

SMEs' Financial and Differential Reporting- A Review of Publications

Tausi Ally Mkasiwa

Department of Accounting and Finance, Institute of Finance Management (IFM)

Tanzania

Email: tmkasiwa@yahoo.com

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Abstract

The purpose of this paper was to evaluate publications about Small and Medium Enterprises' (SMEs) financial and differential reporting and formulate suggestions for its progression. Based on desk-based research, the paper employed a literature-based analysis and critique of 100 selected publications about financial and differential reporting for SMEs. The paper only considered selected studies over the period 1985 to 2014. All financial and differential reporting literature of SMEs that was publicly available was incorporated (see also, Eierle and Schönefeldt, 2010). This method was employed because of the scattered nature of articles on financial and differential reporting for SMEs. From this, a descriptive analysis of the characteristics of the literature was discussed. Thereafter, a conceptual analysis of the reviewed publications was conducted to provide the basis for suggestions for possible future directions of this body of research. The descriptive analysis highlighted that among the research studies reviewed several interesting patterns emerged concerning SMEs' financial and differential reporting research. Contrary to what had been argued in previous reviews, studies of developing countries had started to increase in this body of research since 2009. When the focus of the literature was considered, the "scrutinization of differential reporting" was the area of most focused interest especially after the release of IFRS for SMEs. The main implications of this paper are that, the focus of published literature had been in line with IASB's project of the development of IFRS for SMEs. This paper provides several important insights in order to highlight policy development, especially to the steering bodies such as IASB. Moreover, the paper identifies possible areas for further research.

Keywords: IFRS, SMEs, Literature Review, Differential Reporting

1. Introduction

[...] It is important to emphasize that conducting value relevance research that provides insights into questions of interest to academics and non-academics alike is not an easy task. It takes considerable time and effort to learn about questions of interest to various financial reporting constituencies, to understand the institutional details of the accounting amounts being studied, and to develop research designs capable of addressing research questions that correspond to questions of interest. As financial markets expand and become more complex and accounting standards attempt to keep pace with these changes, it is a challenge for accounting research to make a substantive contribution in addressing questions relevant to standard setting [...] (Holthausen and Watts, 2001, p.30).

The Small-and-Medium-Sized Enterprises (SMEs) sector represents 99% of all enterprises around the world and plays a very important role in the economy (Evans et al., 2005, Strouhal et al., 2011, Fekete et al., 2012). In Europe, there are about 23 million SMEs operating in 25 European Union member states (Bohusova, 2007).

Financial reporting of SMEs faces undue burdens and disproportionate reporting costs (Litjens et al., 2012). Due to these difficulties, differential reporting for SMEs emerged, based on the idea that different types of entities are subject to different financial reporting requirements, designed to achieve economic and social importance, meet users' needs and achieve more benefits than costs. Differential reporting has been the subject of much debate and concern by the accounting bodies (institutes) in Canada, the United States, the United Kingdom, Ireland, Australia, New Zealand, and other countries (Maingot and Zeghal, 2006).

The idea of financial reporting harmonization across countries also emerged with the intention of achieving uniformity, understandability, and comparability. In July 2009, the International Accounting Standard Board (IASB) issued International Financial Reporting Standards (IFRS) for SMEs, designed to simplify reporting requirements and achieve harmonization. IFRS for SMEs is a stand-alone set of accounting and reporting standards that contains simplified reporting and disclosure requirements, based on a cost-benefit analysis of the financial reporting needs of companies that are non-publicly accountable (Wright et al., 2012). Simplicity of IFRS for SMEs is argued on the omissions of topics not relevant for SMEs, such as earnings per share, interim financial reporting and segment reporting, easier options of accounting policy choices, such as no option to revalue property, equipment, or intangibles, simplicity of recognizing and measuring assets, liabilities, income and expenses, fewer disclosures required, clear and easily translatable language, and revisions are limited to once every three years (IASB, 2014).

In Europe, the debate over the simplification or outright abolition of reporting requirements for small companies is still raging (Ceustermans et al., 2012a). This arena is not specific to a specific country; it is a dilemma that grips the interest of the entire profession worldwide (Albu et al., 2010). For the IASB, which consists of 14 Board members, 13 voted in favour of IFRS for SMEs, while there was 1 dissenting opinion. Moreover, a survey of world accounting standard setters found that, of 51 responding jurisdictions, 31 plan to require or permit the IFRS for SMEs within the next three years, 11 have no plans to do so, and nine are

undecided (Mackenzie et al., 2010). The issue of IFRS for SMEs is argued to be based on the IASB, accountants, and auditors' views rather than SMEs' owners and users (Schiebel, 2007, Tudor and Mutiu, 2008, Briciu et al., 2009, Litjens et al., 2012). This has been contributed to by the relatively scarce literature which investigates perceptions of SMEs' owners and users of SMEs' financial reporting (Faux and Wise, 2004, Evans et al., 2005, Sian and Roberts, 2009).

Moreover, SMEs' financial reporting has been scantily reviewed. Few authors have attempted to review financial reporting studies on SMEs, but only as part of their papers (Evans et al., 2005, Baldarelli et al., 2007, Lungu et al., 2007, Tudor and Mutiu, 2008) with the exception of Eierle and Schönefeldt (2010). This gap has arguably led to the aforesaid problems, along with lack of knowledge and appreciation of this body of research.

This paper makes a specific contribution. The objective is not only to review the literature through descriptive analysis, but also to synthesize and conceptualize the focus of publications about SMEs financial reporting. Emphasis is made in comparing the literature before and after release of "IFRS for SMEs". In so doing, the paper contributes to the insights developed in previous reviews (Evans et al., 2005, Baldarelli et al., 2007, Lungu et al., 2007, Tudor and Mutiu, 2008, Eierle and Schönefeldt, 2010). Simply stated, three questions are asked:

- a. What has been investigated concerning SMEs' differential reporting before and after adoption of IFRS for SMEs?
- b. What theoretical explanations can be developed to understand and explain SMEs' differential reporting before and after adoption of IFRS for SMEs?
- c. What recommendations can be made for the literature about differential reporting for SMEs?

By addressing these questions, SMEs' financial and differential reporting will be considered in two different phases; before, and after, the release of IFRS for SMEs. This approach will inform an agenda suggesting what should be done. The selection of publications was based on public availability (see also, Eierle and Schönefeldt, 2010). The purpose was to be able to consolidate a reasonable number of publications from where they are, as there are few publications about financial and differential reporting for SMEs.

In order to answer the research questions, the substantive arguments of the paper will be structured in the following fashion. Section two provides the boundaries of what constituent SMEs and differential reporting. Section three addresses the research methods adopted. Section four and Section five provide descriptive analysis and a conceptual analysis of the literature, respectively. The last section addresses a future research agenda and provides conclusions.

2. Boundaries of SMEs and Differential Reporting

2.1 Framework of SMEs

There is no unanimous view about the definition of SMEs (Briciu et al., 2009). Similarly, there is far less consensus on exactly which entities fall into the SME category (Ceustermans et al., 2012b). The SME concept covers a large diversity of types of enterprise, no matter what the entities' dimensions, category or nature, or the informational needs of their users. Evidence from the literature reveals no universally agreed definition of an SME across all academic disciplines (Maseko and Manyani, 2011). Tudor and Mutiu (2008) argue that SMEs' world is not a homogenous and unified one. These arguments are reflected in the following definitions of SMEs.

On the one hand, a number of countries and different areas have defined SMEs using quantitative size criteria (Stainbank and Tafuh, 2012). For example, in Egypt, SMEs have more than 5 and fewer than 50 employees, Vietnam considers SMEs to have between 10 and 300 employees, while the World Bank defines SMEs as those enterprises with a maximum of 300 employees, \$15 million in annual revenue, and \$15 million in assets (Amit Bouri et al., 2011). In 2007, the United States Agency for International Development (USAID) analyzed seven different definitions in seven different countries, using quantitative criteria. It finally proposed that SMEs are those enterprises that employ between 10 and 99 employees. Small enterprises are those employing between 10 and 49 employees, whereas medium enterprises would be those employing between 50 and 99 employees. It also added that SMEs have an annual sales and assets threshold of 1.4 million USD (Rana Dababneh and Tukan, 2007). Similarly, the European Commission, in May 2003, defined SMEs as enterprises which employ fewer than 250 persons, have an annual turnover not exceeding 50 million euro, or an annual balance sheet of a total of 43 million euro (Briciu et al., 2009).

Conversely, the IASB rejects a size test to determine a SME and thus defines SMEs as entities that do not have public accountability and which publish general purpose financial statements for external users (Ceustermans et al., 2012b). According to the IASB, external users involves owners who are not involved in managing the business, existing and potential creditors, and credit rating agencies (IASB, 2009). A company has public accountability if: its debt or equity instruments are traded in a public market, or it is in the process of issuing such instruments for trading in a public market, or it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (Fitzpatrick and Frank, 2009). According to the IASB's definition, SMEs do not include non-profit or governmental entities (Wright et al., 2012).

The non-specification of some quantitative characteristics of SMEs leads to misunderstandings or speculations. For example, in the UK, large but unquoted businesses are not required to adopt full IFRS (Ceustermans et al., 2012b). The IASB itself struggled to use the term SME in finding the appropriate title for the standard. The title was changed five times and, two months before its release, it was titled IFRS for SMEs (Ram, 2012). Moreover, SMEs are not a homogeneous group, but instead consist of different layers, as they can be divided into micro-entities, small entities or medium-sized entities and further into growing

SMEs and non-growing SMEs (Ceustermans et al., 2012b).

This difficulty of ‘defining an SME’ is a major disadvantage for a differential reporting framework based on size (Ceustermans et al., 2012b). Criteria for differential reporting may include the size of the company based on balance sheet total, net turnover, and number of employees, listed and non-listed companies, and other factors, such as the legal structure of the firm and the separation of ownership and control (Ceustermans et al., 2012b). For the purpose of this review, both quantitative and qualitative definitions of SMEs will be accommodated.

2.2 An Overview of Differential Reporting

Differential reporting means that different types of entities are subject to different financial reporting requirements (Ceustermans et al., 2012b). When the need for differential financial reporting is invoked, the following are considered amongst other things: the economic and social importance, the number and diversity of users of the financial statements, their information needs, and the cost-benefit ratio (Bunea and Sacarin, 2012). The European Commission considers that SME should be treated quite differently from a public company: “A small enterprises is not simply a smaller version of a large enterprise.” (Briciu et al., 2009). Most differential reporting alternatives have the intention of relieving the cost of compliance (Ceustermans et al., 2012b). Different countries have different models of differential financial reporting.

For example, European companies not complying compulsorily or voluntarily with IFRS have different sets of accounting rules (local Generally Accepted Accounting Principles (GAAPs)) in place and, indeed, many countries have more than one local GAAP (Litjens et al., 2012). Similarly, the Canadian Institute of Chartered Accountants' (CICA) undertook an examination of three alternative models: a single set of GAAP without exclusions, two sets of GAAP (Big GAAP and Little GAAP), and a single set of GAAP with exclusions from certain standards for SMEs (Wright et al., 2012). The CICA proposed and adopted the third model, by which SMEs are required to prepare financial statements based on standardized accounting rules so as to reduce SMEs’ compliance burden (Wright et al., 2012).

Wright, Fernandez et al. (2012) explained different differential reporting models in different countries. They explained that New Zealand has adopted a set of GAAP with exemptions for SMEs. The new standards were published by the Institute of Chartered Accountants of New Zealand in 1997 as a "Framework for Differential Reporting." They also explained that Australia has implemented a hybrid method, similar to using a single set of GAAP with exclusions from certain standards for SMEs (Big GAAP and Little GAAP) (Wright et al., 2012). Table 1, below, provides a summary of differential reporting models in seven selected countries, based on the CICA alternative models for differential reporting.

Country	Single GAAP	GAAP with exceptions	2-GAAP
United States	√		
Canada		√	
EU & EEA		√	
UK (current)			√
Ireland (current)			√
New Zealand			√
Australia		√	

Table 1: Summary of Differential Reporting Models

Source: Wright *et al.* (2012, p. 297).

The United States is the only major country that is clinging to the ‘one size fits all’ single set of GAAP standards, as the UK and Ireland are reviewing their standards to bring them into conformity with IFRS for SMEs (Wright *et al.*, 2012).

IFRS for SMEs is an international differential reporting model. One of the main arguments for extending IFRS implementation to SMEs’ accounts is that a global financial reporting standard (if applied consistently) will enhance international comparability and the understandability, transparency and accountability of SMEs’ accounting reports, and provide greater information relevance, which is also beneficial for management and market efficiency (Stouhal, 2012). The other argument is that large companies have a much broader range of users than small ones, their information is used for a wider range of decisions, and they have complex transactions and aggregated information that needs sophisticated analysis (Collis *et al.*, 2001). Another argument for differential reporting is the undue burden and disproportionate costs of reporting carried by smaller businesses (Evans *et al.*, 2005). Additional arguments are: narrower user groups, usefulness for a narrower range of decisions, less complex transactions and less need for sophisticated analysis of highly aggregated information (Collis *et al.*, 2001).

Other researchers are against differential reporting for several reasons: firstly, the universality argument (i.e., companies should not be subject to different rules giving rise to different “true and fair views”), secondly, the need for comparability and reliability derives from the universal application of accounting regulations, thirdly, published accounts are “the price to pay for limited liability” of ownership and management and, fourthly, reduction in regulations for smaller entities may portray small companies as second class citizens and may even risk bifurcation within the profession (Evans *et al.*, 2005, Briciu *et al.*, 2009). Moreover, the needs of financial statement users of different categories of entities are often left in

ignorance when implementing differential reporting (Ceustermans et al., 2012b). In addition, the statutory accounts cannot give the true and fair view of activities of the business if there are different accounting rules for different sized companies (Collis et al., 2001). Another argument against differential reporting is the fear of making smaller companies ‘second class citizens’ and the risk of the creation of a two-tier accounting profession (Evans et al., 2005).

For the purpose of this paper, differential reporting review incorporates all studies which relate in one way or the other to the specific financial reporting practices of SMEs. This will consider studies which consider a single standard for all enterprises, two standards, a single standard with exemptions, or total exemption. It will also include studies which investigate financial reporting practices of SMEs as they build on the differential reporting phenomenon.

3. Research Methodology

This section documents the methodology used for collecting, reviewing and analyzing the publications. The collection of publications was initially based on journals. This took the form of judgmental sampling, whereby the researcher actively selects the publications which will help to answer the research questions (Marshall, 1996). Journals, such as the International Journal of Accounting and the Journal of Small Business and Enterprise Development, were expected to have some publications concerning IFRS for SMEs. This was found to be impracticable, because one journal might have one publication or no publication at all, relating to financial reporting for SMEs. For example, from the Journal of Small Business, where one could expect the phenomenon to be explored, only three studies were conducted from 1985 to 2014.

Two methods were therefore adopted. These were the “snowball sampling” approach and the “Google scholar search” approach. The later approach was also employed by Eierle and Schönefeldt (2010) in their review of financial reporting for SMEs . The snowball approach is used to obtain a sample when there is no adequate list which could be used as a sampling frame. This approach involved obtaining one paper relating to IFRS for SMEs and looking at publications quoted therein. Due to the scattered and sparse nature of SMEs’ financial reporting in published journals, studies which were easily available from different sources and which related to the phenomenon under investigation were incorporated. This included journal articles, theses and conference papers.

All aspects of financial reporting were included in the review. Abstracts and full text of the publications were obtained. Descriptive analysis was conducted through examining author names, year of publication, location of the study, research methods adopted, publication source, research topic/objectives/focus and findings. A database was established and used to construct a range of descriptive statistics, which allowed extensive discussion of the patterns that emerged from the reviewed studies, and provided the basis for analysis. The final data set comprised 100 publications during the period 1985–2014 inclusively. Following the descriptive analysis, conceptual analysis was conducted, based on the research focus.

4. Findings

Findings are categorized in to two groups: descriptive analysis of publications on SMEs' financial reporting and Conceptual analysis on SMEs' financial and differential reporting review.

4.1 Descriptive Analysis of Publications on SMEs Financial Reporting

4.1.1. Publication Trend

Based on the reviewed publications in this study, the currently publicly available early studies and publications about SMEs' financial reporting were observed to have been conducted in 1980's. There were few before 2006. In each year, the publications did not exceed 3. In line with Eierle and Schönefeldt (2010), it was found that the number of publications about SMEs' financial reporting has increased since 2006. For the 100 publications reviewed in this study, before 2006, studies averaged 1 per year, compared to 10 per year after 2006, as shown in Figure 1 below.

One can argue that SMEs' financial reporting became an issue of concern for the international community after the release of IFRS in 2004. However, researchers' interests in the burden of accounting standards on small business existed even before this period. For example, the first study of financial reporting for SMEs was observed in 1976 (Eierle and Schönefeldt, 2010). Furthermore, in 1985, the Accounting Standard Committee in the UK commissioned a study to investigate the question of whether or not accounting standards and the disclosure rules of company law placed an undue burden on small businesses. The research findings were similar to studies conducted later concerning arguments for accounting standards' simplification. They found that some standards and legal requirements commanded general acceptance, while others were greeted with little enthusiasm (Carsberg et al., 1985).

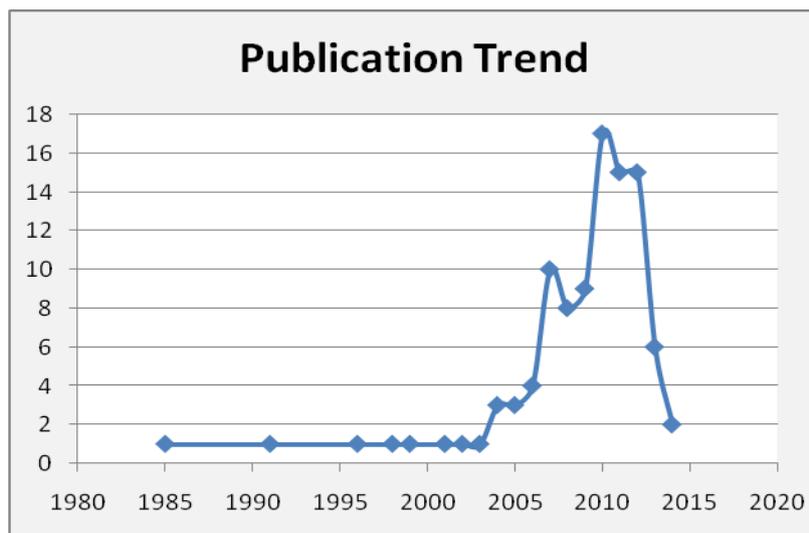


Figure 1: Publication Trend

(Source: Author's Analysis)

4.1.2. Publication Sources

Due to the scarcity of studies on SMEs’ financial reporting, as stated in the methodology section, publications were collected from Google scholar search engine rather than direct sources, such as journal articles and conference proceedings. Six sources were identified: conference proceedings, web-pages, theses, working/research/discussion/seminar papers, books and theses. The “SMEs IFRS Website” was the source with the lowest number of publications (1%). The reason for this was to ensure quality of the reviewed publications. Journal articles was the source with the maximum number of publications reviewed (70%), followed by research found in books (8%) and working/research/discussion/seminar papers (8%). This was followed by conference proceedings (7%), as shown in Figure 2 below.

Authors have argued about the sparsity of SMEs’ financial reporting (Schiebel, 2007, Briciu et al., 2009). This argument is also evidenced in other reviews of SMEs’ financial reporting literature (Eierle and Schönefeldt, 2010).

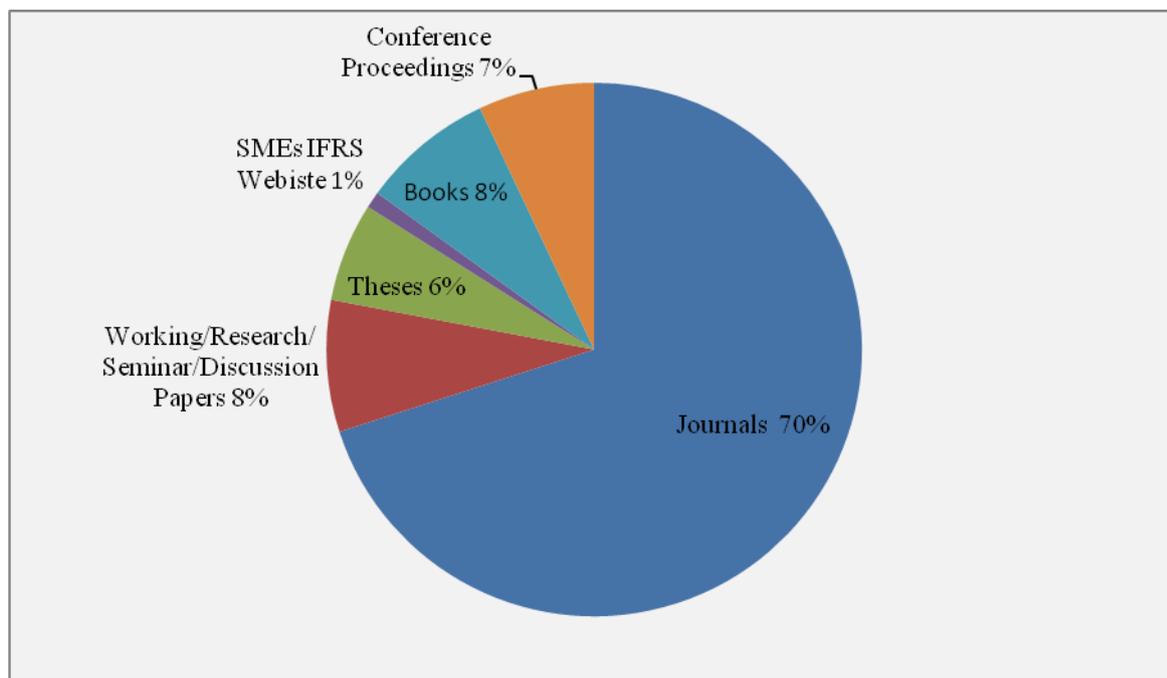


Figure 2: Publication Sources

(Source: Author’s Analysis)

However, it is also observed that, from the 2010’s, SMEs’ financial reporting has become an area of interest in accounting research because of the existence of studies at M.Phil and PhD level (Aamir and Farooq, 2010, Morunga and Morunga, 2010, Nguyen, 2010, Schutte, 2011, Ploybut, 2012, Liu, 2014). There is also enthusiasm for SMEs’ financial reporting publications, as evidenced by the existence of studies presented at international conferences (Jarvis and Collis, 2003, Faux and Wise, 2004, Mošnja-Škare, 2005, Masca et al., 2010, Neag,

2010, Palka and Svitakova, 2011). Other authors have also attempted to compile the studies in the form of books (Carsberg et al., 1985, Strouhal et al., 2011).

4.1.3. Research on Financial and Differential Reporting around the World

According to previous reviews, most studies have been conducted in European Countries (Eierle and Schönfeldt, 2010). Moreover, there are arguments that developing countries are not involved in the decisions regarding IFRS for SMEs in the context of conducting empirical research, providing opinions and comments. The findings of this review show an increase in the number of publications in several developing countries, such as South Africa and Romania, as shown in Figure 3 below.

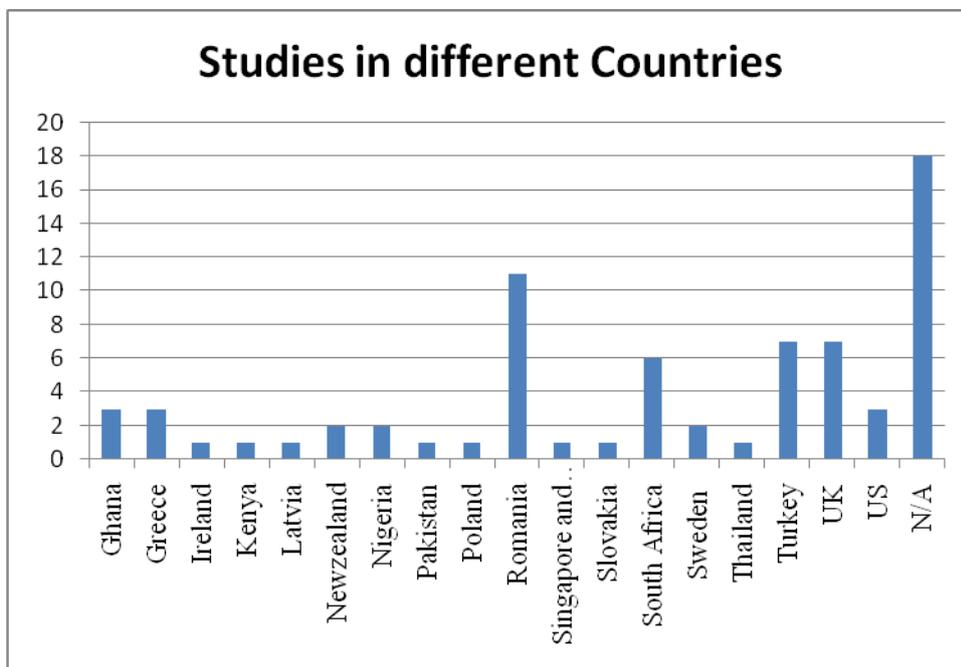


Figure 3: SMEs' Financial Reporting Studies around the World

(Source: Author's Analysis)

4.1.4. Research Method/Methodology on SMEs Differential Reporting

Six categories of research methods/methodologies were established: questionnaire/survey, hypothesis testing/regression analysis /other quantitative methods, historical analysis/case study, analytical/discussion/comparative analysis/literature review, documents/financial statement analysis, and interviews/qualitative/inductive approach. The findings of this study supports the observation of Eierle and Schönfeldt (2010) that many (50%) of the reviewed publications employed questionnaire/survey methods. However, contrary to what Eierle and Schönfeldt (2010) observed, the utilization of interviews was low, with only 5% of the reviewed publications having conducted interviews. The other observation about the research methodology was that 28% of the reviewed publications were in the form of

analytical/discussion/comparative analysis or literature review. This triggers evidence that the IASB might be influenced by academicians/authors' opinions rather than empirical results deduced from owners and users (Schiebel, 2007, Briciu et al., 2009). Figure 4, below, shows methodologies, from the most employed (questionnaire/survey) to the least employed (case studies and interviews).

4.1.5. Research Focus before and after IFRS for SMEs

39% of the reviewed publications occurred before, while 61% occurred after, the release of IFRS for SMEs. The reviewed publications were classified into four categories depending on their research focus: publications providing the background/rationale for differential reporting, publications shaping differential reporting, publications scrutinizing differential reporting, and publications evaluating adoption of differential reporting, as shown in Figure 5 below.

Publications providing the background/rationale for differential reporting were examining/investigating/evaluating the complexities/costs and benefits SMEs are facing/obtaining in financial reporting, or the need for exemption or differential reporting (see, for example, Barker and Noonan, 1996, Williams and Tower, 1998, Maingot and Zeghal, 2006, Arsoy et al., 2007, Baldarelli et al., 2007, Lungu et al., 2007). 23% of the total reviewed publications reviewed were focused on this research theme. Of these, 91% occurred before IFRS for SMEs. They were, therefore, contributing to the need for differential reporting or to the release of IFRS for SMEs.

Studies shaping differential reporting were investigating/discussing matters which provide the framework for differential reporting, such as analyzing the size as criteria for SMEs, providing comments on the SMEs' exposure draft, investigating the dependency of "IFRS for SMEs" on full IFRS, how differential reporting should be, and how financial information can be, harmonized in SMEs (see, for example, Holmes et al., 1991, Eierle and Haller, 2009, Van Wyk and Rossouw, 2009, Albu, 2013b). These studies were the fewest and comprised only 11% of the total reviewed publications. Of these, 64% occurred before IFRS for SMEs, while 36% occurred after IFRS for SMEs.

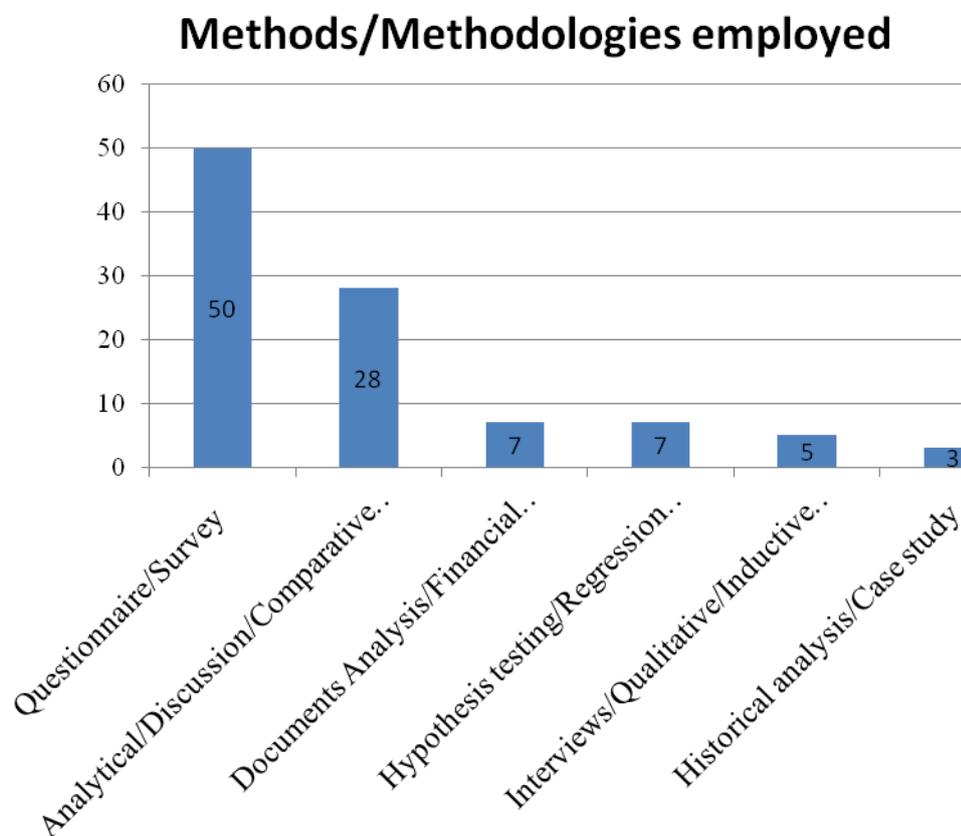


Figure 4: Methods/methodologies employed in SMEs financial Reporting Publications
(Source: Author's Analysis)

The third category comprised publications focusing on scrutinization of differential reporting. These were exploring issues such as perceptions of respondents towards IFRS for SMEs, the impact of IFRS for SMEs, assessing the current stage and benefits of IFRS for SMEs and comparing IFRS for SMEs with other standards (see, for example, Jermakowicz and Epstein, 2010, Strouhal et al., 2011, Feltham, 2013, Uyar and Güngörmüş, 2013, Liu, 2014). 53% of all reviewed publications were focused on this area. Moreover, all of these occurred after the release of IFRS for SMEs and comprised 87% of all publications after the release of IFRS for SMEs.

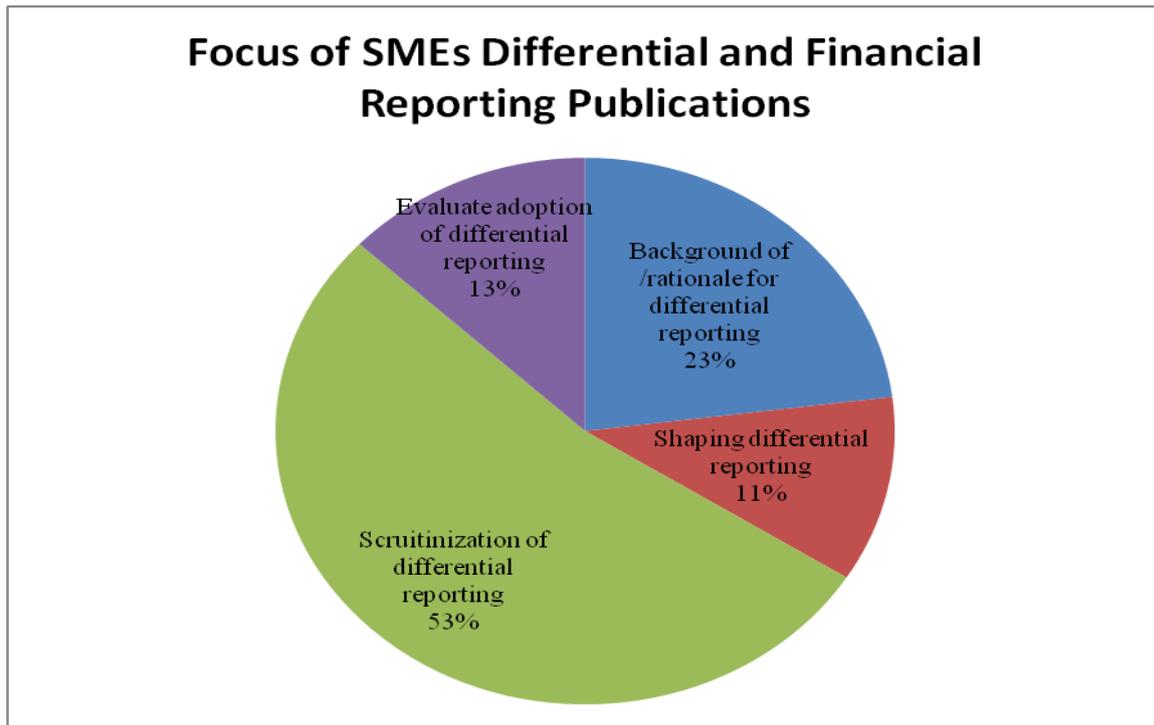
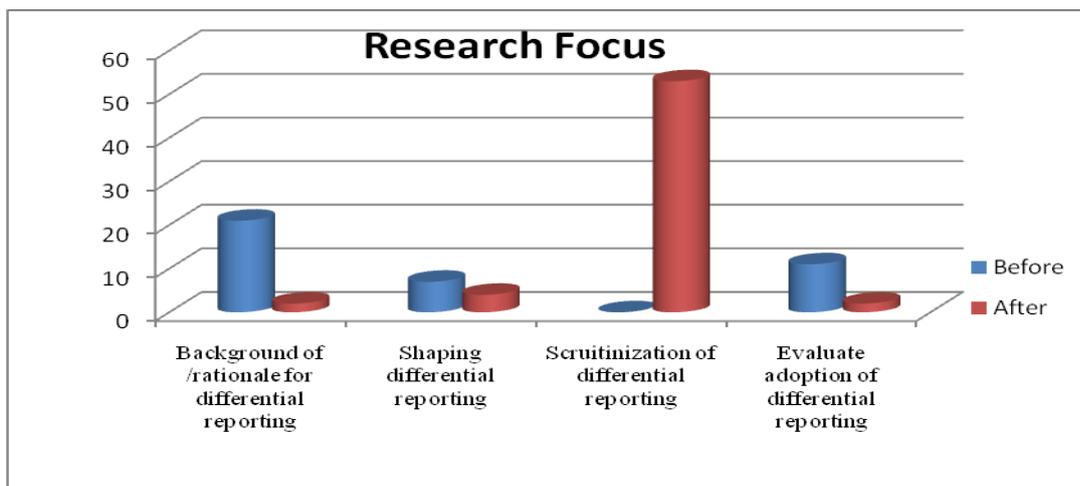


Figure 5: Focus of Publications on Differential and Financial Reporting Publications
(Source: Author’s Analysis)

13% of all of the reviewed publications were focused on evaluation of the adoption of differential reporting. Of these, 85% occurred before the release of IFRS for SMEs. These publications focused on evaluating the adoption process and the adoption decision, such as examining the implications of adoption (see, for example, Samujh, 2007, Nguyen, 2010, Bohušová and Blašková, 2012, Madawaki, 2012). Figure 6 below shows the research foci of the reviewed publications about SMEs financial and differential reporting.



(Source: Author’s Analysis)

Figure 6: Research Focus of SMEs Publications before and after the Release of IFRS for

SMEs

4.2. Conceptual Analysis of SMEs' Financial and Differential Reporting Literature

The reviewed financial and differential reporting publications are related to the formulation of local and international accounting standards for SMEs. Several issues have been raised in these publications regarding SMEs' financial reporting, such as the need for exemption from elements of accounting standards, the extent that economic size has an impact on its international exposure, the degree of adoption of international accounting standards, whether SMEs should have their own set of accounting standards, the impact of financial reporting on growth and performance, and the perceptions of practitioners towards IFRS for SMEs (Barker and Noonan, 1996, McMahon, 2001, Joshi and Ramadhan, 2002, Maingot and Zeghal, 2006, Eierle and Haller, 2009, Bunea and Sacarin, 2012).

There are different ways in which the accounting literature is informed by, and informing, non-academic constituents, such as the IASB. Firstly, research questions are often motivated by an aspect of a broad question raised by these nonacademic constituents, who find a variety of research topics and approaches informative to their activities (Barth et al., 2001). The IFRS for SMEs has informed the research questions of various researchers in accounting. Similarly, other research, such as value relevance research, has provided insights into questions of interest to standard setters and other non-academic constituents (Barth et al., 2001). In this review of differential reporting, for example, the research question formulated by Göransson (2008) was directly informed by the IASB statement, as reflected below:

[...] IASB claims that at the present time there are well over 50 jurisdictions around the world including the micros. IASB further states that if the full IFRS has been deemed suitable for all entities, then the proposed IFRS for SMEs will also be suitable. Or is it! Based on IASB's statement, which leads to a very interesting but yet simple research question, which is: "*Would the proposed IFRS for SMEs be suitable for companies in Sweden*"? [...] (Göransson, 2008, p. 3)

Secondly, accounting literature can inform the non-academic constituents through their research contributions. The contribution of accounting researchers of SMEs' financial reporting has been made explicitly by various authors. For example, some of the authors argue that IFRS for SMEs is still complex and costly to smaller entities. Statements are made, such as "there is a stern call for a solution..." "We sustain the idea...", "We propose an accounting system...", as reflected in the following quotes:

[...] In some instances, SMEs which make an effort to conform to GAAPs (IFRS) face various challenges owing to increased scope and complexity of the issues covered due to impossible implementation guidance. Others do not prepare any financial reports at all. In other cases, some SMEs prepare financial reports using their own approach which is outside the principles of IFRS. Owing to the above preceding, there is stern call for a solution to mitigate the above mentioned challenges/bottlenecks [...] (Mage, 2010, p.3)

[...] We sustain the idea of an accounting system that allows the small entity to choose between IFRS for SMEs and the national accounting regulations. However, this global accounting standard may represent a very significant step on the path to global convergence of financial reporting practice by SMEs. We consider that IFRS for SMEs may still be considered too complex for micro-entities. We encourage a classification of the entities in small and medium-sized entities and micro-entities and we condition the accounting regulation for these categories of entities, by a public debate [...] (Neag, 2010, p. 181).

[...] On the enterprise level IFRS application to Small and Medium-Sized Entities (SMEs) is an issue of comparability and cost. On the other hand the development of a global accounting system involves the preservation of national finance- accounting practices. We propose an accounting system, which allows the small enterprise to choose between an IFRS for SMEs and the national accounting rules. Such an accounting system gives SMEs the possibility of promoting the company by using international standards the very moment they are ready for this endeavor [...] (Masca and Gall, 2008, p. 80).

Thirdly, on the one hand, some of the professional comments regarding IFRS for SMEs have been based on the literature review and/or accompanied by a review of previous studies. In this context, arguments by authors are based on the findings of previous studies. For example, Evans et al. (2005) provide responses to IASB on IFRS for SMEs based on prior literature, as reflected in the following quote:

[...] This paper briefly introduces the background to the publication of the Discussion Paper. This is followed by a review of prior literature on SME financial reporting implications, prepared by the European Accounting Association's Financial Reporting Standards Committee as the basis of its response to the Discussion Paper. The paper concludes with a brief summary of events and issues arising since the end of the consultation period [...] (Evans et al., 2005, p.23).

On the other hand, literature review has been used as a methodology for the basis of arguments. For example, Tudor and Mutiu (2008) used literature review of differential reporting as the archival method for data collection and the basis of their conclusions:

[...] In our research we opted for an external approach by studying specialized literature and regulations. We conduct a theoretic study with technical aspects, using the archival research method for data collection. We realize a literature review based on our own research and article read and also we use literature review presented in others articles. A valuable study, we have used is the study launched by the EAA Committee presenting the conclusions of a revision of the literature concerning the implications of a standard for SMEs in Europe (Evans, 2005) [...] (Tudor and Mutiu, 2008).

Fourthly, authors usually call for further studies on issues perceived to be unresolved within the existing accounting standards. For example, the application of IFRS for SMEs on micro

entities is currently perceived as not having been adequately investigated. It is argued to be unsuitable for micro entities, thus the need for further investigations:

[...] Empirical studies looking at the users of SMEs' financial statements and their needs usually treat SMEs as a homogeneous group. To date, empirical research looking specifically at the users of, for example, micro-entities' financial statements and their information needs, is practically nonexistent [...] (Ceustermans et al., 2012b).

[...] Entities that conduct their operations within their local environment, it makes sense to set their requirements at the national level. We believe also that IFRS for SMEs are too complex for micro-entities accounting. We must follow the further steps taken in Europe and also the related debates across the European countries. We intend to approach such topics in the next papers [...] (Neag, 2010, p. 185)

4. Concluding Discussion

This paper presents a review of the financial reporting publications for SMEs. It provides descriptive analysis of the literature, conceptual analysis, and further proposes how research-based accounting standards setting can be conducted. This will work well when the two parts, the “standard setting bodies” and the academicians “researchers” talk to each other at an appropriate time and with an appropriate approach.

From the descriptive review, it was observed that early literature about SMEs financial reporting implied the provision of the rationale/ background/reasons formulation of IFRS for SMEs. Later on, the literature focused on shaping the model for differential reporting. Afterwards, the literature is observed to focus on evaluation of the adoption of differential reporting in the context of processes and decisions, and the scrutinization of differential reporting. The foci of publications about SMEs differential reporting have been in line with the release of IFRS for SMEs. For example, all studies on scrutinization of IFRS for SMEs were conducted after the release of IFRS for SMEs in 2009. However, the least number of studies is observed to have focused on shaping the model for differential reporting. Along with scrutinization, of IFRS for SMEs, further studies should investigate what differential reporting should look like.

Moreover, descriptive research has shown that survey/questionnaire methods have dominated other methods of research, and the trend of SMEs' financial reporting has shown an increase in the number of publications since 2004 and, later on, 2006. Because of the scarcity of studies, case study and qualitative approaches should be employed in researching financial reporting of SMEs in order to obtain rich insights and an in-depth understanding of the phenomenon (Covaleski and Dirsmith, 1990). In addition, in their review of financial reporting for SMEs, Eierle and Schönefeldt (2010) found a dominance of European countries. In this review, studies of developing countries have started to increase since 2009.

From the conceptual review, the paper proposes that newly established standards are the effect of the perceptions of the users and owners of SMEs. This is obtained after conducting

empirical studies. The shape which standards should take is also a result of the findings from empirical studies. Lastly, empirical research evaluates and scrutinizes the adoption decision and process, and the application of accounting standards. It is also argued that “the literature of financial reporting” and the “standard setting process” can talk to each other in four ways. Firstly, the research questions of empirical studies are informed by standard setting bodies such as the IASB. Secondly, empirical findings provide contributions and inputs to standard setting bodies. Thirdly, the bases of authors’ arguments in publications are informed by previous studies. Lastly, in conducting empirical studies, authors call for further studies in order to clear unresolved issues in the current standards. Therefore, the newly established standards might be the result of empirical findings conducted by accounting researchers after obtaining a topic of interest from the standard setting bodies.

Accounting standards setting bodies have been criticized for formulating standards without considering owners’ and users’ views. Similarly, the IFRS for SMEs is argued to be based on the IASB’s, accountants’, auditors’ and academics’ views rather than SMEs’ owners and users (Schiebel, 2007, Tudor and Mutiu, 2008, Briciu et al., 2009, Litjens et al., 2012). It is also argued that there is no extant academic theory of accounting or standard setting; the IASB articulates its theory of accounting and standard setting in its concepts statements (Barth et al., 2001). There is also little literature about financial reporting for SMEs. It is therefore important for accounting researchers to conduct empirical studies investigating the perceptions of SMEs’ owners and users, and for the IASB to make decisions based on the empirical studies already conducted, in order to understand the views of SMEs’ owners and users, along with other stakeholders, such as accountants and academicians. For example, the emerging concern over accounting standards for micro entities currently needs the attention of both accounting standard setters and academicians.

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