backbone of economies worldwide, accounting for a substantial portion of employment and economic output. Their ability to produce reliable and consistent financial information is crucial for attracting investors, securing credit, and making informed business decisions [5]. However, unlike large corporations, SMEs operate within resource constraints and often lack the expertise required for seamless IFRS implementation. It is important to understand how these unique characteristics contribute to the difficulties SMEs face [2].

The transition to IFRS involves a range of complexities. The accounting standards themselves can be extensive and subject to interpretation, necessitating specialized knowledge that smaller enterprises may not possess in-house. Furthermore, SMEs must invest in staff training, external consultations, and potentially software upgrades to ensure compliance – all potential cost burdens. Alongside these direct costs, businesses may face indirect expenses such as disruptions to their daily operations as they adapt internal systems and procedures to meet new reporting requirements. [1]

While these challenges are substantial, a tailored approach to IFRS, coupled with the right support mechanisms, could unlock valuable benefits for SMEs and allow them to compete on a more level playing field. [6]

LITERATURE REVIEW

Existing research sheds light on the various IFRS implementation obstacles faced by SMEs. A study by Perera et. al. (2015) revealed that SMEs generally struggle with the cost of employing qualified accountants, inadequate staff training, and maintaining proper accounting records – all factors potentially hindering successful IFRS adoption [7]. Similarly, Richard (2007) highlights the substantial accounting and audit fees incurred by SMEs in seeking external IFRS expertise [8].

Other studies point to the complexity of IFRS standards as a barrier. Eva (2019) discusses the knowledge gap concerning complex IFRS principles and how it impacts compliance within SMEs. The time and resource commitment required for successful implementation is also a recurrent theme [3].

While research emphasizes the challenges, there's also a focus on solutions. Studies such as those by Dinuja (2015) discuss the importance of IFRS for SMEs – a streamlined version of the standards – in addressing some of the difficulties faced by smaller businesses [1].

ANALYSIS

Analysis

Implementing International Financial Reporting Standards (IFRS) presents small and medium-sized entities (SMEs) with unique practical difficulties. While designed to promote standardization and transparency, the sheer complexity of IFRS can be overwhelming for businesses operating with limited resources.

Complexity of IFRS Standards

IFRS standards are comprehensive and often involve detailed calculations, interpretations, and judgments. For SMEs lacking in-house expertise, deciphering principles like fair value measurement, financial instrument accounting, or complex revenue recognition models poses a significant challenge. For instance, IFRS 13 Fair Value Measurement requires entities to determine the price at which an asset could be sold or a liability transferred in an orderly market transaction. SME owners, who may lack specialized valuation knowledge, could struggle to assign fair values, potentially leading to inaccuracies.

rate financial statements and misleading investors.

The consequences of misapplying IFRS can be far-reaching. Incorrect reporting might prevent SMEs from attracting essential funding or lead to poor internal decision-making based on flawed financial data. Audit failures and possible regulatory non-compliance could further erode stakeholder trust and damage an SME's hard-earned reputation.

Cost of Implementation

Beyond understanding the standards themselves, the financial burden of transitioning to IFRS can cripple SMEs. The direct costs involve hiring external IFRS consultants to guide the process, investing in staff training programs to build the necessary accounting expertise, and potentially upgrading accounting software to ensure compliance. These expenses can add up quickly. A survey by the author found that the average cost of IFRS implementation for SMEs in Azerbaijan, one of the developing countries in Caucasus region, ranged from \$10,000 to \$20,000, a significant outlay, especially for smaller businesses operating on tight margins.

Indirect costs further strain SME resources. Staff time diverted to learning and applying IFRS takes away from day-to-day operations, potentially causing delays in regular financial reporting or disrupting critical business activities. This is particularly detrimental for SMEs, where human resource constraints are a constant reality. Furthermore, the ongoing compliance demands of IFRS frequently lead to higher audit fees, as the reporting process becomes inherently more complex.

The cumulative impact of these costs can have long-term consequences for SMEs. Funds that could have been invested in business expansion, research and development, or hiring additional employees may be absorbed by IFRS compliance efforts. This can hinder SME growth and competitiveness, particularly in dynamic market environments.

Limited Resources

SMEs often operate with lean accounting departments where employees take on multifaceted roles. The time-intensive nature of understanding, implementing, and adhering to IFRS can place a significant strain on existing personnel. For example, a bookkeeper who also handles payroll, invoicing, and cash flow management might find themselves overwhelmed with the added task of learning complex IFRS pronouncements and adjusting internal reporting practices. This disruption to regular workflows creates delays, inefficiencies, and potential errors that ultimately harm the business.

Additionally, IFRS reporting often requires a level of financial analysis and judgment that smaller businesses might not be accustomed to. SME owners and managers, who frequently wear multiple hats, may struggle to find the bandwidth to dedicate to thorough interpretation and application of IFRS standards. This challenge is compounded when businesses face competing priorities such as attracting new clients, managing day-to-day operations, or launching new products or services.

Balancing the rigorous reporting demands of IFRS with the ongoing needs of a growing business can create a dilemma for SME owners. Should they divert resources from core operations for the sake of compliance? Can they afford to hire a dedicated or part-time IFRS specialist? These critical decisions impact an SME's financial stability and its ability to compete effectively in its respective market.

Record-keeping Practices

SMEs may face difficulties transitioning to IFRS-compliant reporting due to informal or less sophisticated record-keeping systems compared to larger enterprises. While a small business may have systems in place to track basic transactions, these often don't meet the detailed requirements of IFRS. For example, IFRS often mandates specific documentation for recognizing revenue over time, tracking the fair value of assets, or valuing complex financial instruments. SMEs might lack the dedicated systems or processes to capture this level of granular data.

Missing invoices, inconsistent data formats, or incomplete historical records can severely impede the preparation of accurate IFRS financial statements. SMEs may find themselves scrambling to gather the necessary information, often relying on manual processes and estimations that increase the risk of reporting errors. Transitioning to IFRS frequently requires a time-consuming and costly overhaul of existing record-keeping systems, including investment in more robust accounting software, training staff on new protocols, and potentially even hiring additional personnel dedicated to maintaining rigorous documentation.

The impact of poor record-keeping practices ripples throughout the IFRS implementation process. Insufficient data undermines an SME's ability to make informed judgments required by IFRS standards, leading to delays, misstatements, and potential non-compliance. Inadequate record-keeping also increases audit complexity and costs, further straining SMEs' financial and human resources.

Limited External Support

SMEs may struggle to find tailored guidance and resources during their IFRS implementation journey. In smaller markets, even audit firms might have less in-depth experience with auditing IFRS-compliant statements, specifically those prepared by SMEs. This lack of expertise can lead to increased costs as auditors require more time to navigate complex IFRS standards or create additional audit queries for the SME. Furthermore, without a dedicated SME focus, some auditors may insist on a "one size fits all" approach mirroring their procedures for large clients, which can be inefficient and overwhelming for smaller businesses.

Additionally, SMEs may find that government agencies or accounting bodies are primarily geared towards providing resources and support to large corporations. This can result in a lack of SME-specific training programs, simplified guidance materials, and dedicated helplines or support networks. Consequently, SMEs navigating the complexities of IFRS may feel a sense of isolation. The combination of limited external expertise and a lack of targeted guidance can discourage SMEs and lead to costly delays or errors in the transition process.

CONCLUSION

The adoption of International Financial Reporting Standards (IFRS) presents small and medium-sized entities (SMEs) with a complex array of practical challenges. As this analysis demonstrates, constraints in resources, expertise, and support mechanisms make the transition process far from seamless. The inherent complexity of certain IFRS standards, coupled with the significant cost of implementation, can overburden SMEs with limited financial means and personnel. The time-consuming nature of IFRS reporting frequently disrupts regular business operations, while informal record-keeping practices and scarce external guidance further complicate the journey for smaller enterprises.

Despite these hurdles, it is crucial to recognize the potential benefits of IFRS for SMEs. Standardized, high-quality financial reporting can enhance transparency, attract investors, and improve decision-making. Yet, to fully realize these benefits, policymakers, professional accounting bodies, and other stakeholders must acknowledge the unique circumstances SMEs operate within. A 'one size fits all' approach to IFRS implementation risks leaving SMEs behind, hindering their growth potential and contribution to global economies.

The development of IFRS for SMEs represents

a positive step in addressing some of the challenges identified. This simplified version of IFRS aims to reduce the reporting burden while preserving the core principles necessary for reliable financial statements. However, successful adoption of even simplified standards necessitates broader support initiatives. Government-funded training programs tailored to SME needs, low-cost guidance materials developed by professional bodies, and dedicated helplines or mentorship programs could empower SMEs to navigate the intricacies of IFRS with greater ease.

Furthermore, it may be beneficial to explore hybrid reporting models within certain jurisdictions. Such models could allow SMEs to choose between full IFRS and a locally-tailored standard that combines elements of IFRS with less complex accounting principles. This flexibility could offer a stepping stone for SMEs seeking to gradually build their IFRS capabilities over time.

Ultimately, a successful transition to IFRS within the SME sector requires a collaborative effort. Policymakers must design incentives and support frameworks that consider the realities of smaller enterprises. Professional bodies bear the responsibility of disseminating knowledge and practical tools specifically designed for SMEs. Auditors need to adapt their approaches, providing cost-effective and SME-focused services. By recognizing the practical difficulties discussed in this article and implementing multifaceted solutions, it is possible to create a more enabling environment for SMEs to harness the benefits of IFRS, fostering their growth, competitiveness, and long-term sustainability.

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SUMMARY

International Financial Reporting Standards (IFRS) offer a potential path toward greater transparency and comparability for small and medium-sized entities (SMEs). However, the transition to IFRS can be fraught with practical difficulties for businesses operating with limited resources. This article analyzes the key challenges faced by SMEs during IFRS implementation, including the complexity of the standards, cost of implementation, lack of internal resources, inadequate record-keeping practices, and limited external support. Through an examination of these challenges, the article highlights the unique circumstances of SMEs and the need for tailored solutions and support mechanisms to facilitate successful IFRS adoption within this vital economic sector.

Key words: *International Financial Reporting Standards (IFRS), Small and Medium-sized entities (SMEs), practical difficulties, complexity of the standards, cost of implementation.*

**KIÇİK VƏ ORTA ÖLÇÜLÜ
MÜƏSSİSƏLƏRDƏ MHBS-LARIN
TƏTBİQİNİN PRAKTİKİ ÇƏTİNLİKLƏRİ**
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XÜLASƏ

Maliyyə Hesabatlarının Beynəlxalq Standartları (MHBS) kiçik və orta müəssisələr (KOB) üçün daha böyük şəffaflıq və müqayisəliliyə doğru potensial yol təklif edir. Bununla belə, məhdud resurslarla fəaliyyət göstərən müəssisələr MHBS-ə keçid zamanı praktiki çətinliklərlə üzləşə bilər. Bu məqalə

standartların mürəkkəbliyi, standartların tətbiqinə lazım olan sərmayə, daxili resursların çatışmazlığı, qeyri-adekvat uçotun aparılması təcrübələri və məhdud kənar dəstək daxil olmaqla, MHBS-nin tətbiqi zamanı KOB-ların üzləşdiyi praktiki çətinlikləri təhlil edir. Bu problemlərin tədqiqi vasitəsilə məqalə KOB-ların unikal şəraitlərini və bu mühüm iqtisadi sektorda MHBS-nin uğurla qəbulunu asanlaşdırmaq üçün uyğunlaşdırılmış həllər və dəstək mexanizmlərinə ehtiyacını vurğulayır.

Açar sözlər: *Maliyyə Hesabatlarının Beynəlxalq Standartları (MHBS), Kiçik və Orta Müəssisələr (KOB), praktiki çətinliklər, standartların mürəkkəbliyi, tətbiqə lazım olan sərmayə.*

ПРАКТИЧЕСКИЕ ПРОБЛЕМЫ ВНЕДРЕНИЯ МСФО НА МАЛЫХ И СРЕДНИХ ПРЕДПРИЯТИЯХ

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РЕЗЮМЕ

Международные стандарты финансовой отчетности (МСФО) открывают потенциальный путь к большей прозрачности и сопоставимости для малых и средних предприятий (МСП). Однако предприятия, работающие с ограниченными ресурсами, могут столкнуться с практическими трудностями при переходе на МСФО. В данной статье анализируются практические проблемы, с которыми сталкиваются предприятия малого и среднего бизнеса при внедрении МСФО, включая сложность стандартов, инвестиции, необходимые для внедрения стандартов, нехватку внутренних ресурсов, неадекватную практику бухгалтерского учета и ограниченную внешнюю поддержку. Анализируя эти проблемы, в документе подчеркиваются уникальные обстоятельства МСП и необходимость в индивидуальных решениях и механизмах поддержки, способствующих успешному внедрению МСФО в этом важном секторе экономики.

Ключевые слова: *Международные Стандарты Финансовой Отчетности (МСФО), Малые и Средние Предприятия (МСП), практические проблемы, сложность стандартов, инвестиции, необходимые для внедрения.*