

Adopting International Financial Reporting Standards for Small and Medium-sized Enterprises

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Diverse complications and controversial issues in the adoption of International Financial Reporting Standards (IFRS) for Small and Medium-sized Enterprises (SMEs) have been reported by many jurisdictions, prompting them not to adopt this set of standards. Conversely many jurisdictions have adopted or are in the process of adopting IFRS for SMEs. This study considers the impetus for successfully achieving accounting convergence with IFRS for SMEs in those jurisdictions. The possible transition issues that may arise when countries adopt IFRS for SMEs are also highlighted. Furthermore, to provide pioneering evidence on the problems accountants encounter when applying IFRS for SMEs, we conduct a survey on accounting practitioners in Fiji – an early adopter of this set of standards. Both the insights provided on the process of embracing IFRS for SMEs in Fiji and the opinions elicited from accountants highlight new dimensions to the inherent problems in IFRS for SMEs. Scant attention has been given to this issue so far; hence the empirical evidence provided by our study informs not only the global convergence of SME accounting but also the quality of the current suite of IFRS for SMEs.

Small and Medium-sized Enterprises (SMEs) comprise the majority of the world's business entities. There are over 20 million SMEs in Europe, which employ about two-thirds of the workforce and contribute significantly to innovation and growth (European Commission 2013). The *Australian Business Counts* publication reported 2 141 280 actively trading businesses in Australia at June 2012, which represents 96% of all registered businesses in the country (Australian Bureau of Statistics 2013). While imposing a full International Financial Reporting Standards (IFRS) framework constituting some 3000 bound pages would arguably be burdensome, a separate IFRS for SMEs for organisations currently subject to minimal reporting requirements is expected to prove beneficial.

IFRS for SMEs was issued by the International Accounting Standards Board (IASB) in 2009 to introduce a simplified version of the full IFRS with significantly reduced recognition and measurement principles and disclosure requirements. The IASB's objective in issuing IFRS for SMEs was to offer a platform for these entities to produce high-quality and globally consistent financial reports. The IASB claims that with the globalisation of capital markets, this will assist SMEs to gain access to finance. However, the timely adoption of IFRS for SMEs and improvements in the quality of the financial reports of SMEs is expected to be related to both the strength

of the accounting profession within the country and the magnitude of the change in regulation instigated by transitioning from national GAAP to IFRS for SMEs. Chand (2005) identifies the tendency for countries with developing or emerging economies to quickly adopt the full range of IFRS. The inclination to adopt IFRS for SMEs could be strongest in jurisdictions where the standard of financial reporting and regulation of financial reporting is fundamentally inadequate.

IFRS for SMEs have been issued in the anticipation that they will be applied by entities that do not have public accountability but who prepare general purpose financial statements for external users (IASB 2009a). However, the IASB refers this decision to national standard setters making two provisos: (a) entities that hold assets on a fiduciary basis are to be considered as large; and (b) in exercising its judgement, a national standard setter is to categorise any entity that has a significant impact on the nation's economy as large. Of these two provisions, the former captures small entities such as

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not-for-profit savings and loan societies, while the latter affords considerable discretion to regulators in determining what level of economic influence is 'significant'. Devi (2003) establishes that different jurisdictions employ alternative criteria in distinguishing between large, medium and small entities. Therefore, the application of IFRS for SMEs could prove to be arbitrary at a global level. The IASB has identified some 80 national regulators that have adopted or intend to adopt IFRS for SMEs (IASB 2012a). Some of these have indicated that they may apply reporting exemptions, while others, including the United Kingdom (UK), have indicated that they may stipulate additional reporting requirements. Deloitte Touche Tohmatsu reports that 'many countries are moving towards adoption of the IFRS for SMEs, although it appears those countries may not have required IFRS accounting "across the board" prior to moving to implementation' (AASB 2010: 1). Indisposition by a standard setter to adopt is apparently driven by an understanding that jurisdiction-specific regulation already developed is likely to be more pertinent to the economy than general purpose global regulation. Nevertheless, the ready acceptance of IFRS for SMEs by national regulators in emerging economies could be driven by either the absence or inadequacy of existing reporting standards for SMEs as perceived by global capital markets, given the need to attract capital from overseas markets.

Whether actively or passively fostered, the convergence of IFRS for SMEs is controversial. In general, large economies appear to be more reluctant to adopt than small emerging economies. For example, more prominent developed countries that have adopted the full set of IFRS, such as Australia, the UK and European Union (EU) member states, have not yet adopted IFRS for SMEs. In the South Pacific region, Australia is one of the first countries to declare that it will not adopt IFRS for SMEs, arguing that this standard has many inherent problems. Instead, a second tier of reporting requirements comprising full IFRS recognition and measurement and reduced disclosures similar to IFRS for SMEs has been implemented. The standard setters in New Zealand (NZ) permit non-publicly accountable entities to apply a reduced disclosure regime when applying the NZ version of the full IFRS. The reduced disclosure regime is similar to the approach adopted by their Australian counterparts.

The Fiji Institute of Accountants (FIA) has taken the lead in adopting IFRS for SMEs in the South Pacific region. Shortly after the standard was issued in 2009, it required all entities not identified as 'large' to comply with IFRS for SMEs for the reporting period beginning on or after 1 January 2011, recognising the need for many reporting entities to compile financial reports in line with regulation acknowledged, if not adopted, globally. Adoption of IFRS for SMEs enables a jurisdic-

tion to signal that it has acquired and is applying an internationally acceptable regulatory framework, simultaneously enhancing the status of the professional body and fostering inflows of capital from other countries. Unqualified adoption does not, however, automatically lead to effective application. Given the limited professional capacities typically found in emerging economies and the fact that adjustments to be made from national GAAP will in some cases be substantial, actual reporting practices might be expected to fall short of those required by IFRS for SMEs.

Based on a critical perspective, this study advances an alternative rationale premised on identifying the impetus driving the success of the process of accounting convergence with IFRS for SMEs. Furthermore, the possible transition issues that may arise when moving from local GAAP/full IFRS to IFRS for SMEs, such as difficulties in defining SMEs, cost-benefit considerations in adopting IFRS for SMEs, and technical issues inherent in the recognition and measurement principles of the standard are outlined. In other words, this study seeks to identify and explain potential routes by which developing countries might align their implementation of IFRS for SMEs with global accounting practice rather than considering the relevance/irrelevance of these standards. Given that many accounting regulators are in the process of determining the appropriateness of IFRS for SMEs in the context of domestic government policy and economic factors, this research is timely.

We also conducted a survey on accounting practitioners in Fiji. Respondents were provided with 30 statements and were asked to indicate the extent to which they agreed or disagreed with each statement. The responses expressed by accounting practitioners provide insights into the problems encountered in applying IFRS for SMEs and also problems inherent in the standard itself. By extension, they also indicate the extent to which financial reports prepared to comply with IFRS for SMEs do indeed meet the requirements of the standard. Scant attention has been paid to this issue so far; hence the empirical evidence provided by our study could inform not only the global convergence of SME accounting but the quality of the current IFRS for SMEs.

We suggest that a preliminary assessment is required of the costs associated with the adoption, as well as the perceived benefits, before a commitment is made to apply IFRS for SMEs. It may be costly for the profession and the society as a whole to implement and enforce compliance. Our survey results also indicate that there are a number of innate problems in IFRS for SMEs and point to the fact that IFRS for SMEs provide neither ample nor particularly appropriate guidelines to ensure their consistent interpretation and application across jurisdictions. In particular, concerns were raised on accounting for related parties, fair value accounting, tax effect accounting and foreign currency translations in the context

of SMEs in Fiji. Furthermore, disagreement also exists among accounting practitioners in revaluations of fixed assets, treatment of refundable deposits, recognition of intangible assets and disclosures of management remuneration and benefits. Therefore, improved guidelines might not only provide some assurance that benefits will be delivered but could also facilitate the longer-term global convergence of accounting standards as well.

Despite the alleged advantages the IASB claims IFRS for SMEs can provide, we show that the standards suffer from certain severe defects. It is pertinent to note that the IASB itself implicitly acknowledges that there may be significant shortcomings in IFRS for SMEs as it currently stands given the range of issues it raises in the review initiated in 2012 (IASB 2012b). Any defects in IFRS for SMEs will not only potentially hinder the process of accounting convergence but may also, more importantly, fail to deliver the expected advantages. The results will have implications for other countries, which may face transition to IFRS for SMEs within their own domestic accounting frameworks. The study also therefore raises the question of the degree to which global convergence of financial reporting practices can be expected to be achieved and what needs to be done if the convergence process is to be strengthened.

Background

Prior studies on the financial reporting transformation process with the convergence of international standards have revealed several functional complications and persistent issues with the full set of IFRS (Chamisa 2000; Tyrrell et al. 2007; Haswell and Langfield-Smith 2008; Alp and Ustundag 2009). Lack of professional expertise, and inadequate resources and infrastructure facilities for the implementation of international standards in developing economies have been widely articulated (see Briston 1978; Wallace 1990; Nobes 1998). Ram and Newberry (2013) point out that the IASB's position on the assistance the SME project will render to developing economies is ambivalent. Simply introducing a simplified version of the full IFRS with reduced recognition and measurement principles and disclosure requirements does not ensure their relevance in countries with developing capital markets, or consider the capacities of the accounting profession in such societies to apply them. The foregoing arguments suggest that it is important to consider whether IFRS for SMEs in general would meet the financial reporting requirements of different societies, particularly in developing economies.

Literature on SMEs has shown that small businesses are not merely smaller versions of large businesses (Wortman 1987; Keats and Bracker 1988; Ratnatunga

and Romano 1997; Cassar and Holmes 2003; Altman and Sabato 2005). Factors associated with the conduct and performance of SMEs and the relationships among those factors are quite varied and turbulent compared to larger enterprises (Robinson and Pearce 1984; Keats and Bracker 1988). The legal character of SMEs encompasses various forms, including sole traders (individual entrepreneurs), partnerships (general, simple or limited), limited liability companies and other economic units (United Nations 1996). SMEs usually prepare financial statements to meet the needs of their primary users, which may differ significantly across countries.

Most studies of SMEs have examined aspects such as factors affecting their growth, support provided through assistance programs and impediments to success (Young 2002). However, a number of studies have also examined the efficacy of accounting standards for SMEs (e.g., Ivancevich et al. 1997; Williams and Tower 1998; Joshi and Ramadhan 2002; Devi 2003). These studies demonstrate the uniqueness of SMEs and how their information needs can vary significantly across jurisdictions.

The IASB's decision to frame a separate standard for SMEs has raised the issue of drawing a distinction between those entities required to adopt the full set of IFRS and those that will apply the IFRS for SMEs. Potter et al. (2013), using the Australian example, illustrate that countries need to implement the 'differential reporting' framework for SMEs after rigorous consultation with various stakeholders. With the issuance of IFRS for SMEs, countries now have to embrace at least a two-tier model that encompasses the distinctive characteristics of both large entities and SMEs. The distinction between large entities and SMEs must be refurbished thoughtfully in order to successfully implement IFRS for SMEs.

Owing to the recent publication of IFRS for SMEs the consequences of adopting IFRS for SMEs are still presumed to be impending. This study adds to the current debate surrounding IFRS for SMEs, since each country is addressing measurement and disclosure issues from its own limited, parochial perspective.

Accounting Convergence with IFRS for SMEs

Preliminary views on IFRS for SMEs

The IASB undertook a field test on IFRS for SMEs in 2007 to assess issues surrounding (1) understandability, (2) scope, (3) burden, (4) impact, (5) user needs, (6) accounting policy choices, (7) micro and developing country problems, and (8) adequacy of implementation guidance (IASB 2008). While 116 respondents from 20 countries supported IFRS for SMEs in general, a number of concerns were raised over the 'impairment test

for goodwill (unable to find fair values for privately held subsidiaries), determining fair value for equity-settled share-based payments, applying the impairment test under Section 11 (and IAS 39), Section 11 disclosures, Section 19 disclosures, remeasurement of residual value and deferred tax requirements being too time-consuming' (IASB 2008: 3). Further concerns were that the requisite disclosures are too burdensome, that there is a need for further simplification and guidance, and that there would be an increase in audit costs (IASB 2008: 7).

Field tests undertaken by Australia's three largest professional accounting bodies in 2007 indicate similar concerns surrounding the extent of deferred tax liability recognition, accounting for contingent consideration as part of a business acquisition, greater clarity on financial assets and financial liabilities, and confusion surrounding the concept of 'relevant and reliable'. Given that the proposed IFRS for SMEs contained over 400 disclosures (as distinct from around 140 for those entities field-tested) it was unlikely to lead to any significant 'burden reduction' (Institute of Chartered Accountants in Australia 2007: 6).

The International Federation of Accountants (IFAC) focus group interviews of users and preparers of IFRS for SMEs undertaken in Italy, Kenya, Poland, Uruguay and the UK raised similar concerns. For example, 'focus group participants indicated that the current exposure draft of the IFRS for SMEs appears to be too complex for micro-entities (defined as entities with fewer than 10 employees) and suggested that relatively minor changes to the current draft might not be sufficient to address this concern' (Lymer 2008: 1). On the other hand, 'participants who supported the development of a separate set of accounting guidance for micro-entities generally felt that two levels should be developed: a concise version that would be easy for business owners to follow and understand, and a more technical version for preparers of financial statements' (Lymer 2008: 1). The concise version Lymer called for only became available in June 2013 (IASB 2013).

The motivation to adopt IFRS for SMEs may be driven by a number of factors. Even in a jurisdiction that has adopted IFRS for SMEs, the motivation among SMEs to apply them may not necessarily be strong if sanctions for compliance are weak. Demand from users of the SME's financial report, prompting them to produce reports that are compliant with IFRS for SMEs, may prove to be a stronger motivator. Stakeholders in other countries, such as participants in a supply chain, may well drive entities to prepare reports that are compliant with an internationally recognised regulation. The majority of entities to which IFRS for SMEs is expected to apply will not be publicly accountable (Alp and Ustundag 2009). Since an SME with a small number of equity holders might provide each equity holder with direct access to internal management financial reports, the

preparation of fully audited financial statements may be perceived as necessary only for regulatory compliance. In these circumstances, equity holders could be tempted to minimise the costs of preparation and/or audit by accepting a qualified audit report, which could lead to a less-than-optimal application of IFRS for SMEs.

A SME may only have to report to one, or a small number of parties, typically, their financier(s). Such a user will exercise monopoly power over the report provider. The SME will tend to shape their financial reports to meet the requirements of their users rather than the requirements specified by IFRS for SMEs. The IASB's intent is that IFRS for SME financial reports will become generally accepted by investors/financiers (IASB 2009b). However, given the highly conservative accounting policies loan creditors typically insist their clients employ in constructing their financial reports, it seems highly unlikely that this will be realised. It is worth noting in this respect that the IASB conceptual framework program has dropped prudence as a qualitative characteristic in financial reporting (IASB 2010). While the prudence qualitative characteristic may not be needed when compiling financial reports for 'large' entities, serious consideration could be given to retaining it in the context of SMEs.

The ability of the accounting profession, globally speaking, to come to terms with IFRS for SMEs will depend upon: (a) accountants' familiarity with the full range of IFRS and the principles they share in common; (b) the frequency and degree of change in the regulatory environment at all levels, from local GAAP to the IFRS for SMEs; and (c) the availability of appropriate and ongoing training and development for accounting practitioners.

The IASB has sought to address the training issue through the provision of extensive background documentation (IASB 2009b) and a training module for each of the 35 sections of IFRS for SMEs, which national training providers are enjoined to use to ensure delivery of a common experience to accounting practitioners regardless of professional affiliation or jurisdiction. The effectiveness of this initiative has, however, been diminished by the following. First, training modules have not been developed in a timely fashion: out of 35 sections, only 26 training modules are available in English, 30 months after the standard was released. Inevitably some jurisdictions and professional firms, particularly the Big Four will have developed their own training materials, especially for those sections where the IASB has not generated their own materials. This could lead to the inconsistent application of IFRS for SMEs. Second, the content and underlying intent of the training material may not be adequately transmitted across different cultures or languages. Third, the IASB's global distribution of training materials implies that trainees throughout the world already possess a common base of understanding (the IASB seems to have assumed a minimum common base).

Adopting IFRS for SMEs in Fiji

Definition of SMEs

Prior to the adoption of IFRS in Fiji, the FIA considered entities as being 'small or medium' that met two or three of the following criteria: fewer than 20 employees, gross operating revenue of less than \$2.5 million and gross assets of less than \$1.5 million. In 2002, the Fiji Government also established a national centre for SME development to foster business with a turnover or total assets of less than \$100 000 and employing fewer than 20 employees. Historically, SMEs in Fiji were not subject to any prescribed reporting requirements, although some SMEs opted to apply the full set of accounting standards applicable to the larger entities.

The IASB adopted a definition for SMEs when IFRS for SMEs came into effect in July 2009. According to the standard, SMEs are entities that:

- a) do not have public accountability, and
- b) publish general purpose financial statements for external users. Examples of external users include owners who are not involved in managing the business, existing and potential creditors, and credit rating agencies (IASB 2009a: 10).

An entity has public accountability if:

- i. its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or
- ii. it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. This is typically the case for banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks (IASB 2009a: 10).

The IASB's definition of 'public accountability' was developed for entities such as banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks (AASB 2010: 11). However, this definition excludes consideration of the position of SMEs in most developing economies. The evidence suggests that most SMEs in developing economies such as Fiji are very small in size, with few employees and with less than a million dollars in gross revenue.

The FIA designated a number of categories of reporting entities as 'large' and subject to regulation under the full range of IFRS adopted by Fiji in 2007. These categories are:

- a) public companies, as defined by the Companies Act;
- b) government majority-owned companies;
- c) banking and financial institutions;

- d) superannuation, insurance and insurance broking entities;
- e) government entities established under their own statute with an annual turnover of at least \$5 million;
- f) entities with an annual group turnover of at least \$20 million or with assets exceeding \$20 million;
- g) entities that are publicly accountable (which have debt or equity instruments on public issue or have coercive power to tax, rate or levy to obtain public funds) with an annual turnover of at least \$5 million;
- h) entities with an annual turnover of at least \$5 million; and
- i) entities over which any of the above listed entities have significant influence, because equity accounting would be applicable for the investor company reporting.

These categories are arbitrary, but can be seen to be driven by direction given by the IASB. Additionally a number of institutions and agencies that serve the Pacific Island nations located in Fiji are categorised as large. Their reports could be of interest not only to users within the island nations of the Pacific but in countries beyond, especially those that provide loans, aid or other forms of subvention.

In adopting IFRS for SMEs in 2009, the FIA initially resolved that this new IFRS would simply apply to all entities not categorised as 'large' to ensure that no entity required to produce an annual financial report fell outside the regulatory framework by default. However, many entities sought exemption from compliance with IFRS for SMEs because of the small number of external users, or users who only require special purpose financial reports. As a result of these representations, the FIA allowed entities to provide summarised reports with limited disclosure notes and an audit report with appropriate caveats attached, where entities were not otherwise required to construct full annual financial reports. As a result, some of Fiji's SMEs produce less-detailed financial reports than would otherwise be required by IFRS for SMEs, and in some cases less detailed reports than under the national GAAP that the IFRS for SMEs replaced.

Costs/Benefits

It could be argued that, for most SMEs, the costs of compliance with accounting standards are far greater than any benefits that may accrue. Compliance costs include the direct costs of collecting, storing and retrieving financial information and employing accountants, as well as the indirect costs of diverting resources and management time towards compliance (Patel and Needham 1991). Although these costs may be acceptable for SMEs in developed economies where large professional bodies and networks provide an efficient source of support,

SMEs operating in a developing economy may exist in an economic environment where the quality of professional services available is limited, and the benefits of compliance through improved access to capital are fewer.

To apply an IFRS for SMEs – intended for use by ‘large’ SMEs in developed countries – to smaller SMEs in developing economies, particularly in small economies such as Fiji, could therefore be counter-productive.¹ The additional costs of preparing, auditing and disseminating the disclosures required may not be justified since the information needs of users will be limited (IFAC 2006a, 2006b). Social costs may be imposed if the transition to the new international accounting standards needs to be publicly funded. In Japan, for example, the Federal Government found it necessary to subsidise SMEs’ adoption of the ISO 14000 *International Environmental Standard* series (Sano 1998). As already noted, in adopting IFRS for SMEs, the standard setters in Fiji have exempted certain SMEs that are not otherwise required to produce full financial reports (Fiji Institute of Accountants 2007). This approach seems to be more cost-effective for micro-SMEs.

Users of SME financial reports

In contrast to both multinational and listed companies, the operations of SMEs may be purely domestically based. Although their reporting obligations may be smaller in scope, specific information will still be required by financing institutions. In many Pacific Island countries, such as Fiji, the purpose of financing institutions differs from that of international banks. The Development Bank of Fiji, for example, is a government-owned financial institution, primarily established to provide financial support to business entities owned by ethnic Fijians. Such institutions seek financial information from SME clients, which conforms to local rules and frameworks rather than international benchmarks. The accounting values that may be obtained by the application of IFRS are often ignored when assessing an entity’s capacity to repay loans (Chand and White 2005). The preparation of two sets of audited financial statements – one prepared in accordance with IFRS for SMEs, the other in accordance with local informal rules and frameworks, that is, those set by financiers – therefore imposes an unnecessary financial burden on Fiji’s SMEs.

Since SMEs may be able to operate with a small number of suppliers on a credit basis, their financial position can be monitored by debt-holders by means of personal and direct contacts. Major finance providers may have close relationships with the SMEs in which they have invested. Any lack of transparency (in terms of comprehensive disclosures) in SME financial reports may not be a significant issue. Since financial reports are prepared to comply with Fiji’s Company’s Act and/or financial

institution covenants and/or guidelines, users may not place a high premium on financial statements prepared in accordance with IFRS for SMEs.

High concentrations of shareholdings are found among the large privately owned entities in Fiji (Patel 2002). The smaller entities are typically owned by single families and/or close friends who have their own direct access to management information. Such equity holders could perceive the preparation of annual financial reports as an unnecessary distraction and a cost to be avoided or minimised wherever possible. Perhaps as a consequence, Fiji’s companies’ legislation currently permits corporate entities to dispense with audits of the annual financial report on the unanimous vote of shareholders. Pending legislation allows small (as yet, undefined) entities to dispense with the preparation of the annual financial report unless requested by shareholders holding, in aggregate, at least 5% of shareholders’ equity. It may be expected that such entities would avoid the preparation of IFRS for SMEs-compliant reports wherever possible unless obligated to so by a powerful external stakeholder such as a finance provider. As previously noted, the informational needs of finance providers are neither necessarily satisfied by, nor congruent with, IFRS for SMEs. Set against this, Fiji’s economy is critically dependent on international trade, particularly the importation of goods, and consequently, many business entities involved in international trade may be required by their international trading partners to provide financial reports. In such cases, reports compliant with IFRS for SMEs, being the reports deemed to be internationally acceptable, could be appropriate.

Relevant expertise and resources

The FIA reviewed IFRS for SMEs shortly after its endorsement by the IASB in 2009. The FIA did so in the expectation that the IASB would promptly develop all of the training materials it had undertaken to produce so that the requisite training could be completed prior to the standard’s adoption. However, as previously stated, the IASB had released only 25 of the 35 training modules by the end of 2011, when all non-large reporting entities were in the process of transition to IFRS for SMEs.

The FIA maintains that, given the supporting documentation provided by the IASB and the CPE seminars offered by the FIA, the local accounting profession and their clients had sufficient opportunity to prepare for the adoption of the new IFRS for SMEs. In fact, there are only substantive differences between five sections of IFRS for SMEs and the corresponding standards included in Fiji’s GAAP. The FIA offered training in all these areas, although the IASB’s training module pertaining to related parties was not available until 2012. Hussein et al. (2011) point to the concern expressed within Fiji’s

accounting profession that only practitioners employed in the Big Four accounting firms received in-house training exercises. Other practitioners' training opportunities were in reality limited. Furthermore, many of the clients of these practitioners were not well informed about the introduction of IFRS for SMEs and were consequently inadequately prepared for their introduction.

Nevertheless, the profession does not lack the capacity to apply the standard. The introduction of IFRS for SMEs brings only relatively modest changes to financial reporting in Fiji. Indeed, the requirement to revert from reporting non-current assets at revaluations, where this has been done in the past, to the cost-depreciation-impairment model, will simplify financial reporting to some extent. Accountants with the Big Four accounting firms have up to six years' experience of applying full IFRS in relation to their large clients and the training they have received can be repeated for new Big Four inductees. While all large entities are audited by the Big Four accounting firms or the Office of the Auditor General with experience and expertise in applying full IFRS, many SMEs are clients of non-Big Four accounting firms.

The FIA's 2007 and 2008 observations on the first and second years of reporting under full IFRS reveal that a higher level of compliance was achieved in the second year. Furthermore, instances of non-compliance in the first year had no significant impact on the respective entity's reported financial performance. As a result, the FIA concluded that intent to comply existed from the outset and that the necessary learning processes were activated by the time the second round of financial reports were prepared. Although SME managements may not be as strongly motivated to achieve compliance as their 'large' management counterparts, the observations made in 2007 and 2008 suggest that Fiji's accountants have the capacity to achieve compliance with IFRS for SMEs, whether induced by their auditors or not; however, the same level of compliance may not be forthcoming.

Fiji is well supplied with qualified, competent accountants.² However, accountants employed in the Big Four accounting firms may be better prepared to apply IFRS for SMEs than those employed in smaller firms. Markets for audit and other accounting services can therefore be expected to emerge. Those SMEs eager to minimise the additional costs of preparing IFRS for SME-compliant financial reports may tend to engage accounting firms outside the Big Four and/or accept qualified audit reports. On the other hand, entities that perceive benefits in producing compliant reports may be expected to engage Big Four accounting expertise. The global shortage of accountants has led to a steady emigration of Fiji's accountants, attracted both by higher salaries and a wider range of lifestyle and career opportunities. This provides an incentive for accountants who

work outside of the Big Four accounting firms to develop competency in applying IFRS for SMEs, an internationally, if not globally, accepted regulatory regime.

Technical issues

In Fiji, a number of issues have emerged from the application of IFRS for SMEs. Section 33 of IFRS for SMEs requires far more detailed disclosures pertaining to related parties than the GAAP it replaced. Senior executives in a number of large entities in Fiji expressed opposition to the disclosures required by full IFRS, particularly with regard to executive compensation. It may therefore be expected that SME owner-entrepreneurs and executives will find the compensation disclosures required by IFRS for SMEs even more intrusive, which will generate related compliance issues.

A special problem arises with regard to reporting for related parties under IFRS for SMEs. Reporting for related parties raises difficulties for all entities because neither IAS 24 *Related Party Disclosures* nor IFRS for SMEs satisfactorily defines the term 'related party'. Instead, each standard provides one list of examples where related parties necessarily exist and another list of examples where they may not necessarily exist. Each standard requires accountants to exercise judgement without providing a principle upon which to base that judgement. Furthermore, there may be greater difficulties in establishing the existence of related parties and related party transactions for SMEs than large entities, especially if the SME is family-owned. Consider the following example:

Mr A and Mr A Junior own a store. They are approached by Mr Z, Mr A's brother-in-law who requests Mr A to provide him with an item free of charge, which is available in the store. It is Mr Z's birthday. Mr A and Mr A Junior accede to Mr Z's request.

Does this scenario constitute a non-arm's length related party transaction between Mr A and Mr A Junior's business and Mr Z, or are Mr A and Mr A Junior giving Mr Z a birthday present in their capacities as individuals related through marriage?

The two predominant ethnic groups in Fiji (Fijians and Indo-Fijians) are each characterised by extended family cultures where, in some cases, it is implicitly understood that wealth is communally owned. In Fiji, therefore, related-party transactions of the kind outlined in the above scenario could be common.

In its preparation of the training materials for Section 33 of IFRS for SMEs, the IASB implicitly acknowledged the more complex problems that SMEs may face in dealing with related parties. The training materials provide two matrices to facilitate the identification of these relationships: (i) between entities; and (ii) between individuals. The second matrix of the two is the larger because it contains the greater number of cells, both absolutely

and relatively, where professional judgement could be required.

The current IFRS for SMEs appears to embrace the notion of 'fair value' more intensely than the full set of IFRS with respect to investments. Some Australian stakeholders have argued that this could impose significant additional audit costs on preparers, which may not exceed the benefits to be generated (Deloitte 2007). In developing countries such as Fiji, 'active and liquid markets' simply do not exist for many assets. Mala and White (2009) point out that a low level of liquidity has pervaded the South Pacific Stock Exchange (SPSE) since its establishment. IFRS for SMEs shows certain financial instruments to be reported at cost as a last resort. In Fiji's case the last resort will reflect the default option. This can be expected in other jurisdictions where financial markets are in a similar state of under-development.

Furthermore, deferred tax assets (Section 29), which needs to be recorded with offsetting valuation allowances, and recognition and measurement under 'uncertain tax positions' have been incorporated in IFRS for SMEs. These two new requirements will be difficult for SMEs to apply in practice and the incomprehensible nature of them will lead to interpretation issues for the preparers of financial statements (Ernst & Young 2010; ICAA 2012). In a similar manner, the lack of guidance provided on the foreign currency translation (Section 30) may result in different interpretations being adopted by different entities (Ernst & Young 2010).

Like the IFRS from which it has been crafted, IFRS for SMEs is a principles-based standard. The principles-based nature of IFRS for SMEs poses challenges for accountants (Tomaszewski and Showerman 2011). Qualified and experienced accountants capable of applying professional judgements to principles-based standards are generally in short supply. Developing economies such as Fiji often lack independent, formally constituted regulatory bodies capable of adequately interpreting and enforcing accounting standards. As a result, accounting practices are often self-regulated, and independent legally backed regulatory bodies do not exist.³ In such cases, it could be extremely difficult to monitor and enforce compliance with IFRS for SMEs.

IFRS for SMEs Quality Re-evaluated: Views from Accounting Practitioners in Fiji

Research method and instrument

A survey was conducted on professional accountants in Fiji to explore the problems they encounter in interpreting and applying IFRS for SMEs. The survey was conducted in March 2012 as part of the professional development training program of the FIA. Fiji was selected for this study because it has adopted IFRS for SMEs.

Table 1 Demographic data of respondents

Demographic data	Respondents
Sample size	155
Level of experience in years (Mean)	5.9
Level of formal education in years (Mean)	16.7
Age (Mean)	30.3
Gender:	
Male	82
Female	73
Employer details:	
Big Four accounting firms	53
Non-Big Four accounting firms	29
Others	73

Accountants were therefore already applying the standard when the survey was conducted, affected entities having been required to be IFRS for SMEs-compliant for reporting periods beginning on or after 1 January 2011. Consequently, they were well placed to provide first-hand evidence of the difficulties they faced when interpreting and applying this new standard.

The chosen respondents had professional accounting qualifications and were members of the FIA. Therefore, in all cases, the respondents had exposure to IFRS for SMEs, though their knowledge and experience varied. All participants were geographically located in and around Suva and Lautoka, the two major commercial centres in Fiji. A total of 155 participants took part in the survey.

The research instrument consisted of two sections. The first section required subjects to provide demographic data such as gender, level of formal education, level of experience and employer details. The second section consisted of 30 statements, each of which addressed various aspects of IFRS for SMEs. Participants were asked to indicate their level of agreement or disagreement with each of those statements on a seven-point Likert scale. The statements were developed on the basis of criticisms and comments raised on IFRS for SMEs by academic and professional literature and submissions made to the IASB during the review process, most of which were outlined earlier in this paper.

Results and discussion

Validity of the research instrument

To establish the internal validity and consistency of statements contained within the research instrument, Cronbach's alpha was calculated. A Cronbach alpha of 0.7 or greater indicates satisfactory internal consistency (Nunnally 1978). Since a Cronbach alpha of 0.93 was obtained, a very high level of internal consistency across the 30 statements was apparent.

Table 2 A summary of the 30 questions to explore the problems accountants in Fiji encounter in interpreting and applying IFRS for SMEs*

Questions	Mean	Standard deviation	N
1. The costs of complying with the SME IFRS are far greater than the corresponding benefits	4.18	1.42	154
2. Extensive cross-referencing to full IFRS is required while interpreting and applying SME IFRS	4.46	1.39	153
3. SME IFRS in general are not easy to understand	3.87	1.55	153
4. SME IFRS contain expressions that are lacking clarity	4.21	1.43	153
5. The vocabulary used in SME IFRS is difficult to understand	3.38	1.35	154
6. The nature, volume and complexity of disclosure required by SME IFRS is excessive	4.20	1.61	153
7. The information required to apply SME IFRS is not available or available with only undue cost or effort	4.22	1.45	153
8. The use of fair value accounting (FVA) is excessive in SME IFRS	4.40	1.52	154
9. The use of FVA in SME IFRS imposes significant annual costs on preparers and is not justified on cost/benefit grounds	4.54	1.56	153
10. The need to exercise professional judgement is excessive in SME IFRS	4.64	1.48	154
11. Individual paragraphs within SME IFRS are repetitive	3.88	1.23	154
12. The paragraph coding in SME IFRS is confusing	3.79	1.26	154
13. SME IFRS are structured in a way that is difficult to follow	3.61	1.39	155
14. Recognition criteria are not applied consistently across SME IFRS	3.92	1.44	155
15. Measurement criteria are not applied consistently across SME IFRS	3.99	1.33	155
16. Recognition criteria applied in SME IFRS are not easy to understand	4.03	1.33	154
17. Criteria employed in allowing alternative accounting treatments are not applied consistently across SME IFRS	4.04	1.29	155
18. The alternative treatments given in SME IFRS are not easy to understand	4.01	1.27	155
19. SME IFRS is too complex for SMEs in Fiji	4.64	1.62	155
20. SME IFRS do not provide adequate guidance to assist accountants in interpreting and applying this standard	3.90	1.48	155
21. SME IFRS do not provide adequate guidance to address the social and economic characteristics of SMEs in Fiji	4.17	1.43	154
22. There is a need to create an additional tier of differential reporting framework in Fiji for really small (micro) entities	4.78	1.90	153
23. Additional exemptions need to be given in SME IFRS to make it more cost effective for SMEs in Fiji	4.31	1.67	153
24. There are transactions, events or conditions that SMEs engage in that are not covered in SME IFRS	3.66	1.36	153
25. Certain terms are not defined in the same way across SME IFRS	3.58	1.36	152
26. It is difficult to capture the meaning of some terms in SME IFRS	3.62	1.40	152
27. Some terms in SME IFRS are used inconsistently	3.38	1.37	153
28. How often do you need to consult with other resources, such as manuals provided by employers, consultation with senior staff, etc., when applying SME IFRS?	4.63	1.75	151
29. Do you think different professional accountants will always reach the same judgement on a specific scenario under the guidance of SME IFRS?	3.46	1.54	152
30. Have you ever been in disagreement with your colleagues when deciding which alternative treatment given by SME IFRS is the most appropriate to employ in a particular scenario?	3.71	1.64	149

*Note: Respondents were asked to express their opinions on each statement on a seven-point Likert scale (where for Questions 1–27, 1 denoted 'strongly disagree' and 7 denoted 'strongly agree'; while for Questions 28–30, 1 denoted 'never' and 7 denoted 'always' on the Likert scale).

Demographic details of respondents

A brief summary of the demographic details of the 155 respondents is as follows. As shown in Table 1, the mean age of the respondents was 30.3 years. On average, the

level of formal education attained by the professional accountants was 16.7 years, and approximately 53% of the respondents were male with 47% being female. The average level of experience of the respondents was 5.9 years. Of the 155 respondents, 53 were employed in Big Four

accounting firms, 29 were employed in other accounting firms and 73 were employed in the government or business sector.

Problems posed by IFRS for SMEs

To provide a more detailed analysis of the various issues surrounding the interpretation and application of IFRS for SMEs, the 30 statements were organised into those relating to the costs and benefits in applying the standards, lack of consistency across IFRS for SMEs, the extent of vagueness and repetition in IFRS for SMEs, the extent of understandability, extent of guidance provided, and other issues in interpreting and applying IFRS for SMEs. A summary of the 30 questions and the descriptive statistics is reported in Table 2.

Costs and benefits

Four questions (Questions 1, 7, 9 and 23) were included in the survey to gather opinions from the accountants on the costs of compliance with IFRS for SMEs. For the purpose of the analysis, it was expected that respondents who circled 4 or above on the seven-point Likert scale (where 1 denoted 'strongly disagree' and 7 denoted 'strongly agree') for these questions would generally be indicating that they agreed with the relevant statements. The results show that 66.9% of respondents strongly agreed with the statement that the costs of complying with IFRS for SMEs are far greater than the corresponding benefits (Question 1) and 69.3% of respondents recognised that the information required to apply IFRS for SMEs is not available, or is available only with undue cost or effort (Question 7). Furthermore, 74.5% of respondents indicated that the use of fair value accounting in IFRS for SMEs imposes significant additional costs on preparers and is not justified on cost/benefit grounds (Question 9). Sixty-six point seven percent of the respondents held the view that additional exemptions need to be granted in IFRS for SMEs to make implementation more cost effective for SMEs in Fiji (Question 23).

These views suggest that while the costs of compliance may be viable for large SMEs such as those operating in developed economies, small SMEs operating in Fiji may find it costly to comply with IFRS for SMEs. The frequency and cumulative percentage of responses in each of the four questions are reported in Table 3.

Lack of consistency in IFRS for SMEs

Five questions (Questions 14, 15, 17, 25 and 27) sought opinions on the degree of inconsistency across IFRS for SMEs by asking respondents whether they agreed or disagreed with various statements. For the purpose of the analysis, it was expected that respondents who circled 4

Table 3 The frequency and cumulative percentage of responses on questions related to costs associated with complying with IFRS for SMEs

Scale	Frequency				Cumulative percent			
	Q1	Q7	Q9	Q23	Q1	Q7	Q9	Q23
1	3	3	5	7	1.9	2.0	3.3	4.6
2	16	18	8	14	12.3	13.7	8.5	13.7
3	32	26	26	30	33.1	30.7	25.5	33.3
4	39	42	40	38	58.4	58.2	51.6	58.2
5	38	33	27	20	83.1	79.7	69.3	71.2
6	16	22	28	25	93.5	94.1	87.6	87.6
7	10	9	19	19	100	100	100	100

Table 4 The frequency and cumulative percentage of responses on questions related to lack of consistency in IFRS for SMEs

Scale	Frequency					Cumulative percent				
	Q14	Q15	Q17	Q25	Q27	Q14	Q15	Q17	Q25	Q27
1	8	4	4	4	6	5.2	2.6	2.6	2.6	3.9
2	19	19	17	32	37	17.4	14.8	13.5	23.7	28.1
3	30	27	25	43	48	36.8	32.3	29.7	52.0	59.5
4	42	55	54	35	36	63.9	67.7	64.5	75.0	83.0
5	38	29	36	27	12	88.4	86.5	87.7	92.8	90.8
6	12	17	16	5	9	96.1	97.4	98.1	96.1	96.7
7	6	4	3	6	5	100	100	100	100	100

or above on the seven-point Likert scale (where 1 denoted 'strongly disagree' and 7 denoted 'strongly agree') for these questions would generally be indicating that they agreed with the relevant statements.

The results show that 63.2% of respondents strongly agreed with the statement that the recognition criteria are not applied consistently across IFRS for SMEs (Question 14) and 67.7% of respondents recognised that the measurement criteria are also not applied consistently across IFRS for SMEs (Question 15). On the other hand, 70.3% of respondents held the opinion that the criteria employed in allowing alternative accounting treatments are not applied consistently across IFRS for SMEs (Question 17). In Questions 25 and 27, 48% and 40.5% respectively of respondents claimed that some terminologies were not defined or used consistently in IFRS for SMEs. The results suggest that this inconsistency across IFRS for SMEs is an issue of concern that has the potential to cause problems in interpreting and applying these standards. The frequency and cumulative percentage of responses in each of the five questions are reported in Table 4.

Extent of vagueness and repetition in IFRS for SMEs

Questions 4 and 11 attempted to capture accountants' views on whether, being principles-based accounting

Table 5 The frequency and cumulative percentage of responses on questions related to the extent of vagueness and repetition in IFRS for SMEs

Scale	Frequency		Cumulative percent	
	Q4	Q11	Q4	Q11
1	4	4	2.6	2.6
2	12	17	10.5	13.6
3	34	35	32.7	36.4
4	41	52	59.5	70.1
5	30	31	79.1	90.3
6	24	14	94.8	99.4
7	8	1	100	100

standards, the inherent vagueness and repetition in IFRS for SMEs is noticeable and pervasive.

Sixty-seven point three percent of respondents commented that IFRS for SMEs contains expressions that lack clarity (Question 4) and 63.6% of professional accountants indicated that individual paragraphs within IFRS for SMEs are repetitive (Question 11). This indicates that vagueness and repetition are a problem in the wording of IFRS for SMEs. The frequency and cumulative percentage of the responses to these two questions are reported in Table 5.

Extent of understandability

In the survey questionnaire, Question 3 asked for comments on the general understandability of IFRS for SMEs, and more than half of the participants (56.2%) claimed that IFRS for SMEs in general are not easy to understand (Question 3). Factors affecting general understandability were divided into those relating to structure and those relating to content. Questions 12 and 13 attempted to gather opinions on the structure of IFRS for SMEs, and Questions 5, 16, 18 and 26 attempted to capture comments on the content of IFRS for SMEs. Sixty-three percent of respondents considered the paragraph coding in IFRS for SMEs to be confusing (Question 12), while 51% thought that the structure of IFRS for SMEs is difficult to follow (Question 13).

Forty-two point two percent of respondents indicated that the vocabulary in IFRS for SMEs is difficult to understand (Question 5). Commenting on the content of IFRS for SMEs, 67.5% and 66.5% of respondents respectively indicated that the recognition criteria applied in IFRS for SMEs (Question 16) and alternative treatments given in IFRS for SMEs (Question 18) are not easy to understand. Furthermore, 48.7% of respondents said that it is difficult to capture the meaning of some terms in IFRS for SMEs (Question 26). Some respondents identified the overall description style in IFRS for SMEs as one of the factors that reduce understandability. Other respondents provided examples of terms that they claimed are

difficult to understand; they include those that require judgement, such as 'related party', 'significant influence' and 'probable'.

These comments suggest that the structure and content of IFRS for SMEs are somewhat problematic. Therefore, efforts should be directed towards improving the structure and language used in IFRS for SMEs to enhance general understandability. The frequency and cumulative percentage of the responses in each of the seven questions are reported in Table 6.

Extent of guidance provided

Five questions (Questions 20, 21, 28, 29 and 30) sought opinions on whether respondents receive sufficient guidance in the interpretation and application of IFRS for SMEs.

The results show that 58.7% of the respondents claimed that IFRS for SMEs do not provide adequate guidance to assist accountants in interpreting and applying this standard (Question 20). Some respondents pointed out that a number of key concepts and application guidance has been dropped in certain sections of the IFRS for SMEs. For example, in accounting for intangible assets acquired in a business combination, no guidance is provided on the types of intangibles that might be recognised, nor are there details on fair value measurement considerations. Furthermore, 65.6% of respondents indicated that IFRS for SMEs do not provide adequate guidance to address the social and economic characteristics of SMEs in Fiji (Question 21). In particular, concerns were raised by the accountants over the application of fair value accounting, impairment of assets, tax effect accounting and foreign currency translations in the context of SMEs in Fiji.

Question 28 attempted to capture opinions on whether IFRS for SMEs provide sufficient guidance for professional judgement. Among the respondents, 73.5% (respondents who circled 4 or above on the seven-point Likert scale where 1 denoted 'never' and 7 denoted 'always') indicated that they need to frequently consult with other resources, such as manuals provided by employers, senior staff, etc., when applying IFRS for SMEs (Question 28).

Questions 29 and 30 attempted to identify whether different professional accountants will always reach the same judgement on a specific scenario under the guidance of IFRS for SMEs. Only 28.9% of the participants circled the value of 5 or above on the seven-point Likert scale in Question 29 (where 1 denoted 'never' and 7 denoted 'always'), indicating that the majority do not hold the opinion that different professional accountants will reach the same judgement. Fifty-six point four percent of respondents (who circled 4 or above on the seven-point

Table 6 The frequency and cumulative percentage of responses on questions related to the extent of understandability of IFRS for SMEs

Scale	Frequency							Cumulative percent						
	Q3	Q5	Q12	Q13	Q16	Q18	Q26	Q3	Q5	Q12	Q13	Q16	Q18	Q26
1	8	9	4	7	4	3	5	5.2	5.8	2.6	4.5	2.6	1.9	3.3
2	22	34	22	29	17	16	29	19.6	27.9	16.9	23.2	13.6	12.3	22.4
3	37	46	31	40	29	33	44	43.8	57.8	37.0	49.0	32.5	33.5	51.3
4	36	33	60	39	51	50	37	67.3	79.2	76.0	74.2	65.6	65.8	75.7
5	22	21	23	23	31	33	20	81.7	92.9	90.9	89.0	85.7	87.1	88.8
6	21	9	11	15	18	18	12	95.4	98.7	98.1	98.7	97.4	98.7	96.7
7	7	2	3	2	4	2	5	100	100	100	100	100	100	100

Table 7 The frequency and cumulative percentage of responses on questions related to extent of guidance provided in interpreting and applying IFRS for SMEs

Scale	Frequency					Cumulative percent				
	Q20	Q21	Q28	Q29	Q30	Q20	Q21	Q28	Q29	Q30
1	6	3	10	18	18	3.9	1.9	6.6	11.8	12.1
2	24	15	11	29	18	19.4	11.7	13.9	30.9	24.2
3	34	35	19	30	29	41.3	34.4	26.5	50.7	43.6
4	37	40	23	31	39	65.2	60.4	41.7	71.1	69.8
5	27	30	33	30	19	82.6	79.9	63.6	90.8	82.6
6	23	23	32	12	21	97.4	94.8	84.8	98.7	96.6
7	4	8	23	2	5	100	100	100	100	100

Likert scale where 1 denoted 'never' and 7 denoted 'always') indicated that they have frequently disagreed with their colleagues' judgement on the selection of the most appropriate accounting treatment (Question 30). Examples of where disagreement exists are the application of fair value accounting, revaluations of fixed assets, related party disclosures, treatment of refundable deposits, recognition of intangible assets, and disclosures of management remuneration and benefits. These comments suggest that variations in decisions and levels of disagreement among colleagues are common phenomena when accountants interpret and apply IFRS for SMEs.

These comments suggest that accountants definitely require more guidance on IFRS for SMEs. Therefore, efforts should be directed towards providing more guidance and training materials on IFRS for SMEs to enable accountants to apply these standards in a consistent manner. The frequency and cumulative percentage of the responses in each of the five questions are reported in Table 7.

Other issues in interpreting and applying IFRS for SMEs

Seven questions (Questions 2, 6, 8, 10, 19, 22 and 24) elicited further insights by asking respondents to answer

specific questions on the basis of their experience in the interpretation and application of IFRS for SMEs. A summary of the seven questions and the descriptive statistics are reported in Table 8.

The results show that 70.6% of the respondents (respondents who circled 4 or above on the seven-point Likert scale where 1 denoted 'never' and 7 denoted 'always') indicated that extensive cross-referencing to full IFRS is required when interpreting and applying IFRS for SMEs (Question 2). Furthermore, 53.6% indicated that there are transactions, events or conditions in which SMEs engage that are not covered in IFRS for SMEs (Question 24). For example, the recognition and measurement of 'uncertain tax positions' are included in IFRS for SMEs (Sections 29 *Income Tax*), and deferred tax assets have to be recorded under IFRS for SMEs with offsetting valuations allowances, which is not covered by full IFRS (IAS 12 *Income Tax*).

Sixty-five point four percent of the respondents indicated that the nature, volume and complexity of disclosure required by IFRS for SMEs are excessive (Question 6), 72.7% of the respondents showed that the use of fair value accounting is excessive in IFRS for SMEs (Question 8), and 75.3% hold the view that the need to exercise professional judgement is excessive in IFRS for SMEs (Question 10). The technical challenges in fair value-based measurement requirements have been a major issue of concern. As specified by Section 26 *Share Based Payments* of IFRS for SMEs, if the fair value of shares in equity-settled share-based payments is not observable, and obtaining entity-specific market data is impracticable, the directors should use their judgement to apply the most appropriate valuation methodology. More specifically, the lack of liquidity of the capital market and the lack of availability of recent capital market information in Fiji would mean that practitioners need to seek alternative sources of measurement. The accurate estimation and consistent application of those alternative measurements would nevertheless be a confronting issue (see Mala and Chand 2012).

Lastly, commenting on the issue of complexity, 71.6% of the respondents indicated that IFRS for SMEs is too

Table 8 The frequency and cumulative percentage of responses on questions related to other issues in interpreting and applying IFRS for SMEs

Scale	Frequency							Cumulative percent						
	Q2	Q6	Q8	Q10	Q19	Q22	Q24	Q2	Q6	Q8	Q10	Q19	Q22	Q24
1	1	5	4	1	1	8	7	0.7	3.3	2.6	0.6	0.6	5.2	4.6
2	10	23	11	10	16	17	22	7.2	18.3	9.7	7.1	11.0	16.3	19.0
3	34	25	27	27	27	20	42	29.4	34.6	27.3	24.7	28.4	29.4	46.4
4	28	32	46	36	28	17	46	47.7	55.6	57.1	48.1	46.5	40.5	76.5
5	44	30	28	29	31	22	23	76.5	75.2	75.3	66.9	66.5	54.9	91.5
6	25	27	20	33	26	32	7	92.8	92.8	88.3	88.3	83.2	75.8	96.1
7	11	11	18	18	26	37	6	100	100	100	100	100	100	100

complex for SMEs in Fiji (Question 19), and 70.6% had the view that there is a need to create an additional tier of differential reporting framework in Fiji for really small (micro) entities (Question 22). The accountants pointed out that the complexity of IFRS for SMEs is compounded by the backwards reference to full IFRS, making it necessary for those dealing with financial reports for SMEs to be *au fait* with two regulatory frameworks rather than one. They indicated that IFRS for SMEs should be a stand-alone document that includes the treatment options in full IFRS expressed in simplified language and accompanied by the minimum necessary disclosures.

Additional analysis

We conducted additional analysis to determine whether there is a significant difference in the responses across the 30 questions between the accountants working in the accounting firms (Big Four and Non-Big Four accountants, denoted as 'auditors' of financial reports) and those working in the commercial and government sector (denoted as 'preparers' of financial reports).

Multivariate test results indicate some degree of difference ($p = 0.074$) in the responses across the 30 questions between the auditors and the preparers of financial reports. Univariate test results indicate a significant difference in six questions at $p < 0.05$. Generally, the preparers indicate that they encounter more problems when applying IFRS for SMEs than the auditors. These results suggest that accounting regulators in Fiji may need to expend more resources, particularly to train the financial statement preparers so that they are able to appropriately interpret and apply IFRS for SMEs. The descriptive statistics and the results from the multivariate test and the univariate tests are shown in Table 9.

The multivariate test results also indicate a significant difference (non-tabulated $p = 0.034$) in the responses across the 30 questions between the Big Four accountants and the non-Big Four accountants. However, there is no conclusive evidence that either group encountered more problems when interpreting and applying IFRS

Table 9 Results of multivariate and univariate tests for auditors' and preparers' responses across 30 questions

Questions	Auditors mean (N = 78)	Preparers mean (N = 66)	F	Significance level
Multivariate test (across 30 questions)			1.479	0.074*
Univariate tests:				
Q1	3.96	4.47	4.693	0.032**
Q2	4.29	4.64	2.213	0.139
Q3	3.62	4.21	5.421	0.021**
Q4	4.21	4.26	0.048	0.827
Q5	3.28	3.62	2.252	0.136
Q6	4.04	4.42	2.059	0.154
Q7	4.14	4.38	0.953	0.330
Q8	4.13	4.76	6.347	0.013**
Q9	4.36	4.76	2.304	0.131
Q10	4.40	4.79	2.582	0.110
Q11	3.67	4.09	4.376	0.038**
Q12	3.62	3.92	2.210	0.139
Q13	3.60	3.76	0.454	0.502
Q14	3.82	4.14	1.763	0.186
Q15	3.91	4.17	1.316	0.253
Q16	3.92	4.24	2.107	0.149
Q17	4.08	4.08	0.000	0.996
Q18	3.87	4.27	3.927	0.049**
Q19	4.59	4.73	0.258	0.612
Q20	3.82	4.06	0.965	0.328
Q21	4.08	4.24	0.464	0.497
Q22	4.71	4.85	0.202	0.654
Q23	4.18	4.36	0.436	0.510
Q24	3.68	3.61	0.103	0.748
Q25	3.53	3.70	0.557	0.457
Q26	3.58	3.64	0.065	0.799
Q27	3.24	3.58	2.167	0.143
Q28	4.97	4.15	8.415	0.004***
Q29	3.47	3.55	0.075	0.784
Q30	3.49	3.91	2.436	0.121

*Significant at $p < 0.10$, **Significant at $p < 0.05$, *** Significant at $p < 0.01$

for SMEs, that is, Big Four accountants found some aspects of IFRS for SMEs to be problematic while non-Big Four accountants encountered more problems in other aspects.

Conclusions and Implications

This study advances an alternative rationale premised on identifying the impetus for successfully achieving accounting convergence with IFRS for SMEs. The possible transition issues that may arise when countries adopt IFRS for SMEs are also highlighted. To provide first-hand evidence of the problems accountants encounter when applying IFRS for SMEs, we have conducted a survey on accounting practitioners in Fiji.

The FIA adopted the IFRS for SMEs in 2011 after first undertaking an awareness campaign and appropriate training program. To make it more cost effective for micro-SMEs, standard setters in Fiji have committed to providing some exemptions to these entities, just as they have framed exemptions to full IFRS standards. There was increased support for the development of an appropriate and simplified set of IFRS for SMEs. However, a major challenge for the IASB has been to ensure that the requirements for financial information are appropriate for both large and small SMEs (IFAC 2006a). With particular reference to Fiji, we argue that IFRS for SMEs may not be appropriate to all SMEs, particularly to micro-entities.

When revising IFRS for SMEs in future, the IASB should consider simplifying the recognition and measurement criteria for SMEs, as well as the disclosure and presentation requirements, to better reflect user needs and cost/benefit considerations. The IASB has sought feedback from its web-based survey 'Comprehensive Review of the IFRS for SMEs' (IASB 2012b). The scope of the survey indicates that the IASB is sensitive to the possibility that successful application of the standard as initially constructed may prove problematic.

Comments provided by accountants imply that IFRS for SMEs do not provide adequate guidelines to assist with judgement and decision-making. A sizeable number of respondents made direct comments stating that they had frequently experienced a situation in which IFRS for SMEs provided inadequate guidance on a specific case. Moreover, a substantial number of participants indicated that they frequently need to consult with other resources, such as manuals provided by employers and more experienced staff, when applying IFRS for SMEs. Overall, the results indicate that there are a number of inherent problems in IFRS for SMEs and that there is a lack of appropriate guidelines for accountants to use to interpret and apply the standards in a consistent manner. These results suggest that differences in judgements and disagreements among colleagues are a common phenomenon in relation to the interpretation and application of IFRS for SMEs.

Enhanced comparability of financial reporting has been promoted as one of the major benefits that the adoption of IFRS for SMEs will bring to relevant stakeholders. The survey suggests that this benefit will not be

forthcoming without a major overhaul of the standards and an up-skilling of the preparers of financial reports. We acknowledge that the problems identified in the first year in which IFRS for SMEs were applied may resolve themselves to an extent. When Fiji transitioned from its national GAAP to full IFRS in 2007, a number of errors in application were identified in the first set of annual financial reports, which were eliminated in the second and subsequent rounds of reporting. Large entities had incentives to be fully compliant, their reports being in the public domain and, in a number of instances, of interest to stakeholders outside Fiji. A learning effect and isomorphism served to resolve the problem of inadvertent non-compliance, with only a modicum of intervention required by the regulator. It is expected that a learning effect will be found in respect of the adoption of IFRS for SMEs. However, entities that are required to present financial reports that comply with IFRS for SMEs are not in the public domain, limiting the possible impact of isomorphism and the FIA as a regulator. Furthermore, some such entities may persist in non-compliance for cost benefit reasons.

Overall, the results suggest that financial statement preparers in Fiji encounter more problems when applying IFRS for SMEs than auditors. The insights into the process of embracing IFRS for SMEs in Fiji and the attitudes expressed by accountants highlight new dimensions to the inherent problems in IFRS for SMEs. We argue that country-specific contextual factors should be explicated and accepted in adopting IFRS for SMEs. While some SMEs, typically the relatively large entities, will need to compile reports for parties located in different countries, many SMEs will report solely to domestic stakeholders. Consequently, there is a need to embrace at least a two-tiered model, which encompasses the distinctive characteristics of small and large SMEs. Unless future revisions to IFRS for SMEs consider international diversity in social, economic and legal structures, there is a significant risk that SME standards developed by the IASB will be inappropriate and overly costly to the SME sector worldwide. Such a failure may lead to individual countries developing their own SME standards, resulting in less consistency in financial reporting, thereby impeding efforts to achieve convergence. For SME financial reports to be useful to users, a certain degree of uniformity is required. However, the uniformity should exist between comparable entities, not all entities, to allow a meaningful determination of differences in efficiency and productivity.

There is a need for more conceptual and empirical research to evaluate the quality of IFRS for SMEs. Future studies may investigate the impact of a new suite of standards on SMEs in other contexts or geographic regions to ascertain the generalisability of the results. If similar results are obtained, this could have important implications for global accounting convergence for the

SME sector and likewise for the quality of the current suite of IFRS for SMEs.

Notes

- 1 Fiji's 2006 census determined the population to be 837 000. The estimated per capita gross domestic product for 2012 stands at \$FJD 7079 = \$USD 3680.
- 2 Fully qualified members of the FIA in 2012 numbered 597, that is, approximately one accountant per 1400 of Fiji's population. Additionally there are accountants employed in the commercial sector who are eligible for membership but have not taken it up.
- 3 The legal and regulatory framework for financial reporting in Fiji is guided by the *Companies Act 1983* and the pronouncements of the FIA. The Government, in October 1971, enacted the Fiji Institute of Accountants Act, which then came into force on 11 February 1972 (Chand 2005). The FIA established a by-law in 1986 in relation to the formulation and promulgation of accounting and auditing standards in Fiji.

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