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The Uses of Financial Reporting Standard for Small Medium Enterprise Companies

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ABSTRACT

This paper examines the roles of International Accounting Standard Board (IASB) in introducing a special accounting standard for small and medium-sized enterprise (SMEs) for all around the world. We analyze from previous and latest study about the usefulness of having Exposure Draft (ED) of the IFRS for Small and Medium-sized Entities (SMEs) before implementing a special accounting standard for SMEs. We find that, IASB having difficulties in measuring finance information of SMEs each country since each country need to develop its own accounting standard for SMEs due to economic. However, the limitation in develop accounting standard for SMEs can be solved by having the Exposure Draft. This paper discuss the suggestion to improve the Exposure Draft and the advantages and disadvantage of implementing global accounting standards for SMEs.

INTRODUCTION

The International Accounting Standard Board (IASB) is a private-sector body, who is independent, establishes and approves International Financial Reporting Standards (IFRSs) throughout the global. In the year 2004, IASB issued a discussion paper and proposed a draft Exposure Drafts (ED) of the IFRS for Small and Medium-sized Entities (SMEs). The IFRS for SMEs is developed to provide much simpler and proper guidance for the requirement to produce the financial statements to be publish for the general public.

However, there is some concerns about the applicability of the standard might be not fully functioned for a few small entities. Based on the journal, Specific Aspects of Financial Reporting for SMEs by Sanja SEVER, claims that the standard IFRS is too complicated, containing complex business transactions that are difficult to handle such implementation and might not be suitable for small entities according to the researches. In addition, the standard for SMEs should be appropriate, suitable for the benefits of the SMEs and most

importantly the users of the information. The differential between the size and type of companies makes the acceptance and uses of the new Exposure Draft accordingly. In this study, the researches discuss about the issues and problems that the SMEs had to handle in order to comply with the Exposure Draft of the IFRS for SMEs and the advantages and disadvantages of global accounting standards for SMEs. Furthermore, to get the general idea on the applicability of the new IFRS according to the different type of companies and the treatment permitted in an IFRS that differs from the treatment that related IASB standard for SMEs. The research is done accordingly on the comment, critic and suggested an improvement that are different auditing firms, companies, institutes and the stakeholders included in Exposure Draft of proposed IFRS for SMEs.

BACKGROUND OF ARTICLE: SPECIFIC ASPECTS OF FINANCIAL REPORTING FOR SMES BY SANJA SEVER

According to (Saver, 2008) stress the important of having special standard of financial reporting for small and medium-sized (SMEs) company all around the world. This is because, each country have difficulties in using international standard which is International Reporting of Financial Standard (IFRS). IFRS are too complicated to implement for SME due to high cost of implementation and unnecessary information needed to comply with IFRS.

However, in this journal its explain about the advantages and disadvantages of having special standard for SMEs and the suggestion on having improvement in Exposure Draft for that enterprise. IFRS for SMEs are introduced based on the Exposure Draft. The author explain how this standard applied and effective at Croatia. It shows that, this standard are really helpful in giving solution to Croatian Financial Reporting of Standard Board to develop the special standard for SMEs in Croatia.

LITERATURE REVIEW

Journal - Mandatory IFRS Reporting Around the World: Early Evidence on the Economic Consequences

The research investigates the effect of implementing IFRS reporting around the world in terms of cost of capital, market liquidity, and Tobin's q factors. All entity except small and medium-sized entity need to comply with IFRS standard in presenting their financial reporting. Many countries are having difficulties in implementing IFRS standard where the limitation of having to switch their accounting standard to new IFRS require high-level accounting expertise, not to mention the tax and audit authorities.(Hail, Leuz, & Verdi, 2014).

This study finds that the consequences of implementing this standard can give the increase in market liquidity and decrease in cost of capital, while when using Tobin's q calculation for equity valuation highly affected when implementing IFRS. This standard is important to implement to all country as it is an indicator to evaluate the financial and growth of each country in economics.

Journal - Micro-Entity Financial Reporting: Perspectives of Preparers and Users

Based on the journal, *Micro-Entity Financial Reporting: Perspectives of Preparers and Users* (IFAC, 2008), this study investigates the information needs of preparers and users of micro-entities financial reports and the core of this is the comprehensive review of the study. The review suggests that a very little research has been done before this specifically looks at micro entities as this tends to contribute in terms of SMEs. In addition, most published literature is limited to studies conducted in developed countries and does not reflect the very different environments in which micro entities operate in the developing, new economy or transition. This gap in the literature suggests that this is a mature area of deep examination and research.

The recognition of the burden imposed on the smallest entity and the ignorance considered as full IFRSs for small entities has resulted in numerous jurisdictions that provide exception of reporting and general support for differentiated reports. While the variety of user requirements has also been declared an argument supporting differentiated reports for SMEs, there is little factual evidence to support this and still is not exactly what they need by micro entity users.

Journal - Basis for Conclusions on Exposure Draft IFRS For Small and Medium-Sized Entities

As the study, *Basis for Conclusions on Exposure Draft IFRS For Small and Medium-Sized Entities* (For, On, & Draft, 2007), the disclosure requirements in IFRS proposed for SMEs have been significantly reduced when compared to disclosure requirements in full IFRS. The reason for this reduction is that some disclosures are not included as they relate to the topics covered in IFRS that are left out of the IFRS draft for SMEs and some disclosures are excluded as they relate to the principle of recognition and measurement in the full IFRS that has been replaced by simplification proposed in the IFRS draft.

Assessing disclosure based on user requirements is not easy, as users of financial statements tend to prefer, not less, exposure. The Board is guided by the following general principles like the users of SME financial statements are particularly interested in information on short-term cash flows and on obligations, commitments or contingencies, whether or not recognized as liabilities. Exposure in full IFRS that provides such information is required for SMEs as well. In addition, users of SME financial statements are particularly interested in obtaining information on liquidity and solvency. Exposure to full IFRS that provides such information is necessary for SMEs as well.

METHODOLOGY USED

We analysed instances of comments, critic and recommended development from different auditing firms, companies, institutes and all other stakeholders or shareholders included in exposure draft (ED) of proposed IFRS for SMEs . At the same time, in this articles we critic and comment on the advantages and disadvantages of global accounting standards for small and medium sized enterprises (SMEs). Research method that are used here are a set of procedures or method to ensure valid interpretation from text.

All the arguments and critics are supported by another articles as a references. This content analysis is especially useful for coordinating text into feasible and manageable units, grating research to be conducted.

THE ADVANTAGES AND DISADVANTAGES OF GLOBAL ACCOUNTING STANDARDS FOR SMALL AND MEDIUM SIZED ENTERPRISES (SMES).

This article was debated by Sanja Sever as the Faculty of Economics and Business, Trg J. F. Kennedyya 6, 10000 Zagreb, Croatia. He highlighted the advantages and disadvantages of global accounting standards for small and medium-sized enterprises (SMEs). As the business world becomes closer in its financial and trade, many countries are using International Financial Reporting Standards (IFRS) as their guideline to run their business smoothly. Actually, common accounting rules are how the transactions should be reported and what information should be disclosed in financial statements.

First of all, the author said, the major advantages of using global accounting standards for SMEs can be very useful to meet the needs of their users and to produce more useful and understandable information for their users. An example, this standard for SMEs can be very useful for developing countries which countries do not have an alternative to use some other set of standards. In addition, by applying this standards can be also useful to the countries that lack of infrastructure or money to develop their own standards (IFAC, 2006). Based on the other article of Financial Reporting for SMEs Past and Perspectives underlined by (Sava, Mârza, & Eşanu, 2013), he strongly supports this view, He said by using global accounting standards can give satisfaction to the user. For example, users of financial statements can get greater information relevance, which is also beneficial for management and market when they apply this standard.

Secondly, the authors say the benefits of adopting global accounting standards for SMEs are an international comparison of SME financial statements. I agree with his argument because according to (Sava et al., 2013) also said the same thing, He told the international comparison that a large number of entities in the financial reports. Companies that use the same standards to provide their financial statements can be compared to each other and information will be more accurate. It is crucial when comparing companies located in different countries, because each country may use different methods and methodologies based on their nature of the company or country to prepare their financial statement. The increasing in comparison helps investors to make a better decision where to invest their money.

Another reference to support this argument, I refer to the article "A comparison between full IFRS and IFRS-SME" according to The Swedish Financial Accounting Standards Council. (Mistry, 2009) state that the main reasons for international standards are to make the accounting between countries comparable, and by that achieve a fair presentation. For example, the company will get the same access to the world capital market. It is argued that this increased comparability, together with increased confidence in the quality of the financial reports.

Lastly, by using specialized standards for SMEs is an opportunity for SMEs to tailor financial reporting information to the users' needs. The tailoring financial reporting information

to the users' needs may reduce the costs of preparing information. On a global scene, there are only positive experiences in differential financial reporting for SME. For example, UK has the Financial Reporting Standards for Small Entities (FRSSE). They are very popular standards with estimates suggesting 80% uptake which implies that it meets the needs of small entities and users of their financial statements (EAA, 2006). Based on the article of "A Review of the Costs and Benefits of Australian Adoption of IFRS" underlined by Peter G. Gerhardy Senior Lecturer in Accounting School of Commerce Flinders University. The reason for IFRS for SMEs was to reduce the cost of capital by increasing the quality of financial reports while the value of the firm would increase. From the beginning, IASB made it clear that the new standard, IFRS for SMEs should be used by capital markets and companies. (Gerhardy, 2002).

PROPOSED FRAMEWORK OF EXPOSURE DRAFT

IFRS for SMEs donates benefits for small and medium entities in creating a harmonized global reporting environment (Superti Furga, 2005). This research is done based on the comments, critic and suggested an improvement that are different auditing firms, companies, institutes and all other stakeholders included in exposure draft (ED) of proposed IFRS for SMEs (Sever, 2008).

ED play important roles in making the standards as it should be considering the shareholder's wealth and importance of the shareholders in the organizations. The ED addresses disclosure and accounting requirement for share-based payment to the shareholders and employees (Botosan, Ashbaugh, Beatty, & Davis-friday, 2005). Before issuing the standard for IFRS for SMEs proposed amended exposure draft will be published by the International Accounting Standards Board for organizations and individual comments only. In my opinion, IASB must accept all the critic and suggestion given by the organization and individual regarding the standards should be determinate at a national level because it may be one of the advantages in helping making the standard and able to make a global standard, so that every country have the similar standard to apply.

It's also supported by (Yen, Eric Hirst, & Hopkins, 2007) said that the Financial Accounting Standards Board (FASB) follows an extensive 'due process' that is open to public observation and participation. Furthermore, supported by IASB is concerned with establishing standards that can be adopted on a global basis, it observes that accomplish this objective depends on advice from the United States and the EU (Yen et al., 2007). There are so many issue and comments arise from the public. But IASB only recommended few issue which gives benefit for the user of SMEs, user needs and cost/benefit issues. The essential part of the ED is it produces a high standard and quality, more attainable alternative to full IFRS so that responses to the demand the need, important and users of SMEs.

By having ED it will give a good understanding of users' needs, such asset of standards ought to increase the understandability of financial reporting by companies without

public accountability. There are some approaches that criteria for applying those standards should be decided at the national level. It means that there must be national regulators or standards setter be the pledge for determining which entities may apply the IFRS for SMEs. But the central government could not have the authority to impose the same accounting principles; in this case, Bergman (2009) recommended providing information about risk associated in the notes rather than through CFS(Bisogno, Santis, & Tommasetti, 2015).

ED is important for all organization and individual comment on the proposed editorial amendments so that able to raise further editorial. The feedback received by IASB called as a fiduciary capacity which means public accountability is imprecise as it is a term with different indication across jurisdictions. It is essential for every individual and organization seeking public comment on Request for Information (RFL) whether there is a need to make any amendments to the IFRS for SMEs. At the same time, RFL request respondents to identify any additional issues that desired to be addressed during the review process. Meanwhile, all the respondent able to critics any issue which is not satisfied their needs regarding the IFRS for SMEs.

CONCLUSION AND RECOMENDATION

The purpose with this paper was to critic about the exposure draf of proposed IFRS for SMEs and the advantages and disadvantages of global accounting standards for small and medium sized enterprises. The SMEs been used in the world wide economy because it gives importance to the organization. All in all, IFRS globally used around the world and its become so difficult and complicated to apply in the SMEs. To make it easy few items been omitted from full IFRS. SMEs and the user of financial statements also stand to benefit from internationally comparable financial reporting information because SMEs deal with financial institutions, suppliers, customer and investors outside the country.

The discussion arise from the application question submitted by the shareholders and stakeholders to determine whether any changes is necessary to IFRS standards. The Boards should gives important and considers issue and comments arise from the public so that able to produce a high standard and quality, more attainable alternative to full IFRS so that responses to the demand the need, important and users of SMEs. Overall we can say that, ED play an important roles in making the amended for IRFS for SMEs.

Global financial reporting standards, applied consistently, enhance the comparability of financial information. Accounting differences can obtain the comparison the investor , lender and other make. We can say that by having global IFRS for SMEs it can be explained as the next step against the process of harmonization of international accounting standards.This global appliance of the IFRS for SMEs and its heightened the uses of IFRS have culminate to less comparability between listed and non-listed companies.

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