

BENEFITS AND CHALLENGES OF THE IMPLEMENTING IFRS FOR SMEs: DESCRIPTIVE EVIDENCE FROM SAUDI ARABIA

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ABSTRACT: In Saudi Arabia, SMEs are considered the backbone of the economy as they represent 99 percent of the private sector. Moreover, they are absorbing about 70 percent of the country's workforce. All SMEs in Saudi Arabia are required to adopt IFRS for SMEs for financial periods beginning on or after January 1, 2018. The purpose of this study is to provide a descriptive evidence on the perceived benefits and challenges of the implementing of IFRS for SMEs in Saudi Arabia as one of emerging countries from the perspective of preparers of financial statements. The study uses a survey instrument that has developed after reviewing recent literature on the benefits and challenges of implementing of IFRS for SMEs in emerging markets. The findings of the study reveal that the benefits that have highest agreement are: facilitating access to credit, facilitating credit rating, enhancing comparability and enhancing understandability. The challenges that have highest agreement are: the lack of training, interpretation difficulties and implementation cost. This study contributes to the limited body of research on the benefits and challenges of the implementing of IFRS for SMEs in emerging countries. The wide spread adoption of IFRS for SMEs has been promoted by the arguments that the benefits outweigh the costs. It however remains an empirical question if this is the case for all countries whether developed or developing. The study findings also serve as a reminder to the accounting regulators in Saudi Arabia about the challenges that SMEs face in implementing IFRS for SMEs.

INTRODUCTION

The International Accounting Standards Board (IASB) has pursued a strong agenda to develop a simplified set of International Financial Reporting Standards (IFRS) for small

and medium-sized enterprises (SMEs). IFRS for SMEs published in 2009 was derived from full IFRS with significantly reduced recognition and measurement principles, guidance and disclosure requirements in order to satisfy the accounting information needs and capabilities of SMEs. Generally, SMEs are characterized by inability to use stock exchange markets, high dependency on commercial banks to source funding and having a fluid distinction between ownership and management. With such characteristics, it is so challenging for SMEs to report following the main stream International Financial Reporting Standards (IFRS). In the history of the accounting standard setting process of the IASB, IFRS for SMEs is the first set of standards that was formulated for SMEs. As such, IFRS for SMEs has received a great attention and the accounting regulatory bodies, including the IASB, are continuously monitoring its adoption and the successful implementation of the standard across the globe. However, there are several controversial issues pertaining to the adoption and implementation of IFRS for SMEs, as reported by empirical studies at individual jurisdiction levels. Some prior studies provide evidence on the benefits of the adopting of IFRS for SMEs. Alp and Ustuntag (2009) pointed out that IFRS for SMEs have clear benefits for investors, lenders and those seeking to raise finance through the transparency afforded by a consistently applied global set of IFRS adoption standards. It will provide a standard which is simple and well understood and this will ease transition to full IFRS for growing entities once they become publicly accountable. IFRS for SMEs also provide an accounting framework for entities that are not of the size or have the resources to adopt full IFRS. A survey conducted by Muinde (2013) in Kenya indicated a strong positive relationship between financial reporting and the financial performance of SMEs. The study by Wisdome *et al.* (2018) in Nigeria pointed that IFRS is perceived to be not just important but also a core requirement to competing in an economically interconnected world by the SMEs. The adoption of IFRS has positive relationship with the performance of SMEs and increases the quality of financial reporting. According to Kiliç and Uyar (2017), the adoption of IFRS for SMEs will enable true and fair information and, therefore, will enhance the quality and transparency of financial reporting in Turkey which will benefit many stakeholders, such as auditors, creditors, accountants, banks, the state, and minority. The study by Kenneth and Grazyina (2013) on the adoption of IFRS for SMEs in Zimbabwe noted that benefits that could accrue to SMEs that would have adopted the IFRS for SMEs would be better decision-making, leading to growth through better accountability and compliance with tax legislation. Since banks are the most important external user of the SMEs financial statements in Romania, Albu *et al.* (2010) provide evidence that the use of international set of standards for the SMEs' financial statements would help the banks in their credit decision as they could provide them with more reliable and comparable accounting information.

On the other hand, the divergence between full IFRS and IFRS for SMEs (i.e. the differential reporting framework) may pose significant challenges in implementation, interpretation and application across various jurisdictions, especially in the developing countries. The principal role of SMEs financial reporting is considered to be used for retrospective and confirmatory purposes. Sian and Roberts (2009) found that tax authorities are the key users of SMEs financial statements and, therefore, the contents and format of SMEs financial statements are influenced by the disclosure requirements of tax authorities, not by accounting regulators. Maesko and Manyani (2011) showed that the majority of the SMEs are owner-managed and most of these owner-managers do not have sufficient accounting knowledge that enables them to understand the importance of financial reporting. Schutte and Buys (2011) argued that the involvement of owner-managers do not warrant the same comprehensive effort by the directors to communicate financial information to multiple and diverse shareholders. Most SMEs owner-managers are already involved in the day-to-day operations of the businesses and, therefore, not only do they have regular access to the financial information, but they also consider certain financial information to be confidential. Stainbank (2008) argued that the preparation of full set of financial statements requires more complex accounting skills and education and this is lacking in the majority of SMEs, specially, in the developing countries. Accordingly, he found that the cost of compliance with full IFRS exceed the benefits in the case of SMEs in South Africa. In a similar study, Pascu and Vasiliu (2011) highlighted the high cost of the adopting IFRS for SMEs. As the main issues driving the costs, they pointed out: the complexity of standard with respect to local GAAP, the difficulty of breaking with local accounting tradition, the obligation of preparing a second set of statement for tax purpose. Ikäheimo *et al.* (2010) discovered that forced adoption of IFRS for SMEs is likely to lead to extra cost for adopting companies and accounting/auditing firms. Moreover, the authors evidenced that global or international integrated SMEs are likely to benefit from an application of IFRS for SMEs, whereas local orientated companies will not. Amoako (2013) conducted a study on SMEs in Ghana to look at their record keeping strategies. The author concluded that SMEs do not maintain proper books of accounts because owners do not appreciate the need to keep accounting records, lack accounting knowledge and find the cost of hiring professionals prohibitive. Sava *et al.* (2013) added another challenge related to the definition of SMEs. The SME definition of IASB does not contain any significant quantified measurements. Therefore, local jurisdictions will determine and enforce specific criteria, such as quantitative measurements, to establish whether an entity is SME or not. Accordingly, the definition of SME may vary significantly among individual jurisdictions. It is generally claimed that there is no universally accepted definition for SMEs. In fact, it is difficult to adopt a universal definition for SMEs due to differences

in firm size, sectors, culture and the development status of economies in which SMEs operates. For this reason, considered a unique standard, which refers to the SMEs in general as not reasonable.

As a developing country, Saudi Arabia needs international financial reporting standard sets (IFRS/IFRS for SMEs) to produce high-quality financial information for accessing global capital markets and international financial resources. The Saudi Organization for Certified Public Accountants (SOCPA) has approved an IFRS convergence plan, called the “SOCPA Project for Transition to International Accounting & Auditing Standards” in 2012. In 2016, SOCPA adopted all of the IFRS Standards (including Interpretations) based on the IFRS 2017 Red Book, without amending any requirements in those standards. Under this convergence plan, all listed companies are required to adopt IFRS for financial periods beginning on or after January 1, 2017, with some modifications resulting in additional disclosures and ensuring compliance with Shariah, as a single set of high quality, understandable, enforceable and globally accepted standards for financial reporting. Because the business sector is important in achieving the objectives of Saudi Arabia’s economic vision 2030, and this includes not only large (listed) entities but the much more numerous small and medium-sized entities (SMEs), SOCPA adopted IFRS for SMEs as of January 2018. all SMEs in Saudi Arabia are required to adopt IFRS for SMEs for financial periods beginning on or after January 1, 2018. SOCPA has adopted the 2015 version of the IFRS for small and medium-sized entities (SMEs) Standard. Chand *et al.* (2007) demonstrated that “a single set of standards for SMEs may not be relevant for all countries”. They supported that the size, structure and users’ needs differ significantly in emerging and developed economies. Therefore, the purpose of this study is to examine the benefits and challenges of adopting and implementing IFRS for SMEs in Saudi Arabia from the perspective of preparers of financial statements in SMEs. This study contributes to the literature in several ways. First, it enhances the growing body of literature about the IFRS for SMEs by examining the perceptions and views of the preparers of financial statements in SMEs. Hoxha (2014) argued that willingness and skills of the preparers of the financial statements should be the first to be taken in consideration in determine long-term success of the transition from local standards to IFRS for SMEs. Second, although firms of any size face challenges when adopting IFRS, SMEs might find implementing IFRS for SMEs more challenging because of their special characteristics. SMEs are sometimes characterized by lack of experience, managerial skills, qualified employees and expertise in business and accounting, which results in poor bookkeeping and documentation. Therefore, the introduction of IFRS for SMEs may create problems in companies that are required to adopt these standards. Even though the standard was adopted at the beginning of 2018, there has been no empirical studies tried to explore the

implementation progress of IFRS for SMEs by the SMEs in Saudi Arabia. Third, in Saudi Arabia, the SMEs are considered the most vital and important sector in the economy; they serve as a backbone for the economy development and growth; and represent a crucial factor for employment, modernization, innovation and entrepreneurial spirit. Hence, identifying the challenges of applying the IFRS for SMEs by the SMEs could help in improving the implementation of these standards, which supports the important role of these entities in economic development and growth. The remainder of this paper is structured as follows. The next section provides a brief background on the adoption of IFRS for SMEs in Saudi Arabia. Section 3 shows the prior literature. Section 4 and Section 5 present the research method and research results, respectively. Conclusions and limitations are outlined in the final section.

INSTITUTIONAL CONTEXT OF SAUDI ARABIA

Definition of SMEs

In Saudi Arabia, SMEs are considered the backbone of the economy as they represent 99 percent of the private sector. Moreover, they're absorbing about 70 percent of the country's workforce. Currently in Saudi Arabia, according to data from the General Authority for Statistics, around 950 thousand SMEs were registered for business purposes in the Saudi Arabia at the end of 2017, all the while providing one million Saudis with employment. One of key objectives outlined in the Saudi Vision 2030 relates to raising the level of SME's contribution to GDP. Specifically, the target refers to raising the current contribution of 20 percent of GDP to 35 percent by 2030. Accordingly, and in line with vision targets, a number of major reforms and initiatives have been implemented to support the development of SMEs. One of these initiatives was the establishment of the General Authority for Small and Medium Enterprises (GASME), which has been assigned all matters that relate to this category of entities. The GASME classifies SMEs into micro, small, and medium based on two criteria: number of full-time employees and revenues, whichever is higher. Table 1 Shows the classification for SMEs in Saudi Arabia.

Table 1: Classification for SMEs in Saudi Arabia

<i>Category</i>	<i>Criterion</i>
Micro	Employees: 1-5 Revenues: up to SR 3 million
Small	Employees: 6-49 Revenues: SR 3- SR 40 million
Medium	Employees: 50- 249 Revenues: SR 40- SR 200 million

According to the data from General Authority for Statistics 88 percent of SMEs in Saudi Arabia, classified as 'micro', employing between 1-5 employees. The data shows that SMEs employed circa 1 million Saudis, and 3.7 million foreigners by the end of 2017, representing 32 percent of all Saudis, and 46 percent of all foreigners, in the labor market. Of the one million or so Saudis employed in SMEs, around 33 percent are employed in wholesale and retail SMEs, and 10 percent employed by SMEs operating in the manufacturing sector. In terms of Saudization, SMEs in the finance and insurance sector hire the biggest share of Saudis with 61 percent, followed by real estate at 48 percent.

IFRS for SMEs in Saudi Arabia

Since Saudi Arabia joined the Group of Twenty Finance Ministers and Central Bank Governors (G20) in 2009, the adoption of IFRS has been viewed as an important milestone in the country's future economic development and has been working towards this end ever since. In April 2016, Saudi Arabia announced an ambitious economic program called "Saudi Arabia's Vision for 2030" which expresses Saudi Arabia's long-term goals and expectations and it is built upon country's unique strengths and capabilities. This vision guides country's aspirations towards a new phase of economic development aims to diversify sources of income instead of relying solely on oil, creating more job opportunities via encouraging investment, both domestic and foreign, encouraging the major Saudi corporations to expand across borders and take their rightful place in global markets and providing better opportunities for partnerships with the private sector. In an era of globalization of businesses and markets, financial information prepared and audited according to national accounting and auditing standards no longer satisfies the needs of users whose decisions are more international in scope. Saudi Arabia has recognized the need to participate in the opportunities offered by globalization. Consequently, to attract direct foreign investment to the country, The Saudi Organization for Certified Public Accountants (SOCPA), In a parallel step with the preparation of Saudi Arabia's Vision for 2030, has approved an IFRS convergence plan, called the "SOCPA Project for Transition to International Accounting & Auditing Standards" in 2012. In 2016, SOCPA adopted all of the IFRS Standards (including Interpretations) based on the IFRS 2017 Red Book, without amending any requirements in those standards. Under this convergence plan, all listed companies are required to adopt IFRS for financial periods beginning on or after January 1, 2017 with some modifications resulting in additional disclosures and ensuring compliance with Shariah as a single set of high quality, understandable, enforceable and globally accepted standards for financial reporting. Also, the Saudi Arabian Monetary Authority (SAMA) requires all banks and insurance companies to use IFRS Standards. SOCPA argues that the

transition to IFRS promises transparent, comparable and consistent financial information to guide investors in making optimal investment decisions. Some of the key benefits that the companies will enjoy from IFRS adoption include increased foreign direct investment (FDI), enhanced quality reporting, transparency and comparability, and more transparency to perform risk assessments on financial statements and other ratios. In a parallel step, SOCPA has endorsed an integrated set of auditing standards based basically on international auditing standards. All accounting firms in Saudi Arabia are required to adopt these integrated set of auditing standards for financial periods beginning on or after January 1, 2017. Because the business sector is important in achieving the objectives of Saudi Arabia's economic vision 2030, and this includes not only large (listed) entities but the much more numerous small and medium-sized entities (SMEs), SOCPA adopted IFRS for SMEs as of January 2018. All SMEs in Saudi Arabia are required to adopt IFRS for SMEs for financial periods beginning on or after January 1, 2018. SOCPA has adopted the 2015 version of the IFRS for small and medium-sized entities (SMEs) Standard. For the purpose of applying IFRS for SMEs in Saudi Arabia, SOCPA did not develop a definition of small and medium-sized enterprises but adopted the definition used by the IASB. SMEs are defined as those entities or establishments that publish their generalpurpose financial statements to external users but are not subject to public accountability. In other words, any company other than those listed on the stock market (or banks and insurance companies) is considered an SME according to SOCPA.

LITERATURE REVIEW

The SMEs have an important position in the world wide economy. The accounting information provided by them must have the same role. In the recent years, the IASB gave great attention to the development of financial reporting standards to the SMEs. To achieve its objective of "having globally unified standard to promote the decision usefulness of the accounting information", in the year 2009, IASB developed and published a separate standard intended to apply to the general purpose financial statements of, and other financial reporting by, entities referred as SMEs, private entities, and non-publicly accountable entities. Since then, many empirical studies aimed to examine the adoption of IFRS for SMEs, the benefits that can be gained from this adoption and the challenges that may face this adoption in different countries. Joshi and Ramadhan (2002) observed a successful experience when examining the voluntary adoption of IAS by SMEs in Bahrain (this study predated the development of IFRS for SMEs). They reported that the majority of SMEs claimed that the IAS is relevant and not costly. In fact, they reported many benefits of adopting IAS, such as facilitating the comparison and analysis of financial statements, improving the efficiency and the

effectiveness of financial reporting and satisfying banks and credit providers. Maingot and Zeghal (2006) used a questionnaire survey which was directed toward SME account preparers (i.e., accountants) in Canada. The results revealed that the main SME financial report users were banks/lenders, tax authorities and internal Management. They also concluded that users of SME financial reports prefer one set of GAAP with exemptions for SMEs because full GAAP is time-consuming, too complex, too costly and lacks relevance. A US study by de Mesa Graziano (2006) used surveys and limited interviews of financial account preparers and bankers of SMEs (bankers were used as proxy for SME account users). The results showed that the majority of bankers in the survey wanted audited full GAAP compliant accounts. This was because these reports are considered more accurate and to have a higher degree of comparability. This potentially indicates that the main users of SME financial accounts do not want a different set of standards applicable to SMEs other than full GAAP. Deaconu *et al.* (2009) did not recommend a unique standard for SMEs for all accounting systems (e.g. IASB) because of the cultural diversity that has stronger impact within the SMEs that usually have no international links and no strong need for a common language. They supported this by the results obtained from the questionnaire processing in the case of Romania. Stephen and Dickson (2011) examined whether the academic believe that the proposed IFRS for SMEs would reduce the burden of financial reporting of SMEs in Nigeria. The empirical results revealed doubt among the academic about whether this would be so. Litjens *et al.* (2012) examined voluntary adoption decision of IFRS for SMEs in Netherland. The results indicated that the voluntary adoption decision depends on the preparers' context for the cost-benefit analysis, which appears to be a nonlinear process. Their results suggested that preparers consider costs and benefits of IFRS for SMEs separately, not concurrently, and evaluate them in relative terms. Aboagye- Otchere and Agbeibor (2012) aimed to assess the suitability of the IFRS for SMEs for small businesses (micro entities and SMEs) in Ghana. They found that small businesses in Ghana have limited international structures and activities which do not result in a need for internationally comparable financial reporting information. Small businesses also do not receive requests to provide such information. Bunea *et al.* (2012) investigated the views of the accounting professionals about the IFRS for SMEs in Romania. Their findings showed that a significant percentage of the respondents suggest more simplification on the current reporting system for a group of entities which will be determined according to criteria, such as turnover, number of employees, and total assets. Uyar and Güngörmü° (2013) investigated the knowledge level and perceptions of Turkish accounting practitioners regarding the IFRS for SMEs. They determined that proponents of stand-alone IFRS for SMEs are significantly higher than its opponents and most of respondents have little knowledge of IFRS. Albu *et al.* (2013) investigated

the perceptions of stakeholders involved in financial reporting in four emerging economies (Czech Republic, Hungary, Romania, and Turkey) regarding the possible implementation of IFRS for SMEs, in terms of costs, benefits, and strategy of adoption. Based on in-depth, semi-structured interviews they conducted with representatives of main stakeholders (preparers, auditors, regulators, professional bodies, and users), they found more support for IFRS for SMEs implementation in these four countries than suggested by the results of the European Commission's 2010 consultation for the European Union. Interviews revealed differences between stakeholder groups and between countries regarding the preferred implementation approach (mandatory adoption, voluntary adoption or convergence of national regulations with IFRS for SMEs. Kenneth and Grazyina (2013) studied the level of adoption of the IFRS for SMEs in Zimbabwe, the benefits accruing to such SMEs, the promotion of the adoption of these IFRS, maintenance of acceptable accounting records and related challenges for the adoption of IFRS for SMEs. The findings showed that 80% of the SMEs did not maintain accounting records; none had adopted IFRS for SMEs. 20% which had accounting records observed provisions of IFRS in general which were in line with Generally Accepted Accounting Standards. Most of the employees in SMEs that lacked accounting records lacked basic accounting financial knowledge. They also found little effort was being made to encourage the adoption of IFRS for SMEs by the policy makers.

Benefits that could accrue to SMEs that would have adopted the IFRS for SMEs would be better decision-making leading to growth through better accountability and compliance with tax legislation. Non-adoption of the IFRS for SMEs has been prompted by ignorance of their existence, lack of separation of ownership from management, lack of capacity to implement the IFRS. Muinde (2013) aimed to establish the financial reporting and analysis practices adopted by small and medium enterprises and to establish the relationship between financial reporting and analysis practices and financial performance of small and medium enterprise in Kenya. The study found that there is a strong positive relationship between financial reporting, financial analysis, financial management and management accounting and financial performance of SMEs. There is need for management of Small and medium enterprise in Kenya to enhance their financial reporting practices, financial analysis practices, financial management practices and management accounting practices as it was found that financial reporting and analysis practices affects the financial performance of small and medium enterprises in Kenya. In Germany, Kreipl *et al.* (2014) used on-line questionnaire addressed to German SMEs. They found that non-publicly traded mid-sized corporations prefer German accounting legislation rather than IFRS with respect to the level of information quality. Samujh and Devi (2015) examined the forces driving adoption, participation of stakeholders in

the processes of development of the IFRS for SMEs, implementation issues and possible dysfunctional consequences for entrepreneurs the Association of South East Asian Nations (ASEAN). They concluded that the one-size-fits-all-standard for SMEs, did not accommodate well the differing cultures, ways of doing business, regulatory frameworks, underlying philosophies, or needs of users of financial reports from SMEs. They argued that adoption without modifications or exemptions would provide few benefits for SMEs in emerging economies; rather it would be burdensome to entrepreneurs and inappropriate for achieving national economic growth targets. Buculescu and Stoica (2016) aimed to determine to what extent Romanian professional accountants agree national accounting regulations for SMEs and if adoption of IFRS for SMEs is considered an alternative to the financial reporting of Romanian SMEs. They found that more than half of the respondents are satisfied with the current accounting regulations although professional accountants favor simplification of the legislation by reducing the number of policies, options and the volume of the information disclosed for SMEs. Despite this, about 40 percent of the respondents describe the possible adoption of the IFRS for SMEs as being opportune and advantageous. Rossi and Hanni (2016) examined the extent to which the change from Italian GAAP to IFRS has affected Italian small and medium-sized entities (SMEs). The results suggested that profit and equity reported under IFRS is higher than that reported under Italian GAAP and that the most relevant and frequent impacts are caused by the adoption of IAS 38, IAS 16, IAS 19, IAS 17, IAS 39, and IAS 18. Rudzani and Manda (2016) assessed the challenges faced by SMEs in adopting and implementing IFRS for SMEs in South Africa. The study findings showed that 67% of SMEs in South Africa have adopted IFRS for SMEs in various forms and degrees, but, generally, SMEs still find challenges in implementation due to lack of resources. Al-Hussamee and Nassar (2017) surveyed auditors of SMEs in Jordan and found that their respondents considered that the Jordanian environment is suitable for implementing the requirements of IFRS for SMEs in presentation and explanation of financial statements. Kılıĉa and Uyarb (2017) investigated the perceptions of Turkish accountants, academicians, and auditors regarding the adoption process of IFRS for SMEs. The findings confirmed the need for a stand-alone standard set for SMEs. The respondents asserted that more simplification on IFRS for SMEs may hinder comparability of financial statements. While high-quality financial information was the most important advantage of applying IFRS for SMEs, cost burdens on firms and lack of trained personnel was the major obstacles for the implementation process. The study of Ezagba (2017) was carried out to determine the challenges facing SMEs in adopting effective financial reporting in Nigeria. The study found that the challenges facing SMEs in preparation and presentation of financial reports are: inadequate accounting books and records, manpower, accounting

system and non-running their transactions through the banking system. Also Wisdom *et al.* (2018) studied the impact of the mandatory adoption of IFRS on SMEs in Nigeria. The study showed that adopting IFRS is crucial to SMEs since it aids the comparability of financial reporting; IFRS is perceived to be not just relevant but also a core requirement to competing in a globalized village by the SMEs. In Ethiopia, Tesfaye (2019) revealed that, contrary to Accounting and Auditing Board of Ethiopia (AABE's) IFRS implementation road map, the majority of the SMEs even did not have any information about financial accounting standards; the adoption of IFRS by the country and they are one of the reporting entities required to prepare general purpose financial statements.

RESEARCH METHODOLOGY

Sample

The study was carried out as a survey based on a questionnaire sent to the preparers of financial statements in SMEs in Saudi Arabia. The unit of analysis was the SMEs while the unit of inquiry comprised of the people responsible for preparing financial statements of SMEs. There is no universally agreed definition of SMEs. Definitions range from those based on the number of employees to those based on business turnover and assets. Even in those various categories definitions vary from country to country depending on the size of the economy and purpose of the definition. In Saudi Arabia, as mentioned earlier in this study, General Authority for Small and Medium Enterprises (GASME) classified SMEs into micro, small, and medium based on two criteria: number of full-time employees and revenues, whichever is higher. Currently in Saudi Arabia, according to the General Authority for Statistics, around 950 thousand SMEs are operating in the Kingdom at the end of 2017, with 88 percent (760000 SMEs) of these enterprises classified as 'micro', employing between 1-5 employees. IFRS for SMEs is intended to be a stand-alone document for a typical small business with approximately 50 employees. With respect to the micro-entities, with one, two or three employees, the IASB considered that external users such as creditors, suppliers, customers, credit rating agencies and employees need certain information, but have no authority to demand reports tailored to meet their needs for information. Theoretically, the micro-entities are a subset of small and medium-sized entities. International institutions do not recognize the existence of micro-entities as a separate group of SMEs, but include them in the latter. In the literature, there was no studies related to the micro-entities for IFRS for SMEs. Most of these entities do not maintain accounting records, and the tax due on them is calculated in an arbitrary manner. Even in entities that prepare financial statements, the main purpose of these statements is tax calculation. Therefore, it may be appropriate to exclude this type of entities from the study population and deal only

with the remaining entities, which are small and medium entities. From the data obtained from the commercial and industrial chambers in Saudi Arabia, the names and addresses of 5,465 SMEs that meet the above criteria were obtained. The obtained data enabled the researcher to cluster these entities according to their industries in form of construction, manufacturing, accommodation, wholesale trade, health and social work, finance, real estate, tech services, education, transport, and other services. Five hundred and forty-six (546) entities representing 10% of the population were selected at random with taking into consideration the distribution of the sample to all sectors. The questionnaires distributed to these entities by E-mail. To qualify to respond to the questionnaire, the respondent had to be a preparer of financial statements and familiar with financial reporting standards. However, 127 questionnaires were collected back, making an effective response rate was 23.3%. Table 2 represents the descriptive statistics of respondents.

Table 2: Descriptive Statistics of Respondents

<i>Characteristics of respondents</i>	<i>Na</i>	<i>%</i>	
Gender	Male	34	26.8
	Female	93	73.2
	Total	127	100
Accounting experience	Less than 5 years	6	4.7
	Between 5 and 10 years	41	32.3
	Between 10 and 15 years	52	41
	Over 15 years	28	22
	Total	127	100
Number of full time employees	Less than 50	14	11
	Between 50 and 100	32	25.2
	Between 100 and 150	27	21.3
	Between 150 and 200	24	18.9
	Over 200	30	23.6
Total	127	100	
Age of entity	Less than 5 years	11	8.7
	Between 5 and 10 years	19	15
	Between 10 and 15 years	36	28.3
	Over 15 years	61	48
	Total	127	100
Industry of the entity	Construction	32	25.2
	Manufacturing	29	22.8
	Accommodation	19	15
	Wholesale trade	36	28.3
	Health	4	3.1
	Other services	7	5.6
	Total	127	100

Instrument

This study is a cross-sectional survey that sought to collect field data on preparers' perceptions of the benefits and challenges of the implementation of IFRS for SMEs in Saudi Arabia. Based on previous relevant literature review, a survey questionnaire regarding benefits and challenges of IFRS for SMEs implementation was developed. Questionnaires were delivered to the preparers of each of the small and medium sized entities in the survey sample. The package contained a covering letter explaining the purpose of the survey and a questionnaire. The respondents were assured of the confidentiality of their responses. The questionnaire consisted of two sections. The first section gathered background information from respondents such as gender, accounting experience, number of full time employees in the entity, age of entity and the industry of the entity. The second section asked the respondents' views on the benefits and challenges of the implementation of IFRS for SMEs. The questions were designed using five-point Likert Scales so that the individuals' perceptions of the benefits and challenges of the implementation of IFRS for SMEs could be easily determined. A five-point Likert Scale anchored at 1 for strongly disagree and 5 for strongly agree is used for items operationalizing all the constructs. The implementation of IFRS for SMEs is expected to bring several benefits to SMEs. The IASB (2009) listed the following benefits: (1) attracting financial institutions to offer credit to SMEs. (2) building the confidence of suppliers on the quality of information reported. (3) facilitating credit rating for SMEs using a uniformly generated financial information database. (4) availing overseas suppliers with credible financial information to assess the prospects of a feasible long term business relationship; (5) attracting venture capital investors in SMEs from other countries. Prior studies have examined another benefits such as enhancing comparability of financial statements with similar SMEs, enhancing transparency and understandability of financial statements and improving the quality of financial decisions (e.g., Kilic and Uyar, 2017; Albu *et al.*, 2013; Uyar & Güngörmüş, 2013). Accordingly, eight items were used to measure the benefits of implementation of IFRS for SMEs, namely: facilitating access to credit, increasing supplier confidence, facilitating credit rating, availing overseas suppliers, attracting foreign investment, improving the quality of financial decisions, enhancing transparency and understandability and enhancing comparability.

On the other hand, some challenges and obstacles may be encountered by SMEs, specially, in the first year of implementation of the IFRS for SMEs. One of these challenges is interpretation difficulties. The principle-based nature of the IFRS and the need for an extensive use of professional judgment are likely to cause inconsistent interpretations and differences in applications (Kılıç and Uyar, 2017). Another challenge

is lack of training. Practical implementation of IFRS for SMEs requires adequate technical capacity among preparers (Rudzani and Manda, 2016; Uyar and Güngörmü, 2013). In fact, training materials on IFRS for SMEs are not readily available at affordable costs in Saudi Arabia which poses a great challenge to IFRS implementation. The cost of producing financial accounting information using IFRS for SMEs is another challenge. The accounting requirements were new and different and often required fair values, external data or key assumptions to be made to implement the standards (Albu *et al.* 2010). The implementation of IFRS for SMEs also required hiring of accountants with appropriate competences to prepare the financial reports following IFRS for SMEs. Professional accountants are usually expensive to hire and few SMEs can afford them (Hope *et al.* 2006). Accordingly, three items were used to measure the challenges of implementation of IFRS for SMEs, namely: interpretation difficulties, lack of training and implementation cost. To ensure content validity, the survey instrument was vetted by four academics with expertise in the disciplines of finance and accounting in three universities in Saudi Arabia. Based on their recommendations, some amendments were made on the questionnaire to improve its clarity. The questionnaires were administered and collected during June – August 2019 and they were developed in Arabic language.

RESULTS

A descriptive analysis was conducted to describe respondents' ratings for the perceived benefits and challenges of the implementation of IFRS for SMEs in Saudi Arabia. The results for perceived benefits and challenges of IFRS for SMEs implementation in Saudi Arabia are presented in Tables 3. From Table 3, considering that both strongly agree and agree represent together the respondents' agreement with the statement of the benefits or challenges of the implementation of IFRS for SMEs, it is clearly evident that majority of the respondents have agreed with most statements that present the benefits and challenges of the implementation of IFRS for SMEs. With respect to benefits, the six statements that have the highest agreement are, facilitating access to credit (77.9% of respondents), facilitating credit rating (74.1% of respondents), enhancing comparability (66.1% of respondents), enhancing transparency and understandability (62.2% of respondents), availing overseas suppliers (55.9% of respondents) and increasing supplier confidence (53.5% of respondents). With respect to challenges, the majority of respondents have agreed with the three statements, lack of training (75.6% of respondents), interpretation difficulties (74.1% of respondents) and implementation cost (70.1% of respondents).

Average mean is used to measure the perceptions of the respondents on each statement with regards to the benefits and challenges of the implementation of IFRS

Table 3: Perceptions of Respondents About the Benefits and challenges of IFRS for SMEs

	<i>Strongly Disagree</i>	<i>Disagree</i>	<i>Undecided</i>	<i>Agree</i>	<i>Strongly Agree</i>
Statements of benefits					
Facilitating access to credit	7 5.5 percent	16 12.6 percent	5 3.9 percent	32 25.3 percent	67 52.7 percent
Increasing supplier confidence	23 18.2 percent	29 22.8 percent	7 5.5 percent	31 24.4 percent	37 29.1 percent
Facilitating credit rating	17 13.4 percent	11 8.7 percent	5 3.9 percent	38 29.9 percent	56 44.1 percent
Availing overseas suppliers	26 20.5 percent	26 20.5 percent	4 3.1 percent	30 23.6 percent	41 32.3 percent
Attracting foreign investment	20 15.8 percent	53 41.7 percent	3 2.4 percent	29 22.8 percent	22 17.3 percent
Improving the quality of financial decisions	17 13.4 percent	42 33 percent	12 9.4 percent	28 22.1 percent	28 22.1 percent
Enhancing transparency and understandability	17 13.4 percent	22 17.3 percent	9 7.2 percent	33 25.9 percent	46 36.2 percent
Enhancing comparability	9 7.1 percent	22 17.3 percent	12 9.4 percent	35 27.6 percent	49 38.6 percent
Statements of challenges					
Interpretation difficulties	10 7.9 percent	14 11 percent	9 7.1 percent	42 33.1 percent	52 40.9 percent
Lack of training	12 9.5 percent	13 10.2 percent	6 4.7 percent	40 31.5 percent	56 44.1 percent
Implementation cost	12 9.5 percent	22 17.3 percent	4 3.1 percent	41 32.3 percent	48 37.8 percent

for SMEs in order to arrange benefits and challenges statements as perceived by respondents. Table 4 presents the mean response of respondents to each benefit and challenge statement in descending order, from highest mean to lowest mean. As shown in Table 4, the four benefits statements that have the highest mean are, facilitating access to credit (mean = 4.071), facilitating credit rating (mean = 3.827), enhancing comparability (mean = 3.732) and enhancing transparency and understandability (mean = 3.543). These findings are consistent with the findings of prior studies (e.g., Kiliç and Uyar, 2017, Albu *et al.* 2010). The benefit statement that has the highest mean perception is facilitating access to credit. It is a reasonable result, as in Saudi Arabia, the banks, rather than the financial markets, have always been the main financiers of Saudi companies, especially SMEs. Thus SMEs in Saudi Arabia give priority to one particular class of stakeholder, banks. The benefit statement that has the lowest mean perception

is attracting foreign investment. This is may be a reasonable result as most SMEs in Saudi Arabia have their primary focus on the local market and have no international orientation. The importance of IFRS for SMEs in improving the quality of financial decisions didn't get high mean perception. This result is consistent with prior studies. A survey by Hoxha (2014), for example, revealed that owners of SMEs hardly use financial statements to make business decisions instead they rely on daily activity data records.

Schutte and Buys (2011) argued that most SMEs owner-managers are already involved in the day-to-day operations of the businesses and, therefore, they have regular access to the financial information. With respect to challenges, as is clear from Table 4, the lack of training got the mean perception, followed by the difficulties in interpretation and then the cost of implementation. These findings also consistent with the findings of previous studies. Practical implementation of IFRS for SMEs requires adequate technical capacity among preparers, and so needs a lot of training, especially in the early periods of application. (Rudzani and Manda, 2016; Uyar and Güngörmüş, 2013). The principle-based nature of the IFRS and the need for an extensive use of professional judgment are likely to cause inconsistent interpretations and differences in applications (Kılıça and Uyar, 2017). Albu *et al.* (2010) argued that the implementation of IFRS for SMEs often required fair values, external data and made significant assumptions, which imposes a cost on SMEs.

Hope *et al.* (2006) concluded that the implementation of IFRS for SMEs also required hiring of accountants with appropriate competences to prepare the financial reports following IFRS for SMEs. Professional accountants are usually expensive to hire and few SMEs can afford them.

Table 4: Mean Response of Respondents to Each Benefits and Challenges Statement

	<i>Mean</i>	<i>SD</i>
Statements of benefits		
Facilitating access to credit	4.071	1.246
Facilitating credit rating	3.827	1.059
Enhancing comparability	3.732	1.210
Enhancing transparency and understandability	3.543	1.193
Availing overseas suppliers	3.267	1.256
Increasing supplier confidence	3.236	1.097
Improving the quality of financial decisions	3.063	1.070
Attracting foreign investment	2.842	1.025
Statements of challenges		
Lack of training	3.906	0.707
Interpretation difficulties	3.882	0.607
Implementation cost	3.716	0.892

CONCLUSIONS AND LIMITATIONS

In Saudi Arabia, SMEs are considered the backbone of the economy as they represent 99 percent of the private sector. Moreover, they're absorbing about 70 percent of the country's workforce. Because the business sector is important in achieving the objectives of Saudi Arabia's economic vision 2030, and this includes not only large (listed) entities but the much more numerous small and medium-sized entities (SMEs), SOCPA adopted IFRS for SMEs as of January 2018. All SMEs in Saudi Arabia are required to adopt IFRS for SMEs for financial periods beginning on or after January 1, 2018. Prior studies demonstrated that "a single set of standards for SMEs may not be relevant for all countries". Therefore, this study aimed to examine the perceived benefits and challenges of the implementing of IFRS for SMEs in Saudi Arabia as one of emerging countries from the perspective of preparers of financial statements. The study has conducted a cross-sectional survey that sought to collect field data on accountants' perceptions of the benefits and challenges of implementing of IFRS for SMEs in Saudi Arabia. The survey instrument was developed after reviewing recent literature on the benefits and challenges of implementing of IFRS for SMEs in emerging markets. The findings of the study reveal that the majority of the respondents have agreed with most statements that present the benefits and challenges of the implementing of IFRS for SMEs. The benefits that have the highest agreement are: facilitating access to credit, facilitating credit rating, enhancing comparability and enhancing transparency and understandability. The challenges that have the highest agreement are: the lack of training, interpretation difficulties and implementation cost. The results of this study are consistent with prior research suggesting that the adoption of IFRS for SMEs, which are generally perceived to be one set of high quality standards, would be beneficial for SMEs in emerging countries since it promote more efficiency, transparency and comparability in financial reporting, it taps greater investment opportunity, bring better corporate governance and create existence of uniform accounting standards. However, the implementing of these standards is not without some challenges and difficulties, especially in the early periods of implementation. This study contributes to the limited body of research on the benefits and challenges of the adopting and implementing of IFRS for SMEs in emerging countries. The wide spread adoption of IFRS for SMEs has been promoted by the arguments that the benefits outweigh the costs. It however remains an empirical question if this is the case for all countries whether developed or developing. The study findings serve as a reminder to the accounting regulators in Saudi Arabia about the challenges that SMEs face in implementing IFRS for SMEs.

However, this study suffers from some limitations. One of these limitations is the small sample size. Given the implementation of IFRS for SMEs in Saudi Arabia is a new matter, the purpose of this study is to provide initial evidence on the benefits and

challenges of the implementing of IFRS for SMEs. As this study relied only on a sample of 127 respondents, other studies in the future can provide deeper evidence using larger samples. Another limitation of the study is the lack of bivariate analysis. In the first section of the questionnaire, questions were asked in order to know the profile (gender, accounting experience) of the respondents and some characteristics (number of employees, age and industry) of the SMEs, as a unit of analysis, that are part of the chosen sample. All data collected was used only to describe the respondents and the units of analysis. Other studies in the future can apply bivariate analysis in order to refine the results to be found. For example, would the implementation of IFRS for SMEs be more useful for entities with several years of activity or is it the opposite? are the challenges related to the implementation of IFRS for SMEs the same for manufacturing entities and those active in the construction industry? etc.

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