Repeated Cross Sectional Analysis of Acuity of Turkish CPAs on the Adoption of IFRS for SMEs for Turkish SMEs

[1]Nida Türegün, [2]Can Tansel Kaya
[1] PhD Candidate, Research Assistant, Yeditepe University, Istanbul
2 PhD, Accounting, Faculty, Yeditepe University, Istanbul
1 nida.turegun@yeditepe.edu.tr, 2 can.kaya@yeditepe.edu.tr

Abstract
SMEs contribute commendably to the development of local economies around the world. As for the Turkish economy, SMEs have significant boost since they take up well over 98% of all entities. To this point, many countries have already adopted or intend to adopt IFRS for SMEs. With substantial shift towards adoption of IFRS globally, IFRS for SMEs attracted noteworthy attention by the Turkish SMEs and CPAs whether such proposed set of standards are essentially applicable to the Turkish SMEs. The aim of this research is to evaluate the level of applicability of the IFRS for SMEs in Turkey, and their readiness to apply these standards. Cross-sectional analysis was used to compare the expert opinions of Turkish CPAs based on an earlier research conducted in 2008 and the later and recent research conducted in 2013.
Keywords: IFRS for SMEs, international accounting standards, small and medium-sized enterprises

1. Introduction

SMEs are the backbone of local economies in many countries all over the world. They constitute around 95% of companies (ACCA, 2014). This is equivalent to millions of companies that includes 52 largest stock exchanges with 45,000 listed companies, 28 million private sector enterprises in Europe, 25 million in USA, 4.7 million in UK and 6 million in Brazil (Pacter, 2011). SMEs contribute greatly to the development of the Turkish economy. According to Ministry of Industry and Trade report in 2010, there are 3,449,795 small and medium, and 2,968 large-sized enterprises in Turkey. SMEs constitute over %98 of all enterprises. They generate over 80% of employment, 59% of value added and 60% of total production value (RTMIT, 2010).

Creditors, credit rating agencies and owners who are not engaged in business management are the users of SMEs' financial statements. They have dissimilar needs than equity and debt investors who usually are interested in public limited companies. SME financial statement users' center need is to concentrate on short-term cash flows, liquidity and solvency. Conceptually, IFRS have been designed for publicly traded companies. Applying full IFRS for SMEs was a difficult and costly process (Vasek, 2011). For that reason, IASB had released IFRS for SMEs in July 2009.

This study aimed to find how necessary IFRS for SMEs are for Turkish SMEs, whether such set of standards are actually applicable to the nature and characteristics of Turkish SME and how ready Turkish SMEs are to apply these International Financial Reporting Standards. Parallel to these aims the study addresses following research questions:

1. Are IFRS for SMEs applicable to the Turkish SMEs?
2. If the standards are applicable, which of those deserve more immediate attention by the Turkish SMEs?
3. Which sectors will be able to overcome the implementation period easily?
4. Which sectors will have a hard time during the implementation period?
5. In what conditions will Turkish SMEs encounter problems in the implementation stage of IFRS for SMEs?

In order to answer these questions, an empirical study is conducted based on the very similar format conducted in 2008. Data analysis is employed. Questionnaire on the subject of IFRS was conducted to 109 accountants who are all registered at the Chamber of Certified Accountants of Istanbul and also questionnaire based cross-sectional study was conducted. Findings of the study are discussed by comparing the outcomes of data analysis of this study and the studies in the related literature.

2. Literature Review

2.1 IFRS for SMEs in Global Stance

The accounting profession has long struggled with the idea that the financial reporting needs of small, closely held businesses often differ from those required by large, publicly traded companies (Zanzig, & Flesher, 2006). Acceptance and imposition of International Accounting Standards (IAS) has reignited the debate on differential reporting, especially since the International Accounting Standards Board (IASB) issued a discussion document in June 2004 on SME reporting. The IASB developed this special standard in recognition of the difficulty and cost to private companies in the name of preparing fully compliant IFRS information for reporting (PWC, 2009). The standard is a reporting one specifically tailored for small businesses and in the process of being adopted by many countries worldwide. Fitzpatrick and Frank (2009) state that SMEs are entities that publish general-purpose financial statements for external users and do not have public accountability.

It is apparent that the majority of national standard setters support an IASB-generated alternative reporting regime for SMEs, arguing that IFRS have been developed specifically for listed entities and they are not relevant for SMEs (Baskerville and Cordery, 2006). The question of whether or not there should be separate set of accounting standards for small businesses has been debated for over a long period of time. This issue has been first considered in 1980s both in the United States and Canada. In search of the answer, the accounting community in the U.S. had certain concern over how certain accounting standards, such as those on deferred income taxes, leases, related party transactions and consolidated financial statements, should apply to small business. Several studies conducted in the 1980s pointed out the fact that the cost of producing separate financial statements and the complexity of accounting standards are important issues that should be further investigated. Later in the 1990s, The United Kingdom's Accounting Standards Board issued the "Financial Reporting Standard for Smaller Entities" (FRSSE), while Canada's Accounting Standards Board (AcSB) commissioned a research report to examine the financial reporting burden borne by small business enterprises.

In 2002, the AcSB issued a section under the name of *Differential Reporting*, recommending financial reporting for SMEs. Then, in 2003, the International Accounting Standards Board (IASB) began developing International Financial Reporting Standard for small and medium-sized entities (IFRSSME), publishing an Exposure Draft in February 2007 (Accounting Standards Board, 2007). By July 2009 IASB published IFRS for SMEs.
According to IFRS for SMEs Fact Sheet (IFRS Foundation, 2012), over 80 countries have adopted or announced plans to do. The table below shows in details.

Table 1: List of countries adopted /adopting IFRS for SMEs

South America:	Argentina, Brazil, Chile, Ecuador, Guyana. Peru, Suriname, Venezuela
Caribbean:	Antigua & Barbuda, Aruba, Bahamas, Barbados, Bermuda, Cayman, Dominica, Dominica, Dominican Republic, Guadeloupe, Jamaica, Montserrat, St Kitts-Nevis, St Lucia, Trinidad
Central America:	Belize, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Panama
Africa:	Botswana, Egypt, Ethiopia, Ghana, Kenya, Lesotho, Malawi, Mauritius, Namibia, Nigeria, Sierra Leone, South Africa, Tanzania, Swaziland, Uganda, Zambia, Zimbabwe
Asia:	Bangladesh, Cambodia, Fiji, Hong Kong, Malaysia, Myanmar, Nepal, Philippines, Singapore, Sri Lanka, Tonga
Middle East:	Jordan, Lebanon, Palestine, Qatar
Eurasia:	Azerbaijan, Kyrgyzstan, Moldova, Turkey
Europe:	Bosnia, Estonia, Macedonia. Available for use in Switzerland. Planned: United Kingdom, Ireland.
North America:	Available for use in United States, Canada (limited use so far)

Small number of countries has made amendments to its content, but most of them require all SMEs to use IFRS for SMEs. Naturally, if a company chooses to employ an amended standard, then the entity is not able to declare harmony with IFRS for SMEs, thus will fail to benefit from the advantages of internationally accepted and employed standard (Mourik, & Walton, 2013). Hence, countries are encouraged to implement plentiful to have the proposed solution-oriented set of these standards specially designed to aid SMEs.

2.2 IFRS for SMEs

Companies gradually enter more international transactions regardless of their size. Such inevitable consequence requires entities to report transparent and comparable financial statements in order to gain recognition. IFRS for SMEs aspire to fill needs by balancing the costs and benefits for financial statement preparers. IFRS for SMEs comprise standalone principles and disclosure for SMEs. It covers fewer disclosure requirements, which makes it considerably shorter document compared to full IFRSs. Also SMEs helps enterprises to adopt an international standard with less cost that enables worldwide comparison and understanding of financial statements by users and provides international framework for consolidated financial statements (PKF, 2013).

According to IFRS for SMEs, small and medium size entities are defined as entities that have no public accountability and publish general purpose financial statements for external users. Public accountability denotes the entity that publicly trades its debt or equity instruments. Furthermore, the term denotes the entities that hold assets as fiduciaries for a large group of outsiders like "*banks, credit unions, insurance companies, securities broker/dealers, mutual funds, and investment banks*". IFRS for SMEs furthermore rely on concepts and persistent principles such as "*understandability, relevance, reliability, substance over form, prudence, completeness, comparability, timeliness*" that pinpoints the level of transparency (Balcı, 2011: Werner, 2012).

2.3 Adoption in Turkey

SMEs from different parts of the world are exposed to different conditions and environments (Schutte and Buys, 2011). The Turkish Commercial Code, which has been in effect since 01.07.2012, has brought some weighty changes in the Turkish accounting system. While the changes in the Turkish Commercial Code has been put in actions, Turkish Tax Procedure Law has not yet fully accepted the proposed changes, therefore the convergence between the two bodies is under progression (Taskin, 2012). In addition to this major process, Basel III is in a process of implementation as well. There is no disbelieve that only with a strong and sound banking system, sustainable economic growth can be achieved. Within this equation, banks are at the central to the extent that, they are the heart and soul of the credit intermediation process between savers and investors since provide critical services to SMEs (BIS, 2011).

The adaptation of IFRS for SMEs is expected to expand the financial information comparability not only on national but on the international levels as well. Furthermore, adaption is expected to enhance international trade, ease the application of cross border acquisitions, partnerships or agreements of cooperation with foreign entities which provide SMEs to reach international markets. In addition, it will support the relations with credit institutions by having a positive impact on the credit rating scores in parallel with their financial health (Bohušová and Blašková, 2012).

3. Methodology

Research has been conducted on a comparative method. Initial data was collected by questionnaire on the subject of IFRS in 2008. It was conducted to 217 accountants who were all registered at the Chamber of Certified Accountants of Istanbul. Second and the main part of this research was conducted on the same target group in 2013. A questionnaire based cross sectional study was conducted to identify associations between International Financial Reporting Standards and how adequately these standards are fit to the needs of the Turkish SMEs.

The questionnaire is composed of two sections. The first section of the questionnaire consists of 38 items measuring the necessity of the application of IFRS. Respondents rated each item on a 5-point Likert type scale ranging from 1 "not important" to 5 "very important". The second section of the measurement instrument composed of seven open ended questions which all intend to find out different aspects related to IFRS and SMEs. Table 1 shows 45 variables to be measured according to our research model.

Table 2: Independent Variables

Variables Part I	24. Borrowing Costs
1. Scope	25. Share-Based Payment
2. Concepts and Pervasive Principles	26. Impairment of Non-Financial Assets
3. Financial Statement Presentation	27. Employee Benefits
4. Balance Sheet	28. Income Taxes
5. Income Statement	29. Financial Reporting in Hyperinflationary
6. Statement of Changes in Equity and Statement	Economies
of Income and Retained Earnings	30. Foreign Currency Translation
7. Cash Flow Statement	31. Segment Reporting
8. Notes to the Financial Statements	32. Events after the End of the Reporting Period
9. Consolidated & Separate Financial Statements	33. Related Party Disclosures
10. Accounting Policies, Estimates and Errors	34. Earnings Per Share
11. Financial Assets and Financial Liabilities	35. Specialized Industries
12. Inventories	36. Discontinued Operations & Assets Held
13. Investments in Associates	for Sale
14. Investments in Joint Ventures	37. Interim Financial Reporting
15. Investment Property	38. Transition to IFRS for SMEs
16. Property, Plant and Equipment	***Variables Part II***
17. Intangible Assets Other Than Goodwill	1. Level of readiness
18. Business Combinations and Goodwill	2. Probable problems
19. Leases	3. Most suitable economic sectors
20. Provisions and Contingencies	4. Most unsuitable economic sectors
21. Equity	5. Additional costs
22. Revenue	6. Unsuitable standards for SMEs
23. Government Grants	7. Recommendations

In order to achieve statistical analysis, descriptive statistical methods were used. Additionally, factor and reliability analysis were used for understanding both validating the measurement instrument and a better understanding of the distribution of IFRS as categorized by the respondents. Cronbach Alpha value was found to be 0.87, which indicated a tall level of reliability. Table 2 shows ingredients of the three factors achieved by factor analysis.

Table 3: Factor Analysis based on 2008 research

Factor 1	Investment Property, Financial Statement Presentation, Notes to the Financial Statements, Concepts and Pervasive Principles, Consolidated and Separate Financial Statements, Discontinued Operations and Assets Held for Sale, and Specialized Industries
Factor 2	Equity, Cash Flow Statement, Events after Balance Sheet, Scope, and Related Party Disclosures
Factor 3	Foreign Currency Translation, Transition to IFRS for SMEs, Employee Benefits, Provisions and Contingencies, and Interim. Financial Reporting
Factor 4	Impairment of Non-Financial Assets, Business Combinations and Goodwill, and Intangible Assets Other Than Goodwill

Table 4: Factor Analysis based on 2013 research

Factor 1	Investment Property, Financial Statement Presentation, Concepts and Pervasive Principles, Consolidated and Separate Financial Statements, Discontinued, Operations and Assets Held for Sale, and Specialized Industries
Factor 2	Equity, Cash Flow Statement, Events after Balance Sheet, Scope, and Related Party Disclosures, Notes to the Financial Statements, Intangible Assets Other Than Goodwill
Factor 3	Foreign Currency Translation, Transition to IFRS for SMEs, Employee Benefits, Provisions and Contingencies, and Interim. Financial Reporting

Factor 2 explained 71 % of the total variance in the composite variable of IFRS, which is more sufficient enough to deserve attention. Factor 1 explained 16 %. Factor 3 explained 12 %. Regression analysis indicated ranking of three factors as follows: Factor 2, Factor 1, and Factor 3.
A regression analysis was conducted to understand the general structure and the importance of the standards by means of three IFRS components (factors) by creating a composite variable, which is made up of 38 standards. Additionally, a Pearson correlation coefficient analysis was used for understanding the significance of the associates between four IFRS factors. All the correlations between four factors were meaningful and statistically significant. The lowest correlation coefficient value was not less than 0.48 between F1 and F3 and the highest one was found between F1 and F2 (0.72).

4. Discussion

While the highest scoring mean values are of the three major financial statements (income, balance sheet and cash flow statements) and the notes to be disclosed to the financial statements portray the vast importance of financial statements according to the viewpoint of Turkish accountancy in 2008 research, comprehensive income statement, financial position statement, notes to be disclosed, inventories, property, plant, and equipment, and finally cash flow statement have received the highest mean values by the 2013 research. This demonstrates that there is a change in the level of importance in terms of the application of standards for SMEs.

Transparent and reliable reporting has been one of the major purposes of the recent passed Turkish Commercial Code for the Turkish SMEs. This concern, without any hesitation, is also the essential ingredient for the sustainability for the Turkish SMEs; especially with the implementation of Basel III in Turkey. Financial statements have received the highest ranking values both in the 2008 and 2013 research and such substantial result prove the fact that Turkish CPAs view the definite need for a comparable set of financial set of statements in Turkey which comply with IFRS for SMEs.

While 90% of the respondents have responded that Turkish SMEs are not ready for implementing IFRS, 10% of the respondents have responded that Turkish SMEs are not ready in addition to the fact that they will not be able to implement IFRSs at all in the 2008 research; the results of the later study have exhibited similar outcomes with 86% and 14% repectively.

While 55% of the respondents believed that lack of accounting knowledge among accountants will be the major problem that SMEs encounter during the application of IFRS, this percentage had a major shift to a low 42%. While %25 of the respondents have replied that high sales volume companies will be able to implement IFRSs easily; and this percentage have increased up to 34% in the later study. Industries included in the prior study were service industry, automotive industry, textile industry, food and beverage industry, SMEs with international operations, kitchen/bathroom appliance companies. As for the challenging industries to adopt IFRS for SMEs, the comparative results have shown likenesses except for the fact that tourism industry and jewelry industries have received significance in the 2013 study when compared to the recent. While 40% of the respondents have respondent that textile industry would rank as the first sector expected to have the most difficulties during the implementation process in the prior study; later study of 2013 has shown that while the sector remains as the first troublesome, the percentage has fallen to 32%.

In search of whether the IFRS for SMEs are applicable to SMEs, 2008 study shows that 90% of all respondents responded that all standards should be applied, 5% responded that infrastructure and preparations should be completed first, then application should be arranged following preparations, 5% responded as none of the standards should be applied. The recent study of 2013 has some diverse results: 73% of all respondents responded that all standards should be applied, 11% responded that infrastructure and preparations should be completed first, then application should be arranged following preparations, 16% responded as none of the standards should be applied at all.

5. Conclusion

Turkish business environment is in indistinctness due to the dual existence of the Turkish Tax Procedure Law and the entrance of IFRS for SMEs. It is clear that International Financial Reporting Standards are necessary for Turkish SMEs to the extent that the world of reporting - even the US GAAP following the Norwalk Agreement – is shifting to IFRS. Due to the characteristics of the Turkish business environment, which is dominated by family firms at %95, application of international standards is ever so difficult. According to EY (2012), whilst the standard has largely simplified the financial reporting process for SMEs, in practice, entities still face many technical accounting issues. This statement does not suggest that implementation and application will not be achieved by the Turkish SMEs, but it certainly does state the fact that the implementation and application of these standards will be problematical. The very first reason for this is the actuality about the motive as to why Turkish SMEs report financial statements which are not believed to be fully transparent, reliable, and therefore comparable. Focus on tax rather than income has triggered the motive to modify or alter financial statements among the Turkish SMEs for years. Not only with the direct effect of Basel II and Basel III from the banking side but also with the obligatory nature of application of IFRS from the governing side will force Turkish SMEs to employ drastic changes in their structures.

As far as a generally accepted definition of SMEs in Turkey is concerned, different bodies define such entities on several different benchmarks some of which are number of employment, asset size, and revenue. Such differential approach on the matter constitutes problems as a whole. Since the IFRS for SMEs is intended by the IASB “for use by entities that have no public accountability and that are required, or choose, to publish general purpose financial statements for external users”, there is a definite need for a generally accepted definition of what an SME is with the scope of Turkish market (Deloitte, 2009). There has to be only one definition for small and medium-sized enterprises in Turkey and that should be the definition of the European Union. Adopting the EU’s definition is not only the proper act since the majority of IFRS users are EU countries, but also a step in the direction of enhancing Turkey’s prospect for joining the EU.

To summarize, it is clear that implementation and application of International Financial Reporting Standards is a necessity for the Turkish SMEs. It is also clear that this transition will be an ever difficult process for SMEs, since SMEs are nowhere near ready for this drastic change. Transition will be a rigorous process and educating SME owners and managers, accountants, and even auditors is a must.

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