



The impact of activating the requirements of the International Financial Reporting Standard for small and medium-sized enterprises on Qualitative Characteristics Open access

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Received August 12, 2024, Revised September 5, 2024, Accepted September 15, 2024

Abstract

This paper aimed to investigate the effect of activating the international standard requirements for financial reporting for small and medium-sized enterprises in improving the quality of accounting information, where there is a conflict in accounting practices related to these facilities, and in doing so, there must be an accounting standard governing to those facilities in Egypt accounting practices, this paper has concluded that there is a positive effect of the application of the standard on the quality of accounting information in that it took into account the principle of cost and yield. Where it is one of the accounting issues affecting the accounting process in small and medium-sized enterprises, which are the high costs incurred by those facilities when preparing reports and financial statements, the study concluded that in order for the qualitative characteristics of accounting information for small and medium-sized enterprises with high quality must include the following qualitative characteristics (Relevance, Comparability, Understandability, Reliability, The balance between benefit and cost) with rush out into account the trade-off between the properties so as not to contradict characteristics with each other.

1. Introduction

The preparation of the International Financial Reporting Standards for Small and Medium-Sized Entities (IFRS for SMEs) is considered a major step towards completing the role of the International Accounting Standards Board (IASB) at the international level (1). For measurement and accounting disclosure for these establishments.

Introduction: The preparation of the International Financial Reporting Standards for Small and Medium-Sized Entities (IFRS for SMEs) is considered a major step towards completing the role of the International Accounting Standards Board (IASB) at the international level (1). For measurement and accounting disclosure for these establishments.

This standard is the result of efforts made by the International Accounting Standards Board (IASB) to issue a standard for small and medium-sized enterprises (IFRS for SMEs), from the beginning of 2001 until May 2009, when the standard was issued in its final form in light of several considerations and reasons discussed by The (IASB) side came up with a standard that takes into account the requirements of financial statements for small and medium sized enterprises, on the basis of which the aspects that allow (IFRS for SMEs) to deviate from (IFRS) in its full form (2) were determined. The most important of these considerations is the process of simplifying a number of recognition principles. Measurement and disclosure of these facilities. A period of three years has been set each time to reconsider the standard in accordance with developments.

The principle of simplification comes in accordance with the interpretation of (BDO) Binder Dijker Otte, which is (adopting the new standard for preparing financial reports for small and medium-sized enterprises is considered an option for preparing reports and financial statements), with the aim of reducing the burden of preparing reports and financial statements for small and medium sized units or enterprises.

2. Research Problem:

The research problem is represented in a main question, which is whether the requirements of the International Financial Reporting Standard for small and medium-sized enterprises will lead to improving the quality of accounting information. Some of these enterprises prepare their lists and reports in accordance with Egyptian accounting standards, while others prepare these lists without referring to any standards, and this problem can be formulated. Through the following sub-questions:

- 1-What are the requirements of the standard for small and medium-sized enterprises?
- 2-Is there any difficulty facing small and medium-sized enterprises in preparing their reports and financial statements?
- 3- Will activating the International Financial Reporting Standard improve the quality of accounting information?

3. Research Concepts:

The most important concepts that the researcher addressed in this research can be presented as follows:

1- The International Financial Reporting Standard for Small and Medium-Sized Enterprises (IFRS for SMEs):

It is a set of foundations, legislation and regulations issued by the International Accounting Standards Board in July 2009, which was relied upon to account for small and medium-sized enterprises.

2- The qualitative characteristics of the quality of accounting information:

They are nothing but characteristics that make it of great informational or informational value from the point of view of its users. Therefore, these characteristics lead to the preparation of reports and financial statements that enable decisions to be made and the evaluation of accounting information resulting from accounting practices.

4. Research Objectives:

The main objective of this research is to know the accounting practices for small and medium-sized enterprises (SMEs) in light of the requirements of the International Financial Reporting Standard for Small and Medium-sized Enterprises (IFRS SMEs) to know the impact of applying that standard on those enterprises, and therefore the researcher aims to conduct this research to: The following:

- 1- Explaining the intellectual framework of the IFRS SMEs standards and their accounting impact.
- 2- Identify the extent to which small and medium-sized enterprises respond to the requirements of applying (IFRS for SMEs).
- 3- Knowing the extent to which the requirements of the International Financial Reporting Standard for small and medium-sized enterprises affect improving the quality of accounting information.

5. Research Importance:

The scientific importance of this research is that it is an attempt to find out the methods of disclosure in the financial statements of small and medium-sized enterprises, through what this paper provides in evaluating the effectiveness of the International Financial Reporting Standard for small and medium-sized enterprises, displaying the financial statements to know this standard by small and medium-sized enterprises. And knowing the impact of this on the quality of accounting information.

6. Research Hypotheses:

In light of the research problem and objectives, the researcher deduces the following hypothesis:

Ho1: Activating the IFRS requirements for SMEs does not improve the quality of accounting information.

7. Research Methodology:

In conducting this research, the researcher uses the following two approaches:

1- The inductive approach:- Through reading and reviewing previous research, studies, scientific periodicals, and searching on the international network, information on the research topic (accounting in small and medium-sized enterprises in light of local environmental variables).

2- The deductive approach:- This is after using the inductive approach, which the researcher will rely on in order to test hypotheses and draw conclusions.

8. Research plan:

In light of the research problem, importance, objectives, and hypothesis, the researcher divides the research into the following:

- **Section One:** Previous studies that addressed the International Financial Reporting Standard (IFRS for SMEs).

- **Section Two:** The most important requirements of the International Financial Reporting Standard (IFRS for SMEs).

- **Section Three:** Qualitative characteristics according to the international standard for small and medium-sized enterprises (SMEs for SMEs).

Section One: Previous studies that addressed the International Financial Reporting Standard (IFRS for SMEs):

The researcher presents previous studies that dealt with accounting for small and medium-sized enterprises in light of the International Financial Reporting Standard for Small and Medium-sized Enterprises, as follows:

(Aida et al., 2014), this study examined the impact of applying the International Financial Reporting Standard for small enterprises in developing countries. According to a study conducted by Deloitte in 2012, the percentage of small and medium-sized enterprises in the world is close to 95% of the total companies in the world, and more than 50% of these enterprises revealed Its financial crisis was conducted using (IFRS For SMEs), and this research was conducted consisting of 500 medium and small-sized enterprises that reformulated their financial statements using the International Financial Reporting Standards for Small and Medium Enterprises. The most important findings of this research are the following:

- The International Financial Reporting Standard for Small and Medium-sized Enterprises issued by the IASB represents a simple choice compared to international accounting standards and reporting standards in their entirety.
- Presentation and comparative analysis between the International Financial Reporting Standard for Small and Medium-sized Enterprises (IFRS For SMEs) and the International Accounting Standards (IAS).

(Schiebel, 2014), this study pointed out the question: is the standard proposed by the IASB for small and medium-sized enterprises independent of the reporting standards in their entirety? The most important findings of this research are: - Weakness of the draft standard for small and medium-sized enterprises for many important matters. - The failure of the IASB to analyze all the needs and desires of external users, especially from an international point of view, as a result of its failure to collect sufficient opinions on this subject, especially from developing countries, which helped create a significant information gap. This study recommended that the IASB conduct a more indepth analytical study of the surrounding environment before issuing the standard in its final form.

(Kamnikar et al., 2012), the most important findings of this research are the recognition of the needs of accounting and financial reporting in small and medium-sized enterprises in the United States in particular, and the international community in general. The One Size Fits All Accounting Approach, which is suitable for all establishments of all sizes, is no longer appropriate, whether at the local or global level. Taking into account that financial reporting standards continue to focus on the needs of users, one set of standards has not and will not be relied upon for the purpose of preparing reports and financial statements for all establishments of all sizes. It recommended that the Financial Accounting Foundation (FAF) establish an independent board for accounting standards for private enterprises, given the inability of the American Financial Accounting Standards Board (FASB) to provide appropriate attention to both public enterprises and private enterprises with regard to financial reporting areas alike.

(Bertoni & Bruno, 2010), this research discussed the scientific controversy that says (that the availability of an acceptable and generally accepted framework for preparing reports and financial statements for public and private establishments is in the interest of the beneficiaries of financial information), and the most important findings of this research are: The availability of a two- or three-level structure to organize accounting practices in small and medium sized enterprises, which leads to confusion among users. - There is an increase in financial reporting costs for preparers of financial reports. - The international financial reporting standard for small and medium-sized enterprises may lead to good results regarding reducing the degree of detailed reporting between public and private enterprises. And to provide users and preparers of financial reports with one true and fair picture when presenting the organization's performance through reports and financial statements.

(Nestor et al., 2009), this research aimed to identify stakeholders in small and medium-sized enterprises, analyze their special information needs, and the impact of those needs on the financial statements and reports of small and medium-sized enterprises. The most important findings of this research are: - Identifying the main categories of stakeholders and their needs for small and medium-sized enterprises led to an analysis of the impact of those needs on the content of the financial reports of those enterprises. - It is necessary to determine the elements of the conceptual framework, recognition standards and the type of information that is disclosed in the reports and financial statements of small and medium-sized enterprises.

(Strouhal et al., 2009), this research included accounting measurement in financial reports for small and medium-sized enterprises in the Czech Republic in accordance with International Financial Reporting Standards. The most important results of this research are: There is pressure on the part of investors to measure some elements of financial statements using fair value during periods of economic recovery. The global financial crisis has raised or revived conservative

concepts when preparing financial reports, such as measuring based on historical cost and applying the principle of caution. This research recommended that issues related to evaluation concepts should be characterized by stability regardless of variables in the economic situation, and that it is impossible to change the concept of measurement and evaluation method every time economic conditions tend to change.

Section Two: The most important requirements of the International Financial Reporting Standard: (IFRS for SMEs)

There are two trends regarding the adoption and application of the standard, and each trend has its justifications and can be presented as follows:

The first trend represents the opinion in favour of the standard:

They are supporters of adopting this standard. The study (Aida et al., 2014) believes that the standard is one of the most important achievements of the International Accounting Standards Board, and that there is a need to adopt and apply the international accounting standard for those entities to benefit from it. In preparing simplified accounting systems. The study (Libuse et al., 2014) confirms the necessity of adopting the standard, for the purpose of facilitating cooperation with foreign investors and the possibility of making comparison with foreign competing establishments. While the study (Abdel-Ati, 2014) justifies that adopting the standard will work to increase the quality of financial reports, comparability and consistency, and increase investor confidence.

The second trend is the opinion opposing the standard:

Those who hold this opinion, including the study (Ratnam and Cheng, 2013), believe that the IFRS standards have not achieved complete acceptance, because applying a single set of standards eliminates innovation, in addition to the fact that it is still considered a very complex process for small entities. Due to the administrative costs incurred related to the adoption of international standards, in addition to the adoption of new accounting legislation, which will lead to the need to train accountants and prepare a new approach to accounting, all of this represents a huge administrative burden on these entities.

The researcher agrees with the first opinion, which is in favour of adopting and applying the international standard for financial reports, while improving and amending some of the items contained in the standard so that there is no conflict with existing legislation and laws in the Egyptian business environment. The researcher believes that the most important criticism of the standard is that it does not cover some topics, the most important of which are (sectoral reports, earnings per share, preparing interim reports, and assets held for sale).

The most important requirements of presentation and disclosure and their impact on improving the quality of accounting information:

1- Presenting the financial statements regarding the fairness of the financial position, financial performance and cash flows of the project, and requires a fair presentation and honest representation of the effects of transactions, events and other circumstances, in accordance with the definitions and recognition standards for assets, liabilities, expenses and income.

2- Additional disclosures, if necessary, to achieve a fair presentation of the financial statements and reports.

3- Preparing the financial statements assuming that the facility is a going concern, that is, management must conduct an assessment of the facility's ability to continue as a going concern, and the facility will be so unless management intends to liquidate the facility or cease its operations, and in the event that there are significant doubts related to events or circumstances that call into question its ability. The entity must

disclose these doubts and does not prepare financial statements and reports on a going concern basis.

4- Consistency of presentation, meaning that the facility maintains the presentation and classification of financial items from one period to the next through the following: - It turns out that presenting it in another form would be more appropriate. - This standard requires a change in presentation.

5- Comparative information: The establishment should disclose comparative information regarding the previous comparative period for all amounts presented in the reports and financial statements for the current period, and comparative information must contain narrative and descriptive information, when it is relevant to understanding the financial statements for the current period.

6- Relative importance: The entity should display “each important category of similar items” separately, meaning that the accounting information contained in the financial statements and reports must be presented comprehensively, and the information is considered important if its deletion or distortion might affect the economic decisions taken by users of the financial statements.

Section Three: Qualitative characteristics according to the international standard for small and medium-sized enterprises (SMEs for SMEs):

The qualitative characteristics of accounting information are one of the basic components of the theoretical framework of financial accounting, and are considered the bridge that links the goal of financial reporting standards on the one hand and the concepts of recognition and measurement on the other hand. They are also the features and advantages that accounting information must have, and represent the qualities that make accounting information is of great benefit.

(Dimitropoulos et al., 2012) believe that the qualitative characteristics of accounting information are represented by the quality of accounting information and are represented by appropriate information that has been prepared to meet the needs of users at the appropriate time. While others point out that the term qualitative characteristics is a relatively recent term that is used in Distinguishing between good accounting information (influencing decision-making) and lower-quality accounting information. The International Accounting Standards Board (IASB) indicated that the information contained in financial statements and reports is useful to users, as the purpose of general purpose financial reports is to provide users of financial reports and statements for small and medium-sized enterprises with useful information in making decisions, and the qualitative characteristics are in accordance with what was stated in the standard To the following:

Understandability: The information contained in the financial statements and reports should be presented in a way that makes it understandable to users who have reasonable knowledge of business, economic activities, and accounting and are willing to study the information with a reasonable degree of seriousness. However, the need for understandability does not allow deleting relevant information on the grounds that it may be very difficult to understand.

Relevance: This is an essential characteristic of the quality of accounting information, which is that the information contained in the financial statements is appropriate to the needs of users in making decisions. Information has the property of relevance when it is able to influence the economic decisions of users by helping them evaluate past or current events. or future assessments, or to confirm or correct their previous assessments.

Materiality: The theory of information relevance is linked to the concept of materiality or relative importance. Information is important and therefore appropriate if its deletion or

incorrect preparation could affect the economic decisions of users made on the basis of financial statements. Relative importance depends on the size of the item or the error estimated in the circumstances. Specified to be deleted or incorrectly stated. However, it is not appropriate to cause deviation from, or leave the deviation uncorrected, the International Financial Reporting Standard for Small and Medium-sized Entities to achieve a specific presentation of the enterprise's financial position and its financial performance or cash flows.

Reliability/Fair Representation: Information contained in financial statements and reports must be reliable information. Information is reliable when it is free from material errors and bias and faithfully represents what it is intended to represent or what it might reasonably be expected to represent. Financial statements and reports are not free from bias (i.e. Non-neutral) if it is intended, through the selection or presentation of information, to influence the making of a specific decision or judgment in order to achieve a pre-determined result. The researcher agrees with the study (Anna, 2007) that the use of international financial reporting standards works to improve the quality of accounting information, and thus the usefulness of accounting information in the place of application, and this leads to improving the suitability characteristic of accounting information, which makes those reports and lists characterized by reliability.

Preferring substance over form. Transactions, events and other circumstances should be presented according to their substance and not just their legal form only. This would enhance the reliability of financial statements and reports. In other words, it requires accounting and reporting on the essence of the process and its effects, and not just on its legal form. The study (AlSaeed; Al-Issa, 2009) indicates that the essence of financial transactions and other events is not always identical with those apparent in their legal form. For example: in financial transactions between the parent company and its subsidiaries, the financial impact of all mutual operations between them; Such as the balances of receivables and credits owed by each party to the other, and such as sales that occur between them and which have not been resold to external parties; Because it is considered, in essence, a single establishment, but in terms of form, it is economic establishments, each of which has an independent legal personality.

Conservatism: Uncertainties inevitably surrounding any events and circumstances are acknowledged by disclosing their nature and scope and by exercising caution in preparing reports and financial statements. Prudence is the inclusion of a degree of caution in exercising the necessary judgments in making the required estimates under the circumstances. Uncertainties, such that the statement of assets or income is not exaggerated and the statement of liabilities or expenses is reduced briefly. Caution and caution do not permit bias.

Completeness: In order for the information contained in the financial statements to be reliable, it must be integrated between importance and cost, as omission can result in the information being wrong or misleading and therefore unreliable and deficient in its suitability.

Comparability: Users of financial statements and reports must be able to compare financial statements and reports from one period to another, in order to determine trends in the project's financial position and cash flows from one period to another. Therefore, measurement and presentation of the financial effects of similar transactions, events, and other circumstances must be carried out.

(Schroeder et al., 2006) believes that the most important thing included in the comparison feature is informing users of the accounting policies used in preparing the financial statements, any change in these policies and the effects of this change, so that users can identify the differences in the accounting policies used in the facility for operations. Similar financial and other events from time to time and between different establishments. Compliance with international financial reporting standards and disclosure of accounting policies helps in achieving the characteristic of comparability.

Timeliness: Information must be provided within the time frame of the decision, so that there is no undue delay in reporting the information because it may lose its relevance.

Management may need to balance the relative characteristics of timely reporting and providing reliable information, so that there is a balance.

Balance between benefit and cost: The benefits resulting from the information should exceed the cost of providing it. Evaluating benefits and costs is essentially an estimation process. Costs are not necessarily incurred by the users who enjoy the benefits, and are often enjoyed by a large group of external users. The benefits of information. The researcher believes that one of the most important features mentioned in the standard is the balance between cost and return because it is one of the basic problems facing small and medium-sized enterprises.

From the above, the researcher believes that the identification by concerned parties and accounting boards of the qualitative characteristics that should characterize accounting information amounts to an improvement in the quality of the news content of reports and financial statements for small and medium sized enterprises, as the International Accounting Standards Board (IASB) added characteristics that were not present within The qualitative characteristics of the accounting information issued by the joint project between the FASB and the IASB, the balance between benefit and return was added, as it is one of the accounting issues that affects the accounting process in small and medium-sized enterprises, which are the high costs incurred by those Enterprises when preparing reports and financial statements. The researcher believes that in order for the qualitative characteristics of accounting information for small and medium-sized enterprises to be of high quality, it must include the following qualitative characteristics (appropriate, understandable, comparable, reliable, balance between benefit and cost), taking into account the comparison. Between properties so that the properties do not conflict with each other.

Accordingly, the researchers believe that the null hypothesis is rejected and the alternative hypothesis is accepted, meaning that activating the requirements of the International Financial Reporting Standard for small and medium-sized enterprises will lead to an increase in the quality of accounting information.

9. Results and recommendations:

- There is a difference in accounting practices in small and medium-sized enterprises.
- There is a trend in the International Accounting Standards Board (IASB) to pay attention to small and medium-sized enterprises. Therefore, a standard was issued for the systems of accounting practices for these establishments.
- The International Financial Reporting Standard for Small and Medium-sized Enterprises (IFRS for SMEs) helps improve the quality of accounting information for financial statements and reports.
- The International Financial Reporting Standard for small and medium-sized enterprises gives users who are not managing the facility the ability to make accurate economic decisions.
- The standard addressed the problem of the balance between benefit and cost, as it is considered one of the important accounting problems related to small and medium-sized enterprises.
- The disclosure requirements contained in the standard are consistent with the nature of establishments in Egypt.
- Researchers recommend activating the requirements of the international standard for small and medium-sized enterprises in countries where there is no standard for these enterprises.

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