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Research Report

Perceptions and knowledge of accounting professionals on IFRS for SMEs: Evidence from Turkey

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ABSTRACT

This exploratory study extends the literature on IFRS for SMEs issued by the IASB in July 2009, and adopted by Turkey in November 2010. A questionnaire survey, based on the relevant literature and IFRS for SMEs, was developed. The aim was to investigate basic knowledge and perceptions of accountants regarding IFRS for SMEs. Our findings suggest that proponents of stand-alone IFRS for SMEs outnumber its opponents. The respondents are not highly informed about the omission of certain topics in IFRS for SMEs. Their awareness of valuation methods/concepts in IFRS for SMEs is at a moderate level. Inadequacy of accounting personnel's training and lack of training programs arranged by professional bodies are considered to be the most serious obstacles in implementation of the standards. The majority of the participants are not aware of the key differences between full IFRS and IFRS for SMEs and simplifications made in IFRS for SMEs. Accounting professionals who are trained about IFRS for SMEs and the employees of Big4 auditing firms are more knowledgeable about the standards in comparison to others. Education level and experience of respondents have partial positive impact on knowledge of the standards.

Introduction

In response to strong international demand from both developed and emerging economies, the International Accounting Standards Board (IASB) published the *International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs)* on 9 July 2009 (Jermakowicz & Epstein, 2010). The IFRS for SMEs were effective immediately upon release, and jurisdictions around the world have started to consider whether to require or permit them (Pacter, 2009b). The objective was to have a simpler set of financial reporting standards for SMEs. This self-contained standard emerged as a result of a five-year development process, including consultation with SMEs worldwide (Jermakowicz & Epstein, 2010). As of January 2011, 73 jurisdictions have either adopted the IFRS for SMEs or stated a plan to adopt it within the next 3 years (IFRS, 2011).

Several earlier studies evaluated the perceptions of firms and accounting professionals regarding the full set IFRS. Since the IASB issued IFRS for SMEs, survey studies are helpful for understanding views of practitioners, academicians, and other professionals (e.g., Durocher & Fortin, 2011). Although a few short articles have previously been written in professional accountancy magazines about the coverage of IFRS for SMEs (Christie, Brozovsky, & Hicks, 2010; Herman, 2010; Jermakowicz & Epstein, 2010; Jones, 2010; Miller, 2010; Pacter, 2009b; Seifert & Lindberg, 2010), there is a scarcity of research studies regarding the subject. This paper explores Turkish accounting professionals' perceptions of IFRS for SMEs which was adopted in November 2010 in Turkey.

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Turkey is an important developing country for the following reasons. The Turkish economy has shown tremendous development in recent years and has been one of the fastest growing economies worldwide. Structural reforms and fiscal policies have integrated the Turkish economy into the globalized world. The Turkish economy has become the 16th largest economy in the World according to GDP figures (at PPP) in 2010 achieving an overall economic growth rate of 8.9% throughout 2010 (ISPAT, 2011).

Furthermore, regulations pertaining to capital markets and accounting harmonization have taken place. Recent developments regarding accounting harmonization can be summarized as follows. Accounting standards which are fully harmonized with IAS/IFRS have been published by Banking Regulation and Supervision Agency for financial institutions, and by the Capital Markets Board for the publicly traded companies have been implemented since 2005 (Alp & Ustundag, 2009). In late 2010, Turkish Financial Reporting Standards, compatible with IFRS for SMEs were enacted. In early 2011, the new Turkish Commercial Code requiring implementation of accounting standards issued by the Turkish Accounting Standards Board (TASB) in conformity with IAS/IFRS was promulgated.

The remainder of this paper is organized as follows: Section 'Convergence' provides a literature review regarding harmonization in accounting. Section 'IFRS for SMEs' explains the coverage of IFRS for SMEs briefly. In section 'Scope and methodology', the research methodology is explained. Section 'Research questions' provides research questions. Section 'Results and analysis' analyzes the results. Finally, section 'Conclusion' concludes the paper.

Convergence

Accounting convergence has come a long way. A significant role in achieving the convergence has been played by the IASB (Albu, Albu, & Fekete, 2010). Larson and Street (2004) stress that research studies addressing the convergence or harmonization of accounting is growing and becoming more empirical (see for example Aljifri & Khasharmeh, 2006; Ballas, Skoutela, & Tzovas, 2010; Jermakowicz & Gornik-Tomaszewski, 2006; Jones & Higgins, 2006; Joshi, Bremser, & Al-Ajmi, 2008; Joshi & Ramadhan, 2002; Navarro-García & Bastida, 2010; Rezaee, Smith, & Szendi, 2010). Parties that have influenced the adoption of IFRS by countries include the World Bank, capital markets, the "Big4" international accounting firms, and the IASB (Irvine, 2008). Developing nations are trying to achieve accounting harmonization in conformity with that of developed countries (Joshi & Ramadhan, 2002). A high-quality set of accounting standards helps investors to receive reliable financial information (Rezaee et al., 2010). Rezaee et al. (2010) state that global comparability in financial reporting can only be achieved by using a single set of high-quality global accounting standards.

International convergence of accounting has been influenced not only by the International Accounting Standards Board (IASB), but also by the European Union (EU) with the Fourth and Seventh Directives (Çuruk & Cooke, 2005). Especially, the Fourth Directive has been influential on the promulgation of Communique' of the Capital Market Board which was a major accounting change that took place in 1989 (Çuruk & Cooke, 2005). The decision of European Commission to adopt Financial Reporting Standards is very important for global accounting convergence (Jermakowicz & Gornik-Tomaszewski, 2006).

Potential advantages of IFRS implementation include greater transparency in financial statements (Jermakowicz & Gornik-Tomaszewski, 2006; Tyrrall, Woodward, & Rakhimbekova, 2007), lower cost of capital (Jermakowicz & Gornik-Tomaszewski, 2006; Jones & Higgins, 2006) enhancing comparability of financial statements (Aljifri & Khasharmeh, 2006), increasing internal reporting reliability (Ballas et al., 2010), attracting foreign direct investment (Aljifri & Khasharmeh, 2006; Tyrrall et al., 2007), providing greater access to capital (Ballas et al., 2010; Jermakowicz & Gornik-Tomaszewski, 2006; Jones & Higgins, 2006), applying for ratings to international agencies (Tyrrall et al., 2007), easing financial reporting requirements for international corporations (Tyrrall et al., 2007), facilitating the quotation of shares on foreign stock exchanges (Jermakowicz & Gornik-Tomaszewski, 2006; Jones & Higgins, 2006; Tyrrall et al., 2007), and satisfying the requirements of supranational institutions (i.e. World Bank) for granting financial aid (Tyrrall et al., 2007).

The global convergence has disadvantages, obstacles, and challenges as well. Possible disadvantages or obstacles in IFRS implementation are perceived gaps in IFRS, requirement of judgment for applying IFRS, lack of national translations for some countries, specific problems and costs associated with implementation of IFRS such as training of personnel, changes in software systems, cost of new accounting literature, and cost of consulting services (Tyrrall et al., 2007). A survey of Australian firms showed that many respondents were skeptical about the benefits of IFRS, but more confident about the costs for converting to IFRS (Jones & Higgins, 2006). Ballas et al. (2010) found that the costs associated with training needs and computer software alterations are the most common ones of implementing IFRS. Findings of a study conducted on EU-listed companies indicated that transition process to IFRS is costly, complex, and burdensome (Jermakowicz & Gornik-Tomaszewski, 2006). In addition, the complexity of IFRS, the lack of implementation guidance and uniform interpretation were found to be key challenges in convergence. Tyrrall et al. (2007) state that international audit firms benefit more than local firms from the complexity of IFRS. Principles-based IFRS, which require judgment, is acknowledged to be quite complex, hence demands application guidance (Tyrrall et al., 2007).

Although some studies indicated that IASs are relevant for small and closely held companies (Joshi & Ramadhan, 2002), most researchers voiced the need for a stand-alone set of standards for SMEs. Aljifri and Khasharmeh (2006) found that the level of adoption of IASs has a positive relationship with the size of companies. Their explanation for this result is that large companies have more resources to implement IASs than small companies.