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PREPAREDNESS FOR AND PERCEPTION OF IFRS FOR SMEs IN TURKISH SMEs

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To My Parents, Celal KILIÇ and Asiye KILIÇ…

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AUTHOR DECLARATIONS

1. The material included in this thesis has not been submitted wholly or in part for any academic award or qualification other than that for which it is now submitted.

2. The program of advanced study of which this thesis is part has consisted of:

i) Research Methods course during the undergraduate study

ii) Examination of several thesis guides of particular universities both in Turkey and abroad as well as a professional book on this subject.

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ABSTRACT

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PREPAREDNESS FOR AND PERCEPTION OF IFRS FOR SMEs IN TURKISH SMEs

Harmonization studies about the financial reporting practices of entities to create high-quality, comparable, and transparent information have gained momentum in recent years. For this purpose, firstly the set of International Financial Reporting Standards (IFRS) was published for the use of listed entities. A while later, the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs) was designed for entities that are regarded as SMEs according to the qualitative or quantitative measurements of their jurisdictions. The adoption process of the IFRS for SMEs will play a very significant role in the creation of internationally understandable and comparable financial statements.

In this study, the preparedness of SMEs and certified public accountants (CPAs) in Turkey for the IFRS for SMEs was determined via two sets of questionnaires. Then, the effect of several firm characteristics (i.e. size, internationality, age, independent auditing, and the existence of an accounting department) on the preparedness of SMEs was analyzed. The perception of SMEs and CPAs about the possible advantages, disadvantages, and obstacles relating to the IFRS for SMEs was also investigated. Furthermore, the opinions of several professionals and academicians in the field of accounting were ascertained regarding the issues surrounding the IFRS for SMEs by employing in-depth interviews.

According to the results of this research, most SMEs have not yet carried out any preparation for the IFRS for SMEs. The findings of this study also show that the information level of SMEs about the standard is particularly low. On the other hand, a significant percentage of CPAs have prepared for this standard. Thus, CPAs' information level about the standard is higher than that of the representatives of SMEs. The findings of this research indicate that large entities have undertaken more preparation for the standard set than small ones. There is also some evidence that the entities that participate in international activities are more prepared for the standard set. Moreover, according to the findings, the prepared entities are more optimistic about the adoption process of the standard set and its advantages.

This thesis will make a significant contribution to the existing literature because there are few studies about the adoption process of the IFRS for SMEs to this extent, especially in emerging countries.

Key words:

IFRS, IFRS for SMEs, TFRS, TFRS for SMEs, Preparedness, Perception, SMEs, CPAs, Turkey

KISA ÖZET

Merve KILIÇ **Nisan 2013**

TÜRK KOBİ'LERİNDE KOBİ'LER İÇİN UFRS HAZIRLIĞI VE ALGISI

Yüksek kalitede, karşılaştırılabilir ve şeffaf bilgi üretimi için işletmelerin finansal raporlama uygulamaları ile ilgili uyumlaştırma çalışmaları son yıllarda hız kazanmıştır. Bu amaçla, öncelikle halka açık işletmeler için Uluslararası Finansal Raporlama Standartları (UFRS) seti yayınlanmıştır. Bir süre sonra, kendi ülkelerinin kalitatif veya kantitatif ölçütlerine göre Küçük ve Orta Büyüklükteki İşletme (KOBİ) olarak adlandırılan işletmeler için Küçük ve Orta Büyüklükteki İşletmeler için Uluslararası Finansal Raporlama Standardı (KOBİ'ler için UFRS) düzenlenmiştir. KOBİ'ler için UFRS setinin uygulanması süreci, uluslararası boyutta anlaşılabilir ve karşılaştırılabilir finansal tablo oluşturmada önemli bir rol oynayacaktır.

Bu çalışmada, Türkiye'deki KOBİ'lerin ve mali müşavirlerin KOBİ'ler için UFRS ile ilgili hazırlığı iki farklı anket ile belirlenmiştir. Daha sonra, bazı firma özelliklerinin (büyüklük, uluslararası faaliyetlerinin olması, yaş, bağımsız denetim ve muhasebe departmanının bulunması gibi) KOBİ'lerin hazırlığı üzerindeki etkisi incelenmiştir. KOBİ'lerin ve mali müşavirlerin KOBİ'ler için UFRS setinin olası avantajları, dezavantajları ve engelleri ile ilgili algıları da araştırılmıştır. Ayrıca, bazı meslek mensuplarının ve muhasebe alanındaki akademisyenlerin KOBİ'ler için UFRS ile alakalı konular hakkındaki görüşleri derinlemesine mülakat yöntemiyle alınmıştır.

Bu araştırmanın sonuçlarına göre, KOBİ'lerin birçoğu KOBİ'ler için UFRS ile ilgili henüz hazırlık yapmamıştır. Bu çalışmanın bulguları, KOBİ'lerin KOBİ'ler için UFRS ile ilgili bilgi seviyesinin düşük olduğunu da göstermiştir. Bunun yanı sıra, mali müşavirlerin önemli bir kısmı bu set için hazırlık yapmıştır. Bu nedenle, mali müşavirlerin standart setiyle ilgili bilgi seviyesi KOBİ temsilcilerine göre daha yüksektir. Bu araştırmanın sonuçları büyük ölçekteki işletmelerin küçük işletmelere göre standart seti için daha çok hazırlık yaptığını göstermektedir. Uluslararası faaliyetleri olan işletmelerin standart seti için daha hazır olduğuyla ilgili de bazı bulgular mevcuttur. Ayrıca, araştırmanın sonuçlarına göre, hazırlık yapan işletmeler bu standart setinin uyum süreci ve avantajlarıyla ilgili daha iyimserdir.

KOBİ'ler için UFRS setine uyum süreciyle ilgili bu kapsamda, özellikle gelişmekte olan ülkelerde, az sayıda çalışma olduğundan bu tez mevcut literatüre önemli bir katkı sağlayacaktır.

Anahtar kelimeler:

UFRS, KOBİ'ler için UFRS, TFRS, KOBİ'ler için TFRS, Hazırlık, Algı, KOBİ'ler, Mali müşavirler, Türkiye

CLAIM FOR ORIGINALITY

As the world globalizes, entities' activities are becoming more international. As a result of globalization, entities can make investments in foreign countries and take credit from foreign banks. Accounting is known as the language of business. The differentiation between the accounting applications of entities is seen as the main obstacle to their internationalization process. According to several authorities, an internationally accepted set of financial reporting standards will ease entities' international activities. For this purpose, the International Financial Reporting Standards (IFRS) set was published for listed entities. Subsequently, the need for another standard set for the use of unlisted and small-sized companies became apparent. The International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs) was published to meet this need.

In Turkey, the use of both the IFRS and the IFRS for SMEs has been legitimized within the New Commercial Code. All entities that are regarded as SMEs will use this new financial reporting standard, which is significantly different from the existing applications. The perception of entities and CPAs about the IFRS for SMEs will have an impact on the effectiveness of the adoption process of this standard set. The SMEs and CPAs will perceive advantages, disadvantages, and obstacles relating to the IFRS for SMEs in the adoption process. Some discussions are also taking place about the effect of firm characteristics, such as size, internationality, age, etc., on their preparedness for this standard.

This study deals with the preparedness for and perception of the IFRS by SMEs and CPAs in Turkey. Because the full set of IFRS has been mandatory for listed entities since 2005, most of the existing studies have addressed this set. This research study will contribute to the existing literature by focusing on the adoption process of the IFRS for SMEs in Turkey. According to the knowledge of the author, few studies have analyzed the preparedness for and perception of the IFRS for SMEs by related parties, such as entities, professionals, academicians, and CPAs in Turkey.

This study proposes many implications for regulatory bodies, the Standard Authority, academicians, entities, and CPAs. An effective adoption process of the IFRS for SMEs can be maintained by the collaboration of those parties. Some possible contributions and implications of this study can be listed as follows:

- The number of studies that address the financial reporting needs, applications, and structure of SMEs is particularly small compared with those that address listed entities. This study will contribute to the existing literature by analyzing the financial reporting practices of SMEs.
- There are also few studies that deal with the question of whether the IFRS for SMEs is suitable for emerging countries. This study has analyzed the suitability of the IFRS for SMEs for Turkey, which is one of the most important emerging countries, by conducting a survey with professionals. Therefore, this study provides new insights into the adoption process of the IFRS for SMEs in emerging countries.
- The preparedness level of SMEs has been analyzed. The findings of this analysis propose some clues to entities' motivations to apply the IFRS for SMEs.
- The effect of firm characteristics on the preparedness of entities has been analyzed within the scope of this study. The results of this analysis show which entities are more willing to use such a standard. Regulatory bodies and the Standard Authority may use this information to reach the members of their target audience and to increase their willingness.
- This study provides a profile of an entity that perceives the advantages of the IFRS for SMEs, as well as a profile of an entity that perceives the disadvantages of the IFRS for SMEs. Those findings will be useful for regulatory bodies and the Standard Authority.

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LIST OF ABBREVIATIONS

AAA	American Accounting Association
AAC	African Accounting Council
AFA	ASEAN Federation of Accountants
AICPA	American Institute of CPAs
ASB	Accounting Standards Board
ASC	Accounting Standards Committee
ASEAN	Association of Southeast Asian Nations
BDDK	Banking Regulation and Supervision Agency
CAPS	Committee on Accounting Principles and Standards
CPAI	Certified Public Accountants of Ireland
CPAs	Certified Public Accountants
EC	European Commission
ED	Exposure Draft
Et al.	And Others
EU	European Union
FEA	Federation of European Accountants
FRSME	Financial Reporting Standards for Medium-sized Entities

FRSSE	Financial Reporting Standards for Smaller Entities
GAAP	Generally Accepted Accounting Principles
GDP	Gross Domestic Product
IA	Independent Accountant
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee
IFAC	International Federation of Accountants
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IFRS for SMEs	International Financial Reporting Standard for Small and Medium-sized Entities
IOSCO	International Organization of Securities Commission
ISE	Istanbul Stock Exchange
ISMMMO	Istanbul Chamber of Certified Public Accountants
KGF	Credit Guarantee Fund
KGK	Public Oversight, Accounting, and Auditing Standards Authority
KOBİ	Küçük ve Orta Büyüklükteki İşletme

KOSGEB	Small and Medium-Scale Enterprises Development Organization
MNCs	Multinational Companies
NAFTA	North Free Trade Agreement
OECD	Organisation for Economic Cooperation and Development
OLS	Ordinary Least Square
SAC	Standards Advisory Council
SBA	Small Business Administration
SBEs	Small Business Entities
SD	Standard Deviation
SEC	Securities and Exchange Commission
SEE	State Economic Enterprises
SMEs	Small and Medium-sized Entities
SPK	Capital Market Board
Sworn-in CPA	Sworn-in Certified Public Accountant
SWOT	Strengths, Weaknesses, Opportunities, and Threats Analysis
TFRS	Turkish Financial Reporting Standards
TFRS for SMEs	Turkish Financial Reporting Standards for Small and Medium-sized Entities

TMS	Turkish Accounting Standards
TMSK	Turkish Accounting Standards Board
TMUD	Expert Accountants' Association of Turkey
TMUDESK	Turkish Accounting and Auditing Standards Board
TOBB	Union of Chambers and Commodity Exchanges of Turkey
TÜBİTAK	Scientific and Technological Research Council of Turkey
TÜRMOB	Union Chambers of Certified Public Accountants of Turkey
UEC	Union Européenne des Experts Comptables Economiques et Financiers
UFRS	Uluslararası Finansal Raporlama Standartları
KOBİ'ler için UFRS	Küçük ve Orta Büyüklükteki İşletmeler için Uluslararası Finansal Raporlama Standartları
UK	United Kingdom
UN	United Nations
US	United States
USA	United States of America

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INTRODUCTION

The amount of international activities of entities has increased significantly as a result of globalization. Entities have undertaken exports, imports, and international investments in large amounts in recent years. They have also merged with international companies and taken credit from international financial institutions. All those activities necessitate internationally comparable and understandable financial statements. For example, if a company wants to obtain credit from a foreign bank, the bank will analyze its financial situation. To understand an entity's financial statements, which are compatible with its own national regulations, will be time-consuming, costly, complicated, and difficult for the foreign bank. All parties, such as entities, financial institutions, auditors, accounting professionals, etc., have accepted the need for internationally accepted financial reporting standards. As a result, studies to create such a standard set have gained momentum.

Firstly, the needs of listed entities for internationally accepted standards have been answered with a set called the International Financial Reporting Standards (IFRS). The regulatory bodies and the Standard Authority have aimed to create comparable, understandable, and transparent financial statements with the publication of this standard set. Many developed and developing countries all over the world have followed the harmonization process by legitimizing the use of IFRS in their own jurisdictions. After a while, the need for another standard set for unlisted entities became apparent. Most entities globally are small-sized and unlisted. The aim of the creation of an internationally accepted business language cannot be achieved without the inclusion of those unlisted and comparably small-sized entities.

Small and medium-sized entities (SMEs) are the backbone of the economies of many countries. Most of the employment and value added is maintained by them all over the world. The international activities of SMEs have also increased. They can conduct exports or international investment, can merge with foreign SMEs, or can take credit from foreign banks in the same way as listed entities. So, SMEs also need internationally comparable financial statements. The Standard Authority and other related parties have recognized this need. Studies to create a standard for the use of SMEs have been carried out in collaboration with relevant parties. As a result, the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs) has been published. This is a simplified version of the full set of IFRS. The simplifications include the elimination of several topics that are irrelevant to small-sized entities, the removal of many disclosures, and the elimination of alternatives in the application of the standard (Epstein & Jermakowicz, 2010). Hence, the use of the IFRS for SMEs will provide internationally understandable and comparable financial statements in a more simplified and less costly way for SMEs. The use of the IFRS for SMEs is becoming more widespread day by day.

Turkish authorities are also following the new developments in the financial reporting area. Firstly, the full set of Turkish Financial Reporting Standards (TFRS) as a translation of the IFRS was published for the use of publicly listed entities. Listed entities have prepared their financial statements in concordance with the TFRS since 2005. Then, the IFRS for SMEs was translated as the Turkish Financial Reporting Standard for Small and Medium-sized Entities (TFRS for SMEs) and published. The use of both TFRS/TFRS for SMEs has been legitimized within the New Turkish Commercial Code. According to the New Turkish Commercial Code, all listed and unlisted entities will prepare their financial statements to be compatible with those standards.

Entities' and professionals' preparedness for and perception of the IFRS for SMEs will play a very significant role in an effective adoption process. The purposes of this thesis are to determine the preparedness and information level of SMEs and certified public accountants (CPAs) in relation to the IFRS for SMEs; to measure their perception of the advantages, disadvantages, and obstacles of this set; to analyze the effect of firm characteristics on the entities' preparedness for and perception of the IFRS for SMEs; to determine the financial reporting practices of SMEs; and to ascertain the views of several professionals and academicians about the issues related to the IFRS for SMEs.

For those purposes, two sets of questionnaires were employed. The views of the professionals and academicians were determined by conducting in-depth interviews.

The findings of this study show the characteristics of the entities that have made preparations for the IFRS for SMEs. Hence, the profile of the entities that have joined the adoption process earlier is presented. This finding can be used by the international and national reporting standard authorities to see which entities are disposed to apply those standards and to motivate entities according to those findings.

This study also shows the effect of several firm characteristics on entities' perception of advantages, disadvantages, and obstacles of the IFRS for SMEs. The regulatory bodies and standard authorities can also take these findings into consideration to increase entities' perception of the advantages of the standard set.

This research has also determined the structure of the financial reporting in SMEs and presented their financial reporting needs. Thus, several problems related to the financial reporting structure of SMEs have been detected.

This thesis consists of six sections: "International financial reporting," "Small and Medium-sized Entities (SMEs)," "International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs)," "Theoretical background and hypothesis development," "A survey of the IFRS for SMEs," and "Interviews about the adoption of the IFRS for SMEs in Turkey."

In the first section, the nature of financial reporting and the concept of harmonization are discussed. Then, the origins of international accounting harmonization are clarified. Finally, the financial reporting standards authorities and their functions are explained briefly.

In the second chapter, firstly the definition of SMEs is discussed. The role of SMEs in countries' economies is clarified. Finally, the problems faced by SMEs in Turkey are explained.

The third chapter includes an explanation of financial reporting in SMEs and the development of the IFRS for SMEs; a discussion of the possible advantages and disadvantages of the IFRS for SMEs; and the adoption process of the IFRS for SMEs in several countries as well as Turkey.

In the fourth chapter, the theoretical and empirical background of the study is explained and the hypotheses developed. Then, the research model is presented.

In the fifth chapter, the analysis of the questionnaire is carried out. Firstly, the descriptive statistics of the SME respondents, SMEs, and CPAs are presented. Then, the preparedness of SMEs and CPAs is analyzed. Finally, the perception of SMEs and CPAs of the costs, benefits, relevance, advantages, and disadvantages of the IFRS for SMEs is presented.

In the last part, the interviews conducted with professionals and academicians in the field of accounting regarding the adoption process of the IFRS for SMEs are presented.

CHAPTER 1

INTERNATIONAL FINANCIAL REPORTING

Accounting presents information to decision makers about the activities of entities. The meaning and objective of accounting have been discussed by researchers in the prior literature, and the results of those discussions have shown that many definitions of accounting have been created by various researchers. The common point about those definitions is that accounting presents information to decision makers in several ways.

The first organization to define accounting was the American Accounting Association (AAA). The AAA defined accounting (Wittsiepe, 2008: 7) as "… the process of identifying, measuring, and communicating information to permit informed judgments and decisions by users of the information." Weygandt *et al.* (2010: 6), when defining accounting, stated that it "… consists of three basic activities as it identifies, records, and communicates the economic events of an organization to interested users." According to Williams *et al.* (2006) and Rezaee *et al.* (2010), accounting is the language of business because it is widely used to describe all types of business activity. All those definitions show that the primary objective of accounting is to provide useful information for decision making, so accounting is "not an end, rather it is a means to an end" (Williams *et al.* 2006).

Another discussion about the accounting term concerns who uses the information it presents. It is generally accepted in the literature that there are two types of users of accounting information: internal and external. Internal users of accounting information are those individuals within a company who plan, run, and organize the business, including marketing managers, production supervisors, finance directors, and company officers (Wittsiepe, 2008). External users of accounting information are individuals or organizations outside a company, such as owners, creditors, labor unions, governmental agencies, suppliers, customers, trade associations, and the general public (Williams *et al.*

2006). Both internal and external decision makers expect information from entities. Accounting provides them with this information.

Because of its nature, accounting is practiced differently within varying historical, political, economic, and social environments as a language of business (Hellmann *et al.* 2010). Accounting is shaped by the context in which it operates and with which it interacts, because it is a social practice (Gallhofer *et al.* 2011). So, a recent question that has been asked by professionals and regulators is whether the same language can be used by accountants, or in other words whether a globally accepted set of accounting standards can be applied (Rezaee *et al.* 2010). Hence, the need for a common set of accounting standards and their advantages has attracted the attention of several parties in recent years.

One school of thought believes that there is a real need for a single and universal set of accounting standards because business enterprises around the world are so highly globalized and need to speak to each other in a common language of business (Ankarath *et al.* 2010). Many researchers have discussed this topic and published a number of articles (Barniv & Fetyko, 1997; Glaum & Mandler, 1997; Murphy, 2000; Stolowy & Jeny-Cazavan, 2001; Ali, 2005; Cai & Wong, 2010; Georgiou, 2010; Wüstemann & Wüstemann, 2010). It seems that this topic will remain popular for many years if the world continues to globalize at its current speed. This chapter will enhance the discussions about the need for harmonization of countries' accounting practices.

In this section, firstly the nature of financial reporting and the harmonization concept will be discussed. Then, the origins of international accounting harmonization will be clarified. Finally, the financial reporting standards authorities and their functions will be explained briefly.

1.1. The nature of financial reporting

As a result of globalization, current international trade seeks opportunities not only to import and export physical goods across borders but also to invest and raise capital internationally. With the growing internationalization of trade and the globalization of financial markets, financial information that is prepared in accordance with national regulations may no longer satisfy the needs of international decision makers (Zeghal & Mhedhbi, 2006). This situation creates a need for effective communication about corporations' financial position, activities, and future goals to an internationally diversified audience of shareholders, creditors, and other stakeholders (Murphy, 1999). Thus, in the last years, financial reporting has evolved from relatively simple documents into complex documents that consider the attention of those various parties domestically as well as globally (Baker & Wallage, 2000). The future of financial reporting is difficult to predict with any degree of certainty, but it is likely to be shaped by change (Baker & Wallage, 2000).

The concept of effective communication and its advantages will be discussed in the next sub-section.

1.1.1. Communicating accounting information

There is an audience that expects information about the activities of entities, including employees, customers, suppliers, governments, investors, and shareholders, as discussed before. The information that those parties demand can be presented to them using effective communication. This effective communication can be maintained by consistent and dependable accounting information reporting (Solomons, 1991) and a well-ordered system of financial accounting (Baker & Wallage, 2000). Financial reporting will enable this effective communication by providing specific information to internal and external decision makers that (Williams *et al.* 2006):

i. Concerns the economic resources and claims of the entities;
ii. Is useful in assessing the amount, timing, and uncertainty of future cash flows;
iii. Is useful in making investment and credit decisions.

Companies' financial reports also provide accountability to their stakeholders by presenting financial information in an effective way (Baker & Wallage, 2000).

Effective communication offers many advantages to companies in several ways. Those advantages differentiate between publicly listed and unlisted small companies (Fearnley & Hines, 2007). If accounting information is not communicated to all stakeholders properly, information asymmetry arises. Information asymmetry is an important source of imperfection in markets, and means that not all the market participants are equally informed. Hence, if one party does not know enough about the other party to make accurate decisions, this situation will create asymmetric information (Mishkin & Eakins, 2006). Information asymmetry can be prevented by exercising effective communication and accountability (Whittington, 2010). Because of information asymmetry, "agency conflicts" can emerge. Especially in large companies, managers do not act on behalf of the shareholders to protect their interests. This problem can be solved if the shareholders can obtain true, fair, and objective information about the activities of managers and can safely evaluate them (Glaum & Mandler, 1997). Financial reporting can reduce the information asymmetries between shareholders and managers and can solve "agency conflicts" (Glaum & Mandler, 1997; Whittington, 2010). An effective system of corporate governance requires an effective financial reporting system.

1.2. International accounting harmonization

Globalization mitigates social, economic, political, and cultural change in all countries. The emergence and development of the international stock markets and international investment have spread financial reporting beyond national borders (Callao *et al.* 2007) and increased the debate regarding whether or not there is a need for harmonization of accounting applications (Murphy, 2000). On the other hand, the competition for scarce resources, investment, and credit is also increasing globally (Murphy, 2000). As those multinational concerns increase, the pressure for the international harmonization of accounting is also growing rapidly (Street *et al.* 1999) and international harmonization has been the goal of many professional and academic accountants during the last 40 years (Baker & Barbu, 2007). Diversity in accounting reporting (defined as measurement, presentation, and disclosure) affects the capital market decisions of capital market participants, such as investors, corporate issuers, investment underwriters, market regulators, etc. (Hora *et al.* 1997). As a result of all these developments and changes, the regulators of national securities markets all over the world are making efforts to harmonize the generally accepted accounting principles (GAAP) of their country with the GAAP of other countries for the purpose of improving the performance of their national capital markets (Barth *et al.* 1999). The main objective of the regulators is to attract foreign entities to the domestic market by developing common reporting and disclosure requirements for international companies (Hora *et al.* 1997). The development of reporting and disclosures can be maintained with more transparent and consistent reporting, as well as with the harmonization of financial reporting rules (Al-Shammari *et al.* 2008).

Rahman *et al.* (2002) developed a figure about financial reporting harmonization that summarizes all these discussions. According to Rahman *et al.* (2002), accounting harmonization has four essential aspects – the influences, process, output, and outcome – as shown in Figure 1.1. Those aspects can be summarized as follows (Rahman *et al.* 2002):

The **influences** refer to the items that affect the accounting harmonization activities, such as accounting regulation harmonization, environmental factors, political factors, etc.

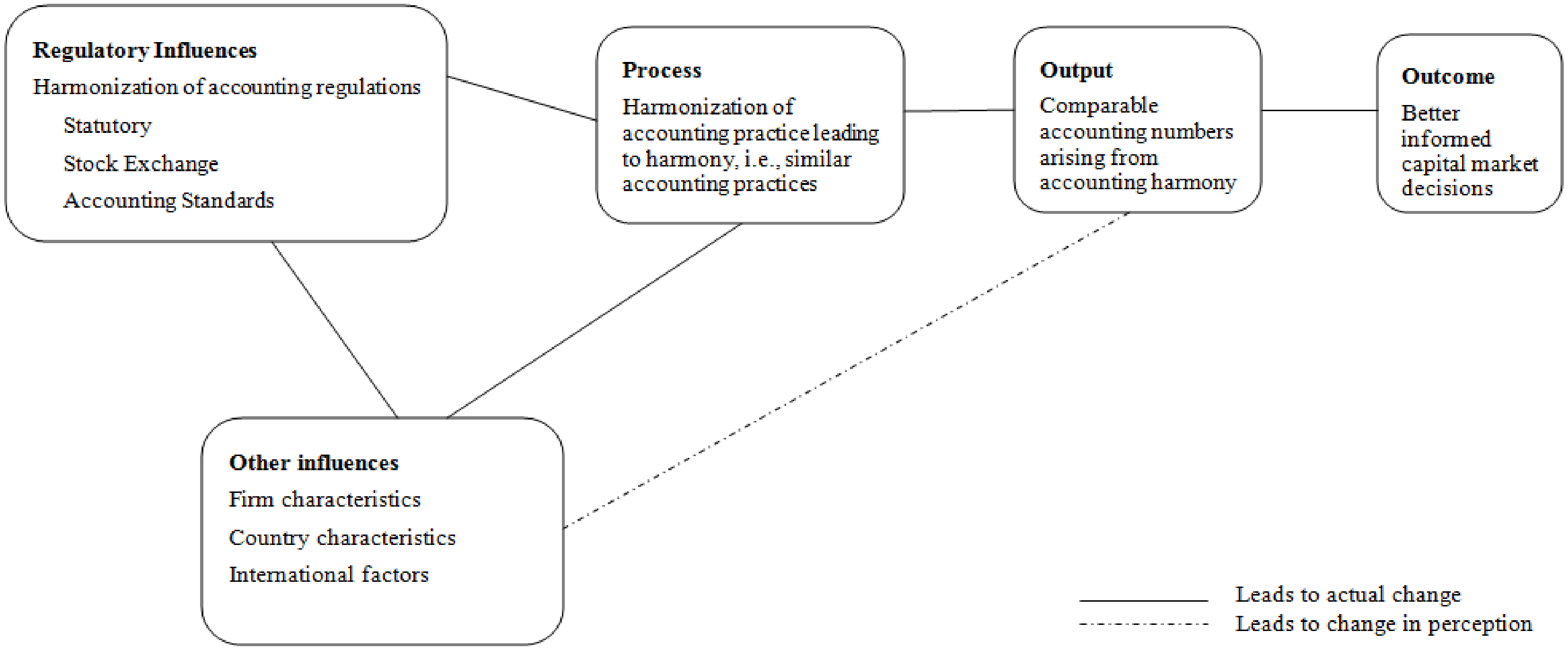
The **process** is the actual steps that are taken by firms or countries to decrease the differences in their accounting applications.

The **output** refers to the product of the harmonization activities, such as comparable accounting information.

The **outcome** will be the consequences of the harmonization process, such as better capital market decisions.

This figure shows that the accounting practices of entities are affected by their own characteristics, the regulations of the countries in which they operate, and other international factors. By the harmonization of their accounting practices, the expected comparability between their financial statements and accounting information will be achieved. The output of more comparable financial reporting information will be better-informed decision makers and true decisions that have been taken by them.

Figure 1.1 Aspects of accounting harmonization



Source: Rahman et al. (2002, p. 49).

All in all, listed and unlisted companies will reach global capital markets by adopting international standards and will decrease their information production costs by sending out a unified, reliable message to the market (Ding *et al.* 2005).

Now, international accounting harmonization is an inevitable phenomenon for both listed and unlisted companies because of the several reasons discussed above. All of the national regulators should take measures in time to harmonize their financial reporting practices with globally accepted ones to be competitive in international financial capital markets.

The harmonization concept and its relation with other concepts will be discussed below.

1.2.1. Harmonization, standardization, convergence, and compliance

The harmonization concept has been defined by several researchers in the prior literature. Some of those definitions will be presented in this section. One of the first researchers to define the harmonization concept was Van der Tas (1988). According to him, harmonization is "… a coordination, a tuning of two or more objects." This is a general definition of harmonization and does not include any accounting and financial reporting aspects. Haverty (2006: 52) defined accounting harmonization as "… a process leading to the ultimate goal of increasing comparability of financial information across national borders." According to Murphy (2000: 472), harmonization "… is concerned with reducing the differentiation between the accounting applications of the countries to improve the comparability of the financial statements prepared by companies from different countries." Jaafar and Mcleay (2007: 157) defined accounting harmonization as "accounting will be fully harmonized when all firms operating in similar circumstances adopt the same accounting treatment for similar transactions, regardless of their domicile." According to Murphy (2000), harmonization can be achieved when the degree of concentration for an accounting method can be maintained and the financial practices of the entities can be approximated.

All of these definitions show that the main objective of accounting harmonization is to increase the comparability between the financial statements of entities from different jurisdictions by minimizing the differences in their financial reporting practices. The concepts of standardization, compliance, and convergence are also related to harmonization but differentiated in meaning (Ali, 2005; Qu & Zhang, 2010). The differences between the meaning of harmonization and the meaning of other terms will be discussed in the following.

Ali (2005: 10) defined standardization as "… the reduction of alternatives while retaining a high degree of flexibility of accounting response." A distinction exists between the two terms "harmonization" and "standardization" that is not followed in the literature, and those two terms are used interchangeably by researchers (Ali, 2005). Harmonization also differs from the concept of compliance in two ways according to Van der Tas (1992): "Firstly, a company can use different methods from the alternative methods which are allowed by the standards authority. In this situation the level of compliance will be high but the level of harmonization will be low. Secondly, all companies can use the same method which is not allowed by the standards authority. In this time harmonization will be high but compliance will be low."

The harmonization term is also confused with the convergence concept. In fact, harmonization is the earlier term that was used during the first quarter-century of the International Accounting Standards Committee (IASC), then convergence, which means that the increasing comparability of respective standards at a high level of quality gained currency in the late 1990s (Zeff, 2007). According to Walton (2011: 3), convergence "… is the move towards using a single, globally accepted set of financial reporting standards in preference to using standards developed nationally."

Rezaee *et al.* (2010: 142) defined convergence as "… a process of gradual elimination of differences between IFRS and national standards." Nobes and Zeff (2008) defined convergence as "… a process, whereby national standards and IFRS are gradually brought into line."

Gannon's (2008) definition of convergence is "… the rewrite of one accounting standard at a time." He also pointed out that convergence and conversion are not the same thing, although they sound alike. According to Gannon (2008), conversion "… is the overall transition to a new set of applications." Chand *et al.* (2010) indicated that the "… aim of convergence is to create comparable financial statements across borders."

The harmonization concept was used by the standard-setting authorities in earlier years of the project of internationally accepted financial reporting standards. After a while, the convergence concept gained popularity. Convergence is a more flexible term than harmonization, because it does not propose full compliance between the countries' financial reporting systems. On the other hand, both of those terms aim to minimize the differentiation between countries' financial reporting regulations and create more comparable financial statements.

Although there are some differences in their meanings as discussed before, the term "harmonization" will be used to denote both "convergence" and "harmonization" for consistency and simplicity in the following sections.

1.2.2. Types of harmonization

There are two types of harmonization: formal harmonization (de jure; comparing the standards) and material harmonization (de facto; comparing the practices) (Garrido *et al.* 2002; Haverty, 2006; Al-Shammari *et al.* 2008). Formal harmonization refers to harmonization between regulations, whereas material harmonization refers to the similarity of financial information prepared by companies using either the same or a different set of accounting standards (Garrido *et al.* 2002; Qu & Zhang, 2010). Rahman *et al.* (2002) defined formal and material harmonization as accounting regulation harmonization and accounting practice harmonization, respectively.

Fontes *et al.* (2005: 418) also indicated the distinction between formal and material harmonization: "Formal harmonization refers to the way accounting standards are written: that is, to their legal or quasi-legal specification. Material harmonization refers to the level of concordance exhibited by the actual practices of companies in implementing accounting standards." The level of formal harmonization will affect the material harmonization. Thus, material harmonization will increase as a result of a higher level of formal harmonization (Garrido *et al.* 2002: 4).

Formal and material harmonization can also each be broken down into two components: the degree of disclosure and measurement criteria. Thus, there are four types of harmonization and these can be listed as the following (Haverty, 2006: 52):

i. Formal disclosure harmonization, which concerns disclosure regulations;
ii. Formal measurement harmonization, which concerns measurement regulations;
iii. Material disclosure harmonization, which governs what entities actually disclose;
iv. Material measurement harmonization, which concerns how corporations actually measure items.

1.2.3. Proponents and opponents of harmonization

Two schools of thought exist as proponents and opponents of harmonization activities. The opponents of harmonization indicate that differences in the accounting applications of companies might be appropriate and necessary because of their environmental influences (Jermakowicz & Gornik-Tomaszewski, 2006). In addition, the main parties involved in the harmonization process, accountants and auditors, are influenced by environmental factors when they are preparing and auditing the financial statements, including auditors' professionalism, monitoring mechanism, reputation risk of the company, investors' protection, law tradition, litigation threat, capital sources, and government intervention (Karampinis & Hevas, 2011). According to Tyrrall *et al.* (2007), harmonizing international standards especially for developing nations can be unsuited or irrelevant to the national needs. Moreover, diverse accounting practices are not attributable only to countries' development levels, but also to their culture, their different speeds of adopting international standards, and their accounting legislation

(Ding *et al.* 2005; Papadaki, 2005; Schutte & Buys, 2011). A few studies indicate that because of the differences in culture and business environment between developed and developing countries, no one set of standards can be useful to both kinds of countries (Ding *et al.* 2005; Prather-Kinsey, 2006; Schutte & Buys, 2011). Carlson (1997) also listed the factors that hinder the achievement of harmonization as differences in the operational environment, qualitative issues within the standards, financial factors, sovereignty issues, and the mechanisms through which harmonization has been pursued. Baker and Barbu (2007) explained the factors that may mitigate international accounting harmonization as follows:

> Two factors were determined that induce the differences in accounting practices of the countries before 1990: the cultural and economic. After 1989, other factors have come into role beyond the cultural and economic. Researchers have argued that the diversity of accounting practices was caused by the historical development of a nation's economy and its capital markets, differences in legal systems, differences in the nature of property rights, the size and complexity of companies within a country, the social climate, the degree of currency stability, the existence of accounting laws, and the educational system.

Despite the forces favoring the international diversity of countries' financial reporting systems, there is also a considerable number of forces that support the harmonization of those systems (Haverty, 2006). The proponents of harmonization have expected and listed the vaunted advantages, including reducing the information risk and cost of capital, increasing transparency, facilitating cross-border investments, enabling economic growth, etc. (Peng & Bewley, 2010).

Rezaee *et al.* (2010) also indicated some advantages of the harmonization process in their study, including improving the comparability of financial information, enabling the flow of international capital, and making the consolidation of divergent financial reporting most cost-effective. As the globalization of the capital markets increases, the call for transparency, improved disclosure, and quality reporting standards is also increasing (Baker & Wallage, 2000).

In conclusion, there are opponents and proponents of the accounting harmonization process. In today's globalized world, it seems that the harmonization of entities' accounting practices will continue without slowing down.

1.2.4. Origins of international accounting harmonization

International accounting harmonization originated from several factors. Ali (2005) summarized the reasons for international accounting harmonization as:

i. The growth of multinational companies (MNCs);

ii. The harmonization and globalization of capital markets;

iii. The participation of international organizations.

In this section, the origins of international accounting harmonization are categorized as the occurrence of economic integration, the growth of MNCs, the creation of regional and international accountancy bodies, and the incentives of the parties to undertake international accounting harmonization. All of these categories are explained briefly below.

1.2.4.1. Occurrence of economic integration

The international integration of the markets has affected multinational entities' activities for a long time, but now also affects SMEs as well as privately held entities (Wittsiepe, 2008). Therefore, all of the parties of business have been affected and will be affected by the international integration of the financial and product markets.

One challenging aspect of the international integration of the markets is the diversity in accounting applications of the countries, which are caused by cultural, economic, historical, and political issues (Haverty, 2006). Removing such differences through the harmonization of financial reporting practices will, at least in theory, facilitate international trade and investment (Camfferman & Zeff, 2006). The associations between countries have tried to maintain harmonization of their accounting practices among their member countries. Because having a common set of universally acceptable financial reporting standards will eliminate the need for restatement of financial statements and will decrease the diversity among countries, it will thus enable cross-border movement of capital and greater economic integration between them (Cai & Wong, 2010). On the other hand, companies with international activities will be comparatively more profitable than domestic entities, because they can easily catch investment opportunities and can more easily shift their resources between different countries (Wittsiepe, 2008).

International business and trade of law, marketing, finance, economics, etc. has created a need for treaties and bi-lateral agreements (Carlson, 1997). The growth of regional trading blocs and economic alliances has served to magnify the interest in international aspects of financial reporting practices and regulations (Saudagaran & Diga, 2000). The increased economic cooperation and reductions in regional trade barriers enhance the cooperation in minimizing the differences in accounting implications of countries. Attempts to achieve accounting harmonization by organizations such as the African Accounting Council (AAC), the Association of Southeast Asian Nations (ASEAN), the North Free Trade Agreement (NAFTA), and the European Union (EU) enhance foreign investment, regional commerce, and business cooperation (Hora *et al.* 1997).

The AAC was established in 1979 to develop accounting standards to be used by the African nations. After the AAC received official recognition as an organ of the Organization of African Unity, the expectations that this institution would maintain harmonization of accounting practices among African nations increased (Hora *et al.* 1997). However, the AAC has not met those expectations and has been unable to make significant progress to date (Hora *et al.* 1997).

The ASEAN was formed in 1967 to create an economic alliance in Southeast Asian region countries, such as Indonesia, Malaysia, the Philippines, Singapore, and Thailand.

Behind the economic purposes, another objective of this association was to harmonize accounting applications. For this purpose, those countries formed the ASEAN Federation of Accountants (AFA) and the Committee on Accounting Principles and Standards (CAPS) (Saudagaran & Diga, 2000). Those institutions have not been successful because of resource constraints and being hampered by the realization that achieving regional harmony is difficult (Saudagaran & Diga, 2000).

The fundamental objective of the EU was the creation of a common economic market that allows free mobility of capital, labor, and enterprises across national borders by forming an infrastructure with a harmonized set of accounting standards (Carlson, 1997). Diversity in accounting applications is a considerable barrier to the free flow of capital (Haverty, 2006). Thus, significant changes were introduced by the EC to strengthen the capital markets in the EU by creating a common set of standards for companies. For this purpose, a regulation was passed by the European Union Council of Ministers that all listed companies should adopt the International Accounting Standards (IAS) for their group accounts by 2005 (Fearnley & Hines, 2003; Christensen *et al.* 2007).

The NAFTA is an example of a regional alliance, like the EU, among the Western developed nations. After the establishment of the NAFTA, the accounting standard-setting authorities in Canada, Mexico, and the US conducted an analysis to determine the differences and similarities between the three countries' accounting standards and financial reporting practices to maintain the comparability among them (Hora *et al.* 1997). Subsequently, those three countries supported the IASC and agreed that the harmonization should be maintained under the leadership of the IASC (Hora *et al.* 1997).

In conclusion, the objectives of regional economic integration associations include (Hora *et al.* 1997):

i. Increasing the free movements of goods, labor, and capital,
ii. Eliminating and reducing trade barriers, and
iii. Harmonizing accounting reporting requirements.

In fact, many of those regional bodies do not have enough resources and expertise to create a unified set of standards. Thus, there is a movement away from a regional approach and towards a global approach to harmonization in the financial reporting implications of the countries (Saudagaran & Diga, 2000).

1.2.4.2. The growth of multinational companies (MNCs)

MNCs are one of the most important parties that would benefit from the harmonization of financial reporting standards and practices. As the foreign investments of MNCs increase, the need to prepare multiple consolidated financial statements occurs. MNCs spend time and money on preparing those consolidated financial statements according to the regulations of each country due to the differences between financial reporting in their home country and the country in which their investment takes place (Ali, 2005). The harmonization of accounting practices globally will decrease the costs of reporting for MNCs and will enhance their business opportunities universally.

1.2.4.3. The creation of regional and international accountancy bodies

As companies' operations have become more globalized, the importance of financial information has increased and the need for the standardization of accounting regulations has arisen (Atik, 2010). Although those regulations are influenced by economic and political forces, economic and financial globalization requires the harmonization of financial reporting standards internationally (Navarro-Garcia & Bastida, 2010). A number of regional and international organizations are trying to harmonize accounting practices, including the International Accounting Standards Board (IASB), the International Federation of Accountants (IFAC), the EU, the International Organization of Securities Commission (IOSCO), the Organization for Economic Cooperation and Development (OECD), and the United Nations (UN) (Ali, 2005). In 1951, accountancy bodies in ten central and southern European countries, Austria, Belgium, France, Germany, Italy, Luxembourg, the Netherlands, Portugal, Spain, and Switzerland, formed the "Union Européenne des Experts Comptables Economiques et Financiers" (known as the UEC) (Camfferman & Zeff, 2006). Regional accountancy bodies were also set up in

America and Asia, but their activities were mainly limited to holding periodic congresses (Camfferman & Zeff, 2006).

Apart from the IASC and the IASB's harmonization activities, many regional agencies have attempted to create a common set of standards on a regional basis (Ali, 2005). All of those regional accountancy bodies except the IASB could not maintain the expected comparability between the accounting practices of the countries because of their lack of experience and resources. On the other hand, regional comparability is not enough in today's globalized world. Therefore, all of those developments demonstrate the need for globally accepted international reporting standards. However, regional accountancy bodies were a major step towards the harmonization of financial reporting practices.

1.2.4.4. Beneficiaries of international financial reporting

Harmonization and convergence projects propose many advantages to several parties. The comparison of international reporting and investment opportunities will be made easier, more rapid, and less expensive as a result of the harmonization activities (Carlson, 1997). Managers, accountants, auditors, shareholders, the public sector, and other stakeholders will gain benefits from this adaptation process.

There are two types of financial statement users, external and internal, as discussed previously. Both of those groups will benefit from the harmonization of countries' accounting practices, because the absence of a universally acceptable set of accounting standards creates a source of great dilemma for the investors, companies, and financial analysts who are interested in comparing the financial performance of entities that operate in different jurisdictions (Ali, 2005). Countries' accounting practices can differ due to several factors. An international investor cannot easily understand the financial reporting information presented by a company that operates in a different jurisdiction, so investors, companies, and other stakeholders that have international concerns need comparable financial information. The investors will obtain an opportunity to compare the financial reports of multinational companies with a common set of financial reporting standards (Rezaee *et al.* 2010).

Both CPAs and accounting executives are also the main proponents of the accounting harmonization process because the harmonization of entities' financial reporting systems creates a chance for them to compete in international capital and product markets (Barniv & Fetyko, 1997).

On the other hand, investors and other stakeholders will make economic decisions easily with high-quality and transparent financial information that can be maintained by the application of a single set of accounting standards (Elena *et al.* 2009). Besides, investors and companies will easily be able to access the international capital market (Rezaee *et al.* 2010). In conclusion, the harmonization activities will provide several benefits to the users of financial information.

The adoption of universally accepted financial reporting standards also proposes several advantages to the regulatory bodies and financial reporting standard-setting authorities. Of course, the issuers support and maintain this harmonization process because of the benefits they expect. There are two main arguments for the regulators that impress them to work on a common set. The first reason is enhanced comparability, and its advantages for entities. According to them, the greater comparability that will be achieved with the use of common financial reporting standards will enable more efficient investments. Global issuers and regulators will maintain this compliance and comparability more effectively with a common set of international standards (Rezaee *et al.* 2010). The jurisdictions that adopt international reporting standards will benefit from those efficiently distributed investments (Walton, 2011). Regulators also expect that international markets will become more efficient with the efficient distribution of resources (Ali, 2005).

The second argument of the issuers is access to foreign financial resources. Governments, especially in countries that have limited domestic financial resources, want their domestic businesses to expand and to access foreign financial resources. For this purpose, governments support unified accounting applications all over the world (Walton, 2011).

For the reasons already discussed, the need for harmonization of countries' financial reporting practices is obvious. National economies follow different legal, social, and political schemes, which create differences in their financial reporting standards (Wittsiepe, 2008). National and international standard-setting authorities should overcome those differences by taking into consideration the needs of the parties relating to those applications.

In the next section, IFRS authorities and their structure will be presented.

1.3. International Financial Reporting Standards (IFRS) authorities

There are several financial reporting authorities and their bodies, which are responsible for standard-setting activities, including the development and adoption of IFRS.

1.3.1. International Accounting Standards Committee (IASC)

The IASC was formed as a private organization representing professional accounting societies throughout the world and was formally organized in 1973 (Murphy, 1999). The formation of the IASC was the most enduring response of the accountancy profession to the growing internationalization of the capital markets rapidly following the Second World War (Camfferman & Zeff, 2006). Accounting practitioners from around the world joined forces and established this global body, the function of which was to minimize the variations in countries' reporting practices via the promulgation of IAS (Carlson, 1997). These accountants were the leading professionals from several countries, such as Australia, Canada, France, Germany, Japan, Mexico, Netherlands, the UK, Ireland, and the US (Alali & Cao, 2010).

When the IASC was founded in 1973, it had 16 members from 9 countries; after September 1999, it had 143 members from 104 countries (Chamisa, 2000). By this time, the number of members from both developed and developing countries had increased

(Hora *et al.* 1997). The proportion of the IASC members from developing countries picked up from 6 percent in 1973 to 84 percent by September 1999 (Chamisa, 2000).

The purpose of the IASC was to formulate and publish a universally acceptable set of accounting standards and disclosures to be observed in the financial reporting of companies since its foundation (Wyatt, 1989; El-Gazzar *et al.* 1999; Garrido *et al.* 2002). The objectives of the IASC were indicated in its constitution as follows (Taylor & Jones, 1999):

i. To formulate and publish in the public interest accounting standards to be observed in the presentation and observance, and
ii. To work generally for the improvement and harmonization of regulations, accounting standards, and procedures relating to the presentation of financial statements.

Hence, the IASC has become established as the most authoritative agency for accounting harmonization since its foundation (Dumontier & Raffournier, 1998). During the early stage of its development, the IASC tried to integrate diversified accounting principles and practices from different countries into the IAS (Alali & Cao, 2010) and took an important step towards the harmonization of those financial reporting standards (Baker & Wallage, 2000). For this purpose, as the pace of globalization picked up in the 1980s and especially the 1990s, the IASC began to improve its standards to attract the attention and respect of national and regional regulators, national standard-setting authorities, major multinational companies, and leading accountancy bodies (Camfferman & Zeff, 2006). As a result, the IASC had issued 41 standards, which were called IAS, before 2001; some of those standards have been suspended and only 29 standards still remain in effect (Alali & Cao, 2010). In 2001, the IASC was replaced by the IASB.

1.3.2. International Accounting Standards Board (IASB)

The IASC restructured itself into the IASB in 2001, covering arrangements for the appointment of people, assignment of tasks, and distribution of responsibilities (Standish, 2003; Kirsch, 2006; Peng *et al.* 2008).

One of the most important aims of the IASB was to develop a single set of high-quality global financial reporting standards that will be both understandable and enforceable, like the IASC (Peng *et al.* 2008; Albu *et al.* 2010). Thus, as an integral part of its objective, the IASB promotes the comparability of financial reporting and the national convergence of national accounting standards and IFRS (Peng *et al.* 2008; Nobes, 2011).

The objectives of the IASB were stated in its constitution (Williams *et al.* 2006):

i. To develop, in the public interest, a single set of high-quality, understandable and global accounting standards that require high-quality, transparent, and comparable information in financial statements and other financial reporting to help participants in the world's capital markets and other users make economic decisions;
ii. To promote the use and rigorous application of those standards; and
iii. To bring about the convergence of national accounting standards and IAS/IFRS to high-quality solutions.

The IASB generally forms standards in six identifiable stages: the agenda formation stage, drafting and adoption of a discussion paper, exposure period of a discussion paper, drafting and adoption of an exposure draft (ED), exposure period of an ED, and drafting and adoption of an IFRS (Alali & Cao, 2010; Georgiou, 2010). The drafting and adoption of an ED is a mandatory step in this process (Alali & Cao, 2010). A major project starts with a discussion paper that includes issues, alternatives, and the Board's preliminary conclusions on the direction of the fundamental principle of the project (Alali & Cao, 2010).

The IASB has no juridical and political authority but seeks its reputation through superior expertise in the development of internationally acceptable standards (Standish, 2003). In fact, the IASB acquired greater legitimacy and reputation when the EU decided to require all listed entities to prepare consolidated accounts based on IFRS from 2005 (Larson & Street, 2004).

The IASB has published several IFRS and revised some of the IAS. It is still working on the full set of IFRS. The IASB has also published the IFRS for SMEs as a new project. Now, the IASB is the unique authority that promulgates financial reporting standards for both listed and unlisted entities.

1.3.3. Standards Advisory Council (SAC)

The primary objective of the SAC is to provide advice to the IASB on agenda decisions and priorities in the IASB's work. The SAC provides a forum for organizations and individuals from diverse geographical and professional backgrounds (Ankarath *et al.* 2010).

1.3.4. International Financial Reporting Interpretations Committee (IFRIC)

The IFRIC, which was a replacement of the former IASC's Standards Interpretations Committee (SIC), responds to queries on how to interpret standards (Alali & Cao, 2010). This Committee is supposed to provide an authoritative interpretation and to deal with issues under the IASB's Annual Improvements Process (Walton, 2011). The IFRIC develops interpretive guidance on accounting issues that are not specifically dealt with in IFRS or that are likely to receive divergent or unacceptable interpretations in the absence of authoritative guidance (Ankarath *et al.* 2010).

This committee consists of fourteen voting members, mostly auditors and preparers, and meets six times a year to discuss technical questions about the standards (Walton, 2011). The meetings of the IFRIC are open to the public but certain discussions may be held in private. It is important to note that an IFRIC interpretation requires the IASB's approval before its final presentation (Ankarath *et al.* 2010).

CHAPTER 2

SMALL AND MEDIUM-SIZED ENTITIES (SMEs)

SMEs are the main engines of countries' economies due to their significant role in their development (Siam & Rahahleh, 2010; Maseko & Manyani, 2011; Bohusova & Blaskova, 2012). Several researchers have indicated the importance of SMEs to countries' economy and development, especially emerging ones (Beck & Demirguc-Kunt, 2006; Al-Mahrouq, 2010; Siam & Rahahleh, 2010; Maseko & Manyani, 2011; Bohusova & Blaskova, 2012).

Siam and Rahahleh (2010) indicated the role of SMEs in countries' economies as consisting of creating employment opportunities, their huge capacity to hire a workforce, maximizing economic surplus, increasing the added value of the national income, limiting the unemployment problems, etc.

According to Al-Mahrouq (2010), SMEs are the backbone of the private sector all over the world. They contribute to output and fulfill the social objectives of the countries in which they operate. They also attract foreign funds and provide a significant rate of employment.

On the other hand, as the number of SMEs increases, the differentiation among them also increases because of their size, the industry in which they operate, and their location. Thus, SMEs are not a homogenous group (Bohusova & Blaskova, 2012), so their role and importance in countries' economies will be affected by those differences among them.

In this section, firstly the definition of SMEs will be discussed briefly. Then, the role of SMEs in countries' economies will be clarified. Finally, the problems that have been faced by SMEs will be explained.

2.1. The definition of SMEs

There are several definitions of SMEs in the previous literature because they change from country to country due to economic and social circumstances. Some of those definitions are based on quantitative and some on qualitative measurements (MacGregor & Vrazalic, 2007). As a result, there is no universally accepted definition of SMEs across all academic disciplines (Maseko & Manyani, 2011). Governments and other organizations have promoted diverse approaches because of the lack of a formal means of defining an SME (MacGregor & Vrazalic, 2007).

The definition of SMEs will be discussed and clarified in the following sub-sections.

2.1.1. The definition of SMEs across the world

The definition of SMEs has been discussed by several researchers in the previous literature. All their discussions show that the size measurements of the SME concept differ between countries due to different structural, economic, institutional, and historical indicators (Evans *et al.* 2005; Stainbank, 2008; Mantzari *et al.* 2009). Therefore, it is difficult to reach a common definition of SMEs because of those differentiations among the economic contexts of the countries, the business sectors, the company characteristics, etc. (Evans *et al.* 2005). The reality about the definition of SMEs is that they are small entities according to their jurisdiction's measurements.

Siam and Rahahleh (2010) clarified this discussion by defining SMEs as "… enterprises with small number of employees and a low balance sheet." According to this definition, the number of the employees and the total asset size of SMEs are smaller than those of entities that are classified as large.

On the other hand, the definition can be based on a threshold value in the revenue, the number of employees, or a combination of those two values (Schutte & Buys, 2011). The EU defines SMEs based on three main criteria (Müllerova *et al.* 2010b): the number of employees, the annual turnover in millions of euros, and the value of assets in millions of euros, which are presented in Table 2.1.

Table 2.1 Definition of SMEs in the EU

	Annual turnover	Value of assets	Number of employees
Micro entities	< €2,000,000	< €2,000,000	< 10
Small entities	< €10,000,000	< €10,000,000	< 50
Medium entities	< €50,000,000	< €43,000,000	< 250

Source: European Commission (2003).

The European Commission (EC) clarified the issue of which criteria should be taken into consideration while evaluating entities' quantitative measures as "… the criterion of staff numbers remains undoubtedly one of the most important, and must be observed as the main criterion. It would not be desirable to use turnover as the sole financial criterion, in particular because enterprises in the trade and distribution sector have by their nature higher turnover figures than those in the manufacturing sector" (Mac an Bhaird, 2010: 9).

The definition of the SME concept is also different in the United States (US). The US defines an SME according to the position of the entity in the marketplace. The US Small Business Administration (SBA) defined an SME as "one which is independently owned and operated and which is not dominant in its field of operation" (MacGregor & Vrazalic, 2007). There are also some quantitative measurements to determine whether an entity is an SME or not in the US, but those measurements change from industry to industry.

All in all, there is no common definition of the SME concept in the literature. The SME definition changes from country to country and also from industry to industry.

2.1.2. The SME definition of the IASB

Even in the new standards set promulgated by the IASB, the term SME is defined with no particular quantified size criteria (Bohusova & Nerudova, 2007; Albu *et al.* 2010). The reason behind this situation is that those standards will be used in over 100 countries and it is not feasible to develop quantified criteria that will be applicable in all of those countries (Bohusova & Nerudova, 2007).

The IASB defines SMEs in Part 1.2 as (IASB, 2009):

i. Entities that do not have public accountability; and
ii. Entities that publish general purpose financial statements for external users.

An enterprise is publicly accountable if (IASB, 2009):

i. 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 (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets), or
ii. It holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. This is typically the case for banks, credit unions, insurance companies, securities brokers/dealers, mutual funds, and investment banks.

In general, an entity that holds assets in a fiduciary capacity includes the institutions mentioned above. However, if an entity holds assets for reasons that are incidental to their primary business, they are not considered to have public accountability, such as schools, travel agents, and charities.

In conclusion, the IASB defines an SME without quantitative measurements. All jurisdictions are responsible for determining a definition of SMEs according to their context.

2.1.3. Definition of SMEs in Turkey

The SME concept has been defined by several institutions in Turkey. The generally accepted definition of an SME in Turkey was determined by the Ministry of Industry and Trade in 2005. The regulation was called the "Regulation regarding Definition, Qualification, and Classification of Small and Medium-sized Entities". Table 2.2 shows the SME definition that was published in the *Official Gazette*, dated 18 November 2005, numbered 25997.

Table 2.2 Definition of SMEs in Turkey according to the regulation dated 2005

	Sales revenue	Assets	Number of employees
Micro entities	< 1,000,000 TL	< 1,000,000 TL	< 10
Small entities	< 5,000,000 TL	< 5,000,000 TL	< 50
Medium entities	< 25,000,000 TL	< 25,000,000 TL	< 250

Source: *Official Gazette* (2005).

In 2011, the duties and organization of the several ministries were changed. One of those ministries was the Ministry of Industry and Trade. According to Decree Law No. 635 dated June 2011, the title of the Ministry changed to the Ministry of Science, Industry and Technology. The authority to determine the SME definition has been given to the Ministry of Science, Industry and Technology (Altaş, 2012).

The SME definition has been revised by the Ministry and was published in the *Official Gazette,* dated 4 November 2012, numbered 28457. According to the "Regulation regarding Definition, Qualification, and Classification of Small and Medium-sized Entities," the upper limit of the sales or total assets has been increased to 40 million TL from its previous amount of 25 million TL. Table 2.3 shows the new definition of SMEs in Turkey.

Table 2.3 Definition of SMEs in Turkey according to the regulation dated 2012

	Sales revenue	Assets	Number of employees
Micro entities	< 1,000,000 TL	< 1,000,000 TL	< 10
Small entities	< 8,000,000 TL	< 8,000,000 TL	< 50
Medium entities	< 40,000,000 TL	< 40,000,000 TL	< 250

Source: *Official Gazette* (2012).

2.2. The SMEs in the world

SMEs play an important role in the development of countries all over the world. Within the EC, SMEs constitute at least 99% of all enterprises and nearly 65% of the employment in the private sector is maintained by those entities (Mantzari *et al.* 2009). Table 2.4 supports Mantzari *et al.* (2009) and shows the figures of EU SMEs for the year 2008. According to these data, nearly 99.8% of the entities in the EU are SMEs and 2 out of 3 people are employed by them. SMEs also contributed 58.6% of the value added. This means that SMEs are the biggest actor in the EU economy, with 20.9 million enterprises employing 90.6 million people. In addition to this, SMEs produce considerably more than half of the EU's gross domestic product (GDP) (Tudor & Mutiu, 2008: 7).

Table 2.4 Role of SMEs in the EU: the non-financial business economy in 2008

	Number of enterprises	Persons employed	Value added
	(million)		(€ billion)
All enterprises	21.0	135.8	6.176
All SMEs	20.9	90.6	3.617
Micro	19.3	39.3	1.348
Small	1.4	27.9	1.147
Medium-sized	0.2	23.4	1.122
	Number of enterprises	Persons employed	Value added
	Share in total (%)		
All enterprises	100.0	100.0	100.0
All SMEs	99.8	66.7	58.6
Micro	92.0	29.0	21.8
Small	6.7	20.5	18.6
Medium-sized	1.1	17.2	18.2

Source: Eurostat (2011).

2.3. SMEs in Turkey

SMEs play an important role in the Turkish economy because of their number and the rate of employment maintained by them (OECD, 2004). On the other hand, they face several problems, such as the absence of trained human skills, limited financing sources, underdeveloped technological infrastructure, etc. In the following sub-sections, the role of SMEs in the Turkish economy and their problems will be explained briefly.

2.3.1. The role of SMEs in the Turkish economy

SMEs are the main engines of the economy in Turkey, as in other developed or developing countries. They play a crucial role in socio-economic development, innovation, and job creation. As shown in Table 2.5, 99.9% of the enterprises in Turkey are SMEs.

Table 2.5 Number of SMEs in Turkey

	Number of enterprises	**Percentage (%)**
All enterprises	3,225,462	100.0
All SMEs (0–249 employees)	3,222,133	99.9
Micro (1–9 employees)	3,084,183	95.7
Small (10–49 employees)	121,746	3.8
Medium-sized (50–249 employees)	16,204	0.5

Source: KOSGEB (2012).

In Turkey, 77.8% of the employment, 55.5% of the value-added, and 64.8% of the total sales were contributed by SMEs in 2009 (TSI, 2012).

2.3.2. Problems faced by the SMEs in Turkey

SMEs encounter several problems related to their inadequate resources. The following factors affect the success of SMEs (Al-Mahrouq, 2010):

i. Technical procedures and technology;
ii. Structure of the firm;
iii. Financial structure;
iv. Marketing and productivity;
v. Human resources structure.

SMEs have their own unique characteristics that differentiate them from large businesses. Those differentiations sometimes lead to improved competitiveness or may inhibit their growth depending on their management qualifications (MacGregor & Vrazalic, 2007).

In this section, several problems of the SMEs in Turkey will be explained briefly. The problems are classified as financing, technological, and human resources problems.

2.3.2.1. Financing problems of SMEs

Several studies have discussed the fact that SMEs are financially more constrained than large entities (Beck & Demirguc-Kunt, 2006). Especially in developing countries, small firms have inadequate access to external financial resources as a result of market imperfections (Beck *et al.* 2008). SMEs' financing problem was triggered by the poor business environment in Turkey during the financial crisis years. A chronic budget deficit created excessive growth in the money supply and this caused unpredictable high inflation and high real interest in those years (OECD, 2004). Under those circumstances, banks purchased government bonds and then made loans to large businesses rather than small ones to protect themselves (OECD, 2004). As a result, the inadequate financial resources caused slower growth for those entities (Beck & Demirguc-Kunt, 2006).

In recent years, banks have started to provide more resources to SMEs because a view has arisen that financial barriers and insufficiencies present the most severe obstacles to the SMEs' development role in Turkey (Akyüz *et al.* 2006). Besides, several institutions have been founded to provide financial and non-financial support to SMEs, such as the Small and Medium Scale Enterprises Development Organization (KOSGEB), the Credit Guarantee Fund (KGF), and the Union of Chambers and Commodity Exchanges of Turkey (TOBB) (Şeker & Correa, 2010). SMEs still have some financial problems, however. As a result of the globalized world, the competition for financial resources is not related to domestic indicators, but to universal ones.

In conclusion, the SMEs in Turkey have generally had financing problems because of the very limited funds made available to them by the banks, especially in financial crisis years. In fact, obtaining financial resources is not only a problem of the SMEs in Turkey, but also all of small entities globally.

2.3.2.2. Capacity to use information and communications technology

In recent years, there have been several developments regarding the use of information and communication technologies in SMEs (MacGregor & Vrazalic, 2007). However, there are still some problems relating to SMEs' information and communications technology that inhibit their growth and development (MacGregor & Vrazalic, 2007): limited use of technology, information technology decisions that are made by owners and not based on detailed planning, little information technology training, lack of technical staff, etc.

2.3.2.3. Absence of trained and enhanced human resources skills

The absence of trained human resources is one of the serious problems faced by SMEs. In fact, providing support for the introduction of the necessary equipment and teaching SMEs would enable effective and efficient business models for them (OECD, 2004).

Overall, the two following problems, namely insufficient communications technology and lack of skilled human resources, are tied to the first problem, which is limited financing sources. If a firm does not have enough funds, it cannot acquire adequate technology and hire more skillful employees. Thus, SMEs' financing problems need to be tackled to solve other related problems.

CHAPTER 3

INTERNATIONAL FINANCIAL REPORTING STANDARDS FOR SMALL AND MEDIUM-SIZED ENTITIES (IFRS FOR SMEs)

Traditionally, large and listed international entities have been the target of international standard-setting authorities because the need for comparable financial information was necessary for international investors and decision makers (Wittsiepe, 2008). A need for a separate financial reporting standard set for SMEs has now emerged because they also need comparable financial information as a result of the globalizing world. However, the know-how, experience, and financial resources necessary to adopt international financial reporting standards in smaller entities require a streamlined and cost-efficient approach (Wittsiepe, 2008). For this purpose, in July 2009, the IASB issued a new IFRS designed for the financial reporting needs of SMEs. This standard was the result of a five-year development process, with extensive consultation with SMEs worldwide (Epstein & Jermakowicz, 2010). It has been simplified and made much shorter by modifying the accounting standards for the use of SMEs. As a result of all those simplifications, the IFRS for SMEs consists of 230 pages divided into 35 chapters (Walton, 2011). It starts with concepts and principles, moves on to financial statement presentation, and ends with a series of financial reporting issues (Walton, 2011).

In this chapter, firstly the financial reporting in SMEs and the development of the IFRS for SMEs will be explained. Then, the possible advantages and disadvantages of this standard will be discussed. Finally, the adoption process of the IFRS for SMEs in the EU, the United States of America (USA), developing countries, and Turkey will be clarified.

3.1. Financial reporting in SMEs

There are several differences between the financial reporting practices of listed and unlisted entities. First of all, the financial statement users of SMEs are very few compared with those of publicly listed companies (Pacter, 2009). The financial statement users of large listed companies differ from those of small unlisted companies not only in number, but also with respect to their nature and information needs (Mantzari *et al.* 2009). For example, most disclosure requirements are not equally important for the financial statement users of all sizes and types of companies (Mantzari *et al.* 2009). On the other hand, the financial statement users of SMEs focus on generally short-term cash flows, liquidity, and solvency of the company (Tudor & Mutiu, 2008; Vasek, 2011).

Evans *et al.* (2005) indicated that the needs of the financial statement users of SMEs differ from those of publicly accountable large entities. According to their study, the reasons for differential reporting are the cost considerations of the SMEs and the perceived lack of relevance of some accounts. In fact, there is significant diversity among the financial statement user groups of micro entities and medium-sized entities (Evans *et al.* 2005).

SMEs generally carry out financial reporting for tax purposes in many jurisdictions (Maingot & Zeghal, 2006; Köse, 2009; Pacter, 2009; Sian & Roberts, 2009; Christie *et al.* 2010; Şensoy & Perek, 2010). Thus, SMEs perform financial reporting in concordance with the regulations of the jurisdictions in which they operate (Christie *et al.* 2010).

Several studies have indicated that SMEs use financial reporting primarily for external rather than internal constituencies (Maingot & Zeghal, 2006; Atik, 2010; Christie *et al.* 2010).

Atik (2010) indicated that SMEs prepare financial statements mostly for tax offices, financial institutions, owners, or shareholders and also use them for various managerial decisions.

Sian and Roberts (2009) conducted research into the uses of financial statements in SMEs. According to their study, SMEs use financial statements and financial reporting information to look backward or for confirmatory purposes, rather than for looking forward for planning or decision making. The main reasons behind the uses of financial statements are: “To compare income with plan or target, to compare income with past periods, to compare costs with plan or target, to compare costs with past periods, for tax planning, and for new borrowing decisions.”

Pacter (2009: 6) summarizes the attributes of financial reporting in SMEs as follows:

i. It has generally been compatible with legal requirements that were written many years ago as a result of political compromise and has been limited in scope;
ii. Financial reporting in SMEs is generally cash-oriented rather than accrual-oriented;
iii. It does not include many recognition and measurement principles;
iv. It is generally tax-driven;
v. It requires only one or two primary financial statements, such as a balance sheet and income statement.

In conclusion, SMEs carry out financial reporting for tax purposes rather than for decision making. They prepare fewer financial statements and present less information than listed large entities.

In fact, some of the characteristics of the financial reporting in SMEs are a result of several problems in their accounting systems. Some of those problems occur because of the tendency of SMEs’ owners to consider the accountancy profession as unnecessary (Siam & Rahahleh, 2010). Thus, the financial reports of those entities do not present sufficient information to provide an explicit image about the enterprises (Siam & Rahahleh, 2010). According to Maseko and Manyani (2011), SMEs do not keep complete accounting records due to several obstacles, including a lack of accounting knowledge and the cost of hiring professional accountants.

3.2. The need for the IFRS for SMEs

Current studies and research generally focus on the reporting needs of publicly listed companies and global capital markets. However, most of the companies in the world are small and unlisted and those companies have a significant incontestable role in their countries' economies. The statistical measurements regarding the number of the SMEs also indicate this issue. Over 95% of the entities in the world are small and medium-sized, whereas the number of listed companies is about 46,000 (Vasek, 2011; IASB, 2012). Therefore, the expected comparability of entities' financial statements cannot be maintained with the application of international standards only by listed entities. On the other hand, the use of internationally accepted financial reporting standards increases the quality of the financial information that is presented. Not only listed entities, but also unlisted small entities need comparable high-quality financial information (Pacter, 2009).

There are several arguments related to a unified common set of standards that can respond to the financial reporting needs of all the listed and unlisted companies. According to Stainbank (2008) and Christie *et al.* (2010), the type of information needed by a small business differs from that needed by larger companies in several ways. Siam and Rahahleh (2010) pointed out that the main difference results from their lack of public accountability. This fact affects the characteristics of their financial statements and the nature of the users' interests (Siam & Rahahleh, 2010). Beside those arguments, the number and size of the international business activities of the companies increase day by day. As the accounting rules become more complex, the doubts about whether one accounting model fits all small and large businesses or not increase (Fearnley & Hines, 2007). Hence, SMEs need comparable information, like large entities. Several researchers have explained why SMEs need a separate financial reporting standard set. Some of those studies are summarized in this section.

Pacter (2009: 5) listed the reasons for the need for the IFRS for SMEs as follows:

i. Financial institutions make loans to entities across borders. In most jurisdictions, most of the entities are small-sized.
ii. To monitor the loans, banks and financial institutions need understandable financial information.

iii. Vendors also need comparable information to evaluate the financial health of their buyers.
iv. Credit rating agencies also need comparable information to develop ratings across borders.
v. Many small entities have overseas customers.
vi. National development entities also need comparable information.
vii. Non-management owners need high-quality financial information that shows the real financial position of the entities.
viii. Many small-sized entities are subsidiaries of parents that use the full IFRS. Consolidation will be simplified if those subsidiaries use the IFRS for SMEs rather than the national GAAP of their jurisdiction.

In the view of Maseko and Manyani (2011), SMEs generally have few resources, limited access to capital markets, less business complexity, and fewer external users of their financial statements compared with large listed entities. According to Eierle and Haller (2009), there are some differences between small and large companies that are related to their structure and activities. Siam and Al-Daass (2011) listed the different specialties of SMEs as the existence of few members in their management, concentration in ownership and management, limited income resources, and limited internal control systems in small companies. The issues that make small enterprises different from large ones are summarized below (Eierle & Haller, 2009: 227):

i. There are not generally non-owner managers on the board in SMEs, so the manager is also the owner of the entity.
ii. The percentage of foreign activities, such as exports and imports, as well as the number of foreign subsidiaries and foreign competitors are low for small companies compared with large ones.
iii. The frequency of research and development projects is low in small enterprises.
iv. The numbers of acquisitions, hedge transactions, and partnerships are smaller in small companies than in large companies.

Another study performed by Maingot and Zeghal (2006) indicated that SMEs prepare financial statements for tax purposes and borrowing more than planning decisions, performance evaluation, determining business strategy, etc. Thus, the needs of small and large companies differ for financial reporting. The IFRS for SMEs is proposed and designed for entities that produce general purpose financial statements to meet the financial reporting needs of small companies and to maintain easy and accurate economic decision making by a broad range of resource providers and other users, such as non-manager owners, lenders, vendors, and other creditors, customers, and employees (Pacter, 2009). The costs incurred in complying with financial reporting regulations also differ between companies. Since the full set of IFRS is complex and costly to implement, many regulators and preparers see the need for a separate internationally accepted accounting standard suitable for SMEs (Jermakowicz & Gornik-Tomaszewski, 2006).

The IASB decided that the differences between the entities that should apply the full set of IFRS and those that are supposed to apply the IFRS for SMEs lie not in their size, but in their nature (public accountability or not). In part 2.2, the IFRS for SMEs shows that:

> The objective of financial statements of a small or medium-sized entity is to provide information about the financial position, performance and cash flows of the entity that is useful for economic decision-making by a broad range of users who are not in a position to demand reports tailored to meet their particular information needs.

As a result, all these issues have attracted the attention of the financial reporting standard-setting authorities. The full set of IFRS has been modified in several ways by the IASB to fulfill the needs of small enterprises, which is also in parallel with the full set of IFRS, by taking into consideration the distinguished characteristics of SMEs (Siam & Rahahleh, 2010).

Pacter (2009) and Epstein and Jermakowicz (2010) listed five main modifications in the IFRS for SMEs that make it simpler than the full set of IFRS:

i. Topics that are not generally relevant to private entities have been eliminated;

ii. Where full IFRS provide choices of accounting treatment in a particular circumstance, only one choice is set out in the IFRS for SMEs;

iii. The principles for recognition and measurement of assets, liabilities, income, and expense have been simplified;

iv. Many disclosures in the full IFRS that are designed for public capital markets have been deleted, and the required presentation simplified;

v. The entire body of standards has been redrafted into plain English to enhance its clarity.

3.3. Development of the IFRS for SMEs

Since the 1970s several accounting authorities have made considerable efforts to harmonize the accounting rules in different countries to obtain useful financial information in the international context (Callao *et al.* 2007). For this purpose, the accounting profession speeded up its studies to establish a single set of financial reporting standards that would be valid in the international arena (Garrido *et al.* 2002).

The IASC issued a "Framework for the Preparation and Presentation of Financial Statements" in 1989 to speed up the harmonization process and introduce the main concepts of the IAS (Baker & Barbu, 2007). From 1973 to 1988, the IASC issued 26 generic standards (Garrido *et al.* 2002). In 1995, the IASC and the IOSCO agreed to develop and promote a unified set of standards (Garrido *et al.* 2002). In 2001, the IASB was founded and started its activities. Global convergence to IFRS has been one of the most important aims of the IASB to achieve since its establishment in 2001 as the IASC and several impressive programs have been created for this convergence project (Peng & Bewley, 2010).

In May 2000, the IOSCO accepted the IAS and IFRS as the basis of its secondary listing approach (Walton, 2011). In June 2000, a reform that comprehends financial reporting standards began in the EU with the declaration of the “EU financial reporting strategy: The way forward” (Navarro-Garcia & Bastida, 2010). This declaration required all publicly listed EU companies to make their financial reporting compatible with the IFRS. After a while, it was necessary for all listed EU companies to apply IFRS when preparing their financial statements for the years beginning on or after January 1, 2005 (Dao & Hong, 2005; Jermakowicz & Gornik-Tomaszewski, 2006). This decision implies an increasing international convergence of accounting applications, which is the final goal of the international process of harmonization of accounting and financial reporting standards (Aledo *et al.* 2009). National GAAP were set to disappear and be replaced by the IAS and the IFRS for the capital market members, first in the EU and then progressively in Australia, South Africa, Canada, Brazil, South Korea, Japan, China, and other many countries (Walton, 2011). Currently, more than 100 countries have adopted the IFRS (Ağca & Aktaş, 2007; Alali & Cao, 2010; Gökçen *et al.* 2011).

The authorities have recognized the need for another set of standards for SMEs. The idea of creating a separate standard for SMEs was quite controversial for the IASB because it focused on the financial reporting of listed entities (Walton, 2011).

In fact, another reporting standard set for SMEs was first considered by the Accounting Standards Committee (ASC) in 1983 and a meeting was held between the ASC and small companies’ representatives for this purpose. Some conclusions of this meeting were (Barker & Noonan, 1996):

i. The existing accounting standards were not considered to be a burden on small companies;
ii. Research should be conducted about the extent of the implication problems of the existing standards for small companies;
iii. The concept of dual standards was generally disliked; and

iv. It might be necessary to make some simplifications of measurement standards for small entities' reporting concerns.

Because of some secretarial problems, the project concerning small companies was postponed to later years. This project was very important for the standard-setting authorities because SMEs take a very significant role in their countries' economies, so this group will be the biggest user of the IASB's standards (Mantzari *et al.* 2009).

Then, the idea of conducting such a project was taken up by the IASC because only in Europe full IFRS is required for 7,000 listed companies, while more than 7,000,000 unlisted entities mostly follow national standards, thus failing to provide a satisfactory level of international comparability (Flower, 2005). For this purpose, the IASC set up a working group to develop a standard for SMEs. Consequently, in 2001, in the early years of the IASB, the new organization considered whether to continue with this project (Walton, 2011). At that time, the project was postponed until 2003. In 2003, the IASB again started building international accounting standards for SMEs because there was a huge demand from a number of sources.

According to the sources that demanded another set for SMEs, those standards have to (Müllerova *et al.* 2010a):

i. Represent a simple, high-quality, understandable, and enforceable system that will be suitable for SMEs worldwide;
ii. Minimize the difficulties in compiling financial statements;
iii. Be built based on an identical conceptual frame to the IFRS;
iv. Enable an easy transition to the full IFRS for bigger enterprises or for the case when some enterprises decide to use them;
v. Come out of the needs of the users of the financial statements.

After a while, the IASB proposed a discussion paper in 2004, *Preliminary views on accounting for small and medium entities*, concerning this need. The most important issues mentioned in this discussion paper were (Neag *et al.* 2009):

i. Should the IASB develop a different special financial reporting standards set for SMEs?
ii. What should be the objectives of a standard set that will be published for SMEs?
iii. Which entities would use this standard set?
iv. Can an entity that uses the standard set for SMEs follow a treatment that is permitted in the full set that differs from the set for SMEs?
v. What should be the basis for modifying the concepts and principles that exist in the full set for SMEs?

The IASB received 117 responses to this discussion paper from regulators, the accounting profession, and academics (Evans *et al.* 2005). To review the decisions presented by professionals, a subcommittee was set up (Evans *et al.* 2005). This subcommittee decided that there is a need for a separate financial reporting standard for SMEs and an ED should be developed for this purpose (Evans *et al.* 2005; Stainbank, 2008). The preliminary views were that the objective of this separate standard should be based on the same conceptual framework as the full set of IFRS but should be simplified to respond to the financial reporting needs of SMEs (Stainbank, 2008). Hence, according to the committee, differentiations from the full set should take into consideration cost and benefit constraints rather than recognition and measurement principles (Stainbank, 2008). All those discussions aimed to take into account the view of the professionals in the field of accounting. This discussion paper did not point out the views of the users of the financial statements and their specific needs (Neag *et al.* 2009).

Subsequently, the IASB published a “Staff questionnaire on possible recognition and measurement modifications for small and medium entities” in 2005 to determine the topics that should be discussed at meetings with the financial statements users and preparers of SMEs (Stainbank, 2008). A preliminary draft of an ED of an IFRS for SMEs was published in 2006 (Epstein & Jermakowicz, 2007; Stainbank, 2008).

In February 2007, the IASB published an ED of a proposed IFRS for SMEs (Eierle & Haller, 2009). Within this period, the IASB promoted national standard-setting authorities to carry out field tests and surveys on several issues related to the IFRS for SMEs (Eierle & Haller, 2009).

The IASB conducted several tests to assess the relevance of the IFRS for SMEs in several jurisdictions, which encompassed the restatement of a sample of SMEs' financial statements compatible with the requirements of the IFRS for SMEs (Bohusova & Blaskova, 2012). This program was applied to 116 companies from 20 different countries (Bohusova & Blaskova, 2012).

In 2008, the Working Group met to review the comments and suggestions on the ED in order to present its own recommendations to the Board (Mantzari *et al.* 2009). The ED was adjusted taking into consideration the comment letters received from the field testing (Vasek, 2011).

In July 2009, the process was concluded and a new standard for SMEs called the "IFRS for SMEs" was issued (Albu *et al.* 2010; Vasek, 2011). In the end, a separate standard was developed and published to respond to the financial reporting needs of companies that are referred to by several terms in different countries, such as SMEs, private entities, and non-publicly accountable entities (Elena *et al.* 2009). This was the first set of standards to have taken into consideration the financial reporting needs of SMEs (Maseko & Manyani, 2011). The IFRS for SMEs has been effective for a short time and has been endorsed by several international organizations, including the World Bank, the IFAC, the American Institute of CPAs (AICPA), and the Federation of European Accountants (FEA) (Christie *et al.* 2010: 41). After the publication of the IFRS for SMEs, another discussion has started concerning which entities can and cannot use this standard.

This standard set consists of simplified and condensed accounting principles based on the full set of IFRS. It is intended to be applicable to all entities and businesses that do not have public accountability and that publish general purpose financial statements. In fact, the IASB's SME definition in the standard 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 will use the IFRS for SMEs or not (KPMG, 2010). The IASB (2012) clarified the discussion about who will use the IFRS for SMEs as follows:

> The IFRS for SMEs is organized by topic into 35 sections. This set is available for any jurisdiction to adopt, whether or not it has adopted full IFRS. Each jurisdiction must determine which entities should use the standard set. The IASB's only restriction is that listed companies and financial institutions should not use it. Any company of any size can use the IFRS for SMEs if it does not have public accountability.

The IASB focused on entities that have about 50 employees when determining the content of the IFRS for SMEs. This 50-employee guideline is not a quantified size criteria; it is only used as a basis on which to decide the kinds of transactions, events, and conditions that should be included in the standard (Pacter, 2009).

The IASB estimated that 95% of the entities all over the world will apply the IFRS for SMEs and underlined that this standard will be suitable for entities that do not have public accountability (Tudor & Mutiu, 2008). On the other hand, the IASB acknowledged that the regulators and standard-setting authorities of each country would make decisions about which entities would use each of the two IFRS standards (Daly, 2009).

3.4. Advantages of the IFRS for SMEs

The adoption of universally accepted financial reporting standards that require high-quality, transparent, and comparable information has been welcomed by investors, creditors, financial analysts, and other users of financial statements (Ankarath *et al.* 2010). The motivation of the parties to attain a common set of standards stems from the demand for financial information that is prepared in accordance with a global set of standards rather than local accounting standards (El-Gazzar *et al.* 1999).

Several researchers have pointed out the advantages that are offered by a common set of standards to the financial statement users (El-Gazzar *et al.* 1999; Joshi & Ramadhan, 2002; Epstein & Jermakowicz, 2007; Ankarath *et al.* 2010).

Joshi and Ramadhan (2002) conducted a study that analyzed the reasons for the adoption of the IFRS in SMEs. The results showed that SMEs prefer international standards due to the expectation of improving the efficiency and effectiveness of financial reporting and achieving the firms' objectives as well as the desire to increase the opportunities for external financing.

According to El-Gazzar *et al.* (1999), financial reporting prepared in compliance with an internationally recognized standard provides several advantages to the entities, such as decreasing the risks and uncertainty for international users of financial statements and resource providers and increasing the chance to access international resources.

Epstein and Jermakowicz (2007) proposed that the IFRS for SMEs will maintain comparability and ease the transition to the full set of IFRS. According to Ankarath *et al.* (2010), the use of a single set of high-quality accounting standards will facilitate investment and other economic decisions across borders, increase market efficiency, and reduce the cost of raising capital.

The EC has also provided the following reasons for adopting and mandating one set of financial reporting standards across the entire EU (Jeanjean & Stolowy, 2008):

i. To develop a common set of internationally accepted high-quality financial reporting standards;
ii. To create an efficient and cost-effective capital market;
iii. To enhance the overall global competitiveness of firms within Europe and to improve the EU economy.

On the other hand, entities involved in international investment and trade would benefit from adopting a standard developed by an independent international standard-setting authority. KPMG (2010) listed the qualifications of the IFRS for SMEs that make it advantageous for users:

i. The IFRS for SMEs is based on similar principles to the widely accepted full IFRS;
ii. The IFRS for SMEs is simpler than the full set of IFRS, but still provides high-quality information for financial statement users;
iii. The IFRS for SMEs is a more widely recognized framework than local accounting regulations.

In this section, the advantages of the IFRS for SMEs are grouped as the creation of high-quality information that is comparable, transparent, and with greater disclosure, a reduction in several costs, and an increase in financing opportunities.

Zeghal and Mhedhbi (2006) stated that high-quality information will be maintained with internationally accepted and recognized financial reporting standards. There have been several discussions about how this high-quality information will be a result of a common set of standards. The results of those discussions suggest that mandatory adoption of the international reporting standards instead of national ones will lead to significant benefits in terms of financial information quality by increasing transparency, enhancing the level of disclosure, and improving the comparability of financial statements (Daske & Gebhardt, 2006; Jeanjean & Stolowy, 2008). The Securities and Exchange Commission (SEC) (2000) has also indicated this issue as "high quality information will be provided with three elements: comparability, transparency, and full disclosure." Investors, bankers, creditors, shareholders, and regulators will benefit from the high-quality information because the improvement of this type of information will help them to make better decisions (Aledo *et al.* 2009).

In the previous literature, many studies have shown that international reporting standards will result in better transparency and comparability with other businesses and so the quality of the information that is presented by entities will increase (Daske & Gebhardt, 2006; Jeanjean & Stolowy, 2008; Ballas *et al.* 2010). Even if the quality of corporate reporting does not improve as expected, it is possible that the financial information will be more useful to investors and other stakeholders of entities (Jeanjean & Stolowy, 2008), because all the decision makers can differentiate between lower- and higher-quality firms with a common set of accounting standards (Jeanjean & Stolowy, 2008).

As a result, one of the most important outcomes of the IFRS for SMEs is the high-quality information that entities will produce. The high-quality information will be more transparent, with more comparable financial statements and a high level of disclosure. The comparability, transparency, and high disclosure level will be discussed in the following.

3.4.1. Comparability

Enhanced comparability of the financial statements presented is one of the most important arguments of the proponents of financial reporting harmonization. According to them, integrated financial and product markets will be a result of more comparable financial statements (Jermakowicz & Gornik-Tomaszewski, 2006).

The evaluation, analysis, and interpretation of the financial statements of the companies from several countries have become a complicated process due to the differences in accounting procedures of different countries (Murphy, 1999; Prather-Kinsey, 2006). Those differences between companies' financial reporting practices may be caused by several factors, such as legal, political, and social factors, as discussed before (Samuel & Manassian, 2011).

The IFRS for SMEs will decrease those differences among countries' financial reporting practices, maintain the expected comparability for the users of accounts (DeFond *et al.* 2011), and enhance intra-country reporting comparability (Jones & Finley, 2011). As a result, a shared set of standards would make it easier to compare the financial performances of companies from different countries. This would create effective competition for international funds and effective capital markets by lowering the cost of capital for firms (Jeanjean & Stolowy, 2008). Enhanced financial statement comparability would also reduce the information acquisition costs for foreign investors and increase their investments in foreign firms (DeFond *et al.* 2011). According to Bowrin (2007), international reporting standards will maintain comparability not only universally, but also domestically.

3.4.2. Transparency

Several studies have indicated that the application of universally accepted financial reporting standards will improve transparency and enhance the reliability of financial information (Dumontier & Raffournier, 1998; Akyüz *et al.* 2006; Neag *et al.* 2009; Madawaki, 2012). According to Schutte and Buys (2011), with enhanced transparency entities will be more open and publicly accountable. Dumontier and Raffournier (1998) and Standish (2003) also indicated that financial reporting standards will increase the credibility of financial statements by prohibiting hidden reserves and maintaining transparency.

In conclusion, with the application of a common and universally understandable financial reporting standard, the level of transparency and thus the quality of financial information will increase.

3.4.3. Full disclosure

The financial reporting standard set requires a minimum level of disclosure that makes entities' financial statements more understandable and decreases the market, credit, and operational risk (Chorafas, 2006). According to Daske and Gebhardt (2006) and Balshaw and Lont (2010), the quality and quantity of the disclosures increase under the application of financial reporting standards. Street and Bryant (2000) also undertook a study to investigate the relationship between the disclosure level and the compliance with international reporting standards. They determined that the level of disclosure increases when an entity complies with the IFRS.

As a result, the IFRS for SMEs aims to increase the disclosure level of entities to enhance the quality of the information they present. The full set of IFRS and the IFRS for SMEs necessitate a level of mandatory disclosure. When an entity makes its financial reporting compatible with one of those standards, its disclosure level will increase as a consequence.

3.4.4. Cost implications of the IFRS for SMEs

Financial reporting harmonization has become an inevitable phenomenon all over the world in recent years. As a result, not only listed entities but also unlisted SMEs should conduct their financial reporting in concordance with internationally accepted standards. The full set of IFRS is more complex and detailed than the IFRS for SMEs. Therefore, many SMEs and accounting professionals denounce the full IFRS as imposing a significant cost burden on SMEs. Under these circumstances, a separate standard dissolves this cost burden on SMEs (Bunea-Bontas *et al.* 2011). The IFRS for SMEs will be more cost-efficient than the full set of IFRS for unlisted and small-sized entities.

On the other hand, the IASB plans to update the IFRS for SMEs once every three years; it seems that the IFRS for SMEs will be a more stable set than the full set of IFRS. As a result, the ongoing training costs may be lower than those incurred under a more rapidly and constantly changing financial reporting framework (Bunea-Bontas *et al.* 2011).

The IFRS for SMEs will decrease the cost burden on entities that may be caused by the full set of IFRS. In addition to this, the IFRS for SMEs will reduce the significant costs involved in maintaining standards on a national basis, and provide a platform for growing businesses that are preparing to enter capital markets (Elena *et al.* 2009). Compliance with a universally accepted financial reporting standard will also decrease the cost of comparing firms' financial statements across borders (Jeanjean & Stolowy, 2008). Investors and entities that have international concerns will benefit from this compliance. Otherwise, it will be very difficult and costly for them to undertake international activities.

3.4.5. Financing opportunities

As a result of qualified financial information, SMEs will easily access capital (IASB, 2012). Several studies have indicated that compliance with universally accepted financial reporting standards will increase entities' financing opportunities (Beck *et al.* 2008; Cai & Wong, 2010; Defond *et al.* 2011; Kim *et al.* 2011).

DeFond *et al.* (2011) found that IFRS adoption increases foreign investment among companies from different countries. Kim *et al.* (2011) also performed an analysis that investigated the effect of IFRS adoption on the credit opportunities of firms. According to this study, banks charge lower loan rates to IFRS adopters than to non-adopters, IFRS adopters have fewer restrictive covenants in their loan contracts, banks are more willing to extend credit to IFRS-adopting entities, and IFRS adopters attract more foreign lenders.

Cai and Wong (2010) analyzed the effect of adopting international reporting standards on the capital movement of countries. The results of the study were consistent with the previous literature that indicated that IFRS adoption maintains the movement of capital across borders more efficiently.

Beck *et al.* (2008) analyzed the financing opportunities of small entities. Their study showed that small firms can improve their access to external resources by institutional reforms addressing the weaknesses in their legal and financial systems and complying with financial reporting standards.

As a result, if SMEs comply with the IFRS for SMEs, they will benefit from enhanced financing opportunities and will obtain credit from banks with lower interest rates. SMEs will also develop their financial systems if they make their financial reporting in concordance with high-quality financial reporting standards rather than national regulations.

3.5. Disadvantages and obstacles of the IFRS for SMEs

Some parties have criticized the IASB concerning the development of a common standard for SMEs due to several reasons, including two main arguments.

Firstly, they asserted that the IASB has developed standards for countries throughout the world, irrespective of their culture and level of economic development, as a unique standard (Al-Shammari *et al.* 2008). According to them, countries that have different cultures and different development levels cannot use a common standard. Another argument concerned the IASB's experience and expertise in the field of accounting. In their view, the IASB may not be an appropriate body to develop a simple standard for non-listed entities because most of its members have expertise in the financial reporting of large listed entities rather than small ones (Mantzari *et al.* 2009).

In this section, some of the problems, obstacles, and perceived disadvantages of the adoption process of the IFRS for SMEs will be explained briefly.

3.5.1. The comparability issue

There are some opponents of financial reporting standards. Their main argument is that those standards will not maintain comparability at the expected level. According to them, having the same set of accounting standards may not be enough to maintain comparability between the financial statements of entities because of the country-related factors (Schultz & Lopez, 2001; Evans *et al.* 2005; Zeghal & Mhedhbi, 2006; Stainbank, 2008; Djatej *et al. 2*009; Cole *et al.* 2011), the company-specific factors (Evans *et al.* 2005), and the incentive of preparers (Cole *et al.* 2011). Those cultural, economic, and legal differences among countries will be some of the impediments to the creation of a uniform set of accounting standards (Baker & Barbu, 2007).

Additionally, countries' adoption levels will hinder the comparability because some countries will enforce the standard and some will not. Thus, different adoption processes and pecularities of countries will also mitigate the comparability of the financial statements of companies in different parts of the world (Ballas *et al.* 2010).

On the other hand, standards require professionals' enforcement and judgment for the application because some alternatives could be applied in the same situation and financial reporting standards are principle-based rather than rule-based. According to Schutte and Buys (2011), this will mainly hinder the comparability because the accountants will use their judgment in various applications and practices as a consequence of the flexibility provided by the standard. As a result, if the standard is not applied consistently by accountants, comparable reporting is unlikely to be achieved even if all countries adopt and use a common standard (Chand *et al.* 2010). To prevent those differences in the application of the standards, to increase comparability, and to maintain uniformity, several studies have suggested that the IASB should further reduce the number of free choice alternatives in the standard (Bowrin, 2007; Whittington, 2010). In fact, many alternatives are exempted from the IFRS for SMEs, but there are still some applications that require the judgment of professionals. Thus, the single-method approach would certainly promote consistency within accounts and improve comparability across entities (Whittington, 2010). As the regulations converge and alternative methods decrease, the problem of comparability can be resolved and this should lead to a higher level of informational and allocational efficiencies in the international equities market (Hora *et al.* 1997; Garrido *et al.* 2002). The continued availability of these choices and alternative methods conflicts with the IASB's objectives and will hamper comparability (Nobes, 2011).

3.5.2. The cost issue

Although the adoption of the IFRS for SMEs is less costly compared with the adoption of the full set of IFRS, adoption costs remain the main obstacle because certain fixed conversion or implementation costs will be burdensome for small entities (Ballas *et al.* 2010). Several studies have indicated this problem with empirical data (Larson & Street, 2004; Taylor, 2009; Winney *et al.* 2010; Ballas *et al.* 2010; Jones & Finley, 2011).

Some of those IFRS adoption costs can be summarized by taking the prior literature into consideration as below:

i. The cost of continuous training of accountants and staff in all aspects of all standards (Barker & Noonan, 1996, Ballas *et al.* 2010; Herman, 2010; Rezaee *et al.* 2010), and thus for IFRS certification (Winney *et al.* 2010);
ii. The significant investment costs that will be made in new accounting software (Winney *et al.* 2010);
iii. The cost of collecting, summarizing, and computing the figures and information to be disclosed (Barker & Noonan, 1996);
iv. The cost of employing independent surveyors (Ballas *et al.* 2010);
v. The cost of implementing a dual accounting system arising from the application of standards for financial reporting purposes and also from the application of tax legislation (Ballas *et al.* 2010);
vi. The cost of developing local regulatory and enforcement mechanisms (Hodgdon *et al.* 2009);
vii. The cost of consultation with experts for detailed guidance (KPMG, 2010).

Although many of the complex accounting areas in the full IFRS is simplified in the IFRS for SMEs, which aims to reduce the need for experts in some areas, the IFRS for SMEs provides less guidance than the full IFRS in some areas and does not certify those topics.

In fact, the costs of implementation and conversion will be less in countries where the GAAP was historically based on the IAS (Taylor, 2009). On the other hand, it is expected that the cost of the adoption of the IFRS for SMEs will be more burdensome for small entities that operate in emerging countries.

In conclusion, compliance costs are an important obstacle to the adoption process of the IFRS for SMEs. The logic is that smaller entities may incur relatively higher costs than larger companies because they cannot take advantage of the economy of scale effects of being a large entity (Eierle & Haller, 2009). A small company might not have the in-house accounting expertise and it should employ consultancy services, resulting in higher fees (Eierle & Haller, 2009).

In summary, it is expected that the IFRS for SMEs will create the greatest cost burden on micro-sized entities operating in emerging countries in the short run.

3.5.3. The interpretation issue

There are also some problems caused by interpretation, because interpretation plays a very important role in the effective application of standards and therefore in the achievement of comparability (Zeff, 2007). The standards are principle-based so that when companies undertake financial reporting and prepare their financial statements they using their own judgment and make interpretations, as discussed in the comparability section. The use of judgment by practitioners will sometimes be likely to cause inconsistent interpretations and differences in applications (Hora *et al.* 1997; Alali & Cao, 2010; Chand *et al.* 2010). This problem is most likely to be reduced as more entities adopt the standard and the interpretation of the requirements of the applications and practices becomes more standardized (Bunea-Bontas *et al.* 2011).

3.5.4. The language issue

One of the arguments of the opponents of the IASB standards is the language issue. They assert that the official language of the IASB is English and the financial reporting standards and other documents are prepared in this language, which may cause problems for the use of standards in environments where English is not the first language (Carlson, 1997). According to them, translating the IFRS from English could be a problem and could affect the understandability of some concepts by the applicants (Zeff, 2007). Some lags in the translation of standards from English to a jurisdiction's language may create problems and hinder their effective adoption, especially in the case of developing economies with emerging transitional economies (Larson & Street, 2004).

Alp and Ustundag (2009) listed the problems related to translation as below:

i. The use of lengthy English sentences;
ii. Inconsistent use of terminology;
iii. The use of the same terminology to describe different concepts;

iv. The use of terminology that is difficult to translate.

In conclusion, language might be a problem for professionals because of the reasons discussed above. In fact, this is not only the problem of the IASB, but also the problem of the jurisdictions. Jurisdictions that want to apply the standards correctly should translate the standards and their interpretations immediately and try to overcome the translation problems.

3.5.5. The education and training issue

The lack of IFRS education, knowledge, and training at the university, business enterprise, and professional accounting levels will be a critical and vital challenge in the IFRS adoption process. The education and training of personnel to apply the standard effectively is one of the most important cost items for entities and auditing firms. Especially, small companies have insufficient resources to train and educate staff on the technical application of the IFRS (Jones & Finley, 2011).

The lack of comprehensive training regarding the technical aspects of the standard set is the major source of other difficulties, such as wrong applications, incomparable financial statements, and decreased reliability (Ballas *et al.* 2010).

3.5.6. The heterogeneity issue

During this process, some researchers have pointed out another issue. According to them, SMEs are not a homogenous group. Sellhorn and Gornik-Tomaszewski (2006) clarified this issue as below:

Unlisted firms can be divided into three groups:

i. Large, publicly accountable unlisted firms;

ii. Unlisted firms that do not have public accountability but publish general purpose financial statements for external users;

iii. Unlisted firms that produce financial information only for owner-managers and tax authorities.

According to Sellhorn and Gornik-Tomaszewski (2006), the first group should use the full set of IFRS. The second group should use the IFRS for SMEs. For the third group, it remains for the national jurisdictions to decide whether they will apply the IFRS for SMEs or the national rules.

On the other hand, unlisted micro-sized entities have a significant place in countries, especially in developing ones (Poroy Arsoy & Sipahi, 2007). Therefore, total exemption of micro-sized entities (which have fewer than 10 employees) from the application of the IFRS for SMEs will create another problem. In this situation, the number of the entities that will apply the IFRS for SMEs will be very small, especially in emerging countries. In fact, access to capital is a major problem for micro entities all over the world, but particularly in developing countries (Pacter, 2009). Therefore, such an exemption will not maintain the expected comparability and will not be advantageous for micro-sized entities.

In sum, there are and will be some problems and obstacles concerning the application of the IFRS for SMEs due to variations among the SMEs based on size. Those problems require the enlightened commitment of the accountancy profession, academicians, auditors, regulators, etc.

3.6. The IFRS for SMEs

The standard is organized into 35 sections as shown in Table 3.1 (Ankarath *et al.* 2010).

Since the full content of the IFRS for SMEs can be obtained from the website of the IASB, it has not been included here; only brief explanations are provided.

Table 3.1 Content of the IFRS for SMEs

Section		Content
Section 1	Small and medium-sized entities	Describes the characteristics of SMEs.
Section 2	Concepts and principles	Sets out the concepts and basic principles underlying the financial statements.
Section 3	Financial statement presentation	Explains the fair presentation of financial statements. This section also describes the complete set of financial statements.
Section 4	Statement of financial position	Sets out the information that is presented in a statement of financial position and how to present it.
Section 5	Statement of comprehensive income and income statement	Sets out the information that is to be presented in a statement of comprehensive income and how to present it.
Section 6	Statement of changes in equity and statement of income and retained earnings	Sets out the requirements for presenting the changes in an entity's equity for a period.
Section 7	Statement of cash flows	Sets out the information that is to be presented in a statement of cash flows and how to present it.
Section 8	Notes to the financial statement	Sets out the principles underlying the information that is to be presented in the notes.
Section 9	Consolidated and separate financial statements	Defines the circumstances in which an entity presents consolidated financial statements and the procedures for preparing those statements.
Section 10	Accounting policies estimates and errors	Covers guidance for the use of accounting policies, changes in accounting estimates, and corrections of errors.
Section 11 Section 12	Basic financial instruments Other financial instruments issues	Sections 11 and 12 deal with recognizing, derecognizing, measuring, and disclosing financial instruments (financial assets and financial liabilities).
Section 13	Inventories	Sets out the principles for recognizing and measuring inventories.
Section 14	Investments in associates	Applies to accounting for associates in consolidated financial statements and in the financial statements of an investor that is not a parent but that has an investment in one or more associates.
Section 15	Investments in joint ventures	Applies to accounting for joint ventures in consolidated financial statements and in the financial statements of an investor that is not a parent but that has a venturer's interest in one or more joint ventures.
Section 16	Investment property	Applies to accounting for investments in land or buildings that meet the definition of investment property.

Source: IASB (2009).

Table 3.1 Content of the IFRS for SMEs (continued)

Section		Content
Section 17	Property, plant, and equipment	Applies to accounting for property, plant, and equipment and investment property whose fair value cannot be measured reliably without undue cost or effort.
Section 18	Intangible assets other than goodwill	Applies to accounting for all intangible assets other than goodwill.
Section 19	Business combinations and goodwill	Provides guidance for accounting of business combinations.
Section 20	Leases	Covers accounting for all leases.
Section 21	Provisions and contingencies	Applies to all provisions (liabilities of uncertain timing or amount), contingent liabilities, and contingent assets.
Section 22	Liabilities and equity	Establishes the principles for classifying financial instruments as either liabilities or equity and addresses accounting for equity instruments.
Section 23	Revenue	Applies to accounting for several transactions and events that are specified in this section.
Section 24	Government grants	Specifies the accounting for all government grants.
Section 25	Borrowing costs	Specifies the accounting for borrowing costs.
Section 26	Share-based payment	Specifies the accounting for all share-based payment transactions.
Section 27	Impairment of assets	Applies the accounting for the impairment of assets.
Section 28	Employee benefits	Applies to all employee benefits, except for share-based payment transactions.
Section 29	Income tax	Covers accounting for income tax.
Section 30	Foreign currency translation	Prescribes how to include foreign currency transactions and foreign operations in the financial statements of an entity.
Section 31	Hyperinflation	Applies to an entity whose functional currency is the currency of a hyperinflationary economy.
Section 32	Events after the end of the reporting period	Defines events after the end of the reporting period and sets out principles for recognizing, measuring, and disclosing those events.
Section 33	Related party disclosures	Requires an entity to include in its financial statements the disclosures about its financial position and profit or loss that have been affected by the existence of related parties and by transactions and outstanding balances with such parties.
Section 34	Specialized activities	Provides guidance on financial reporting by SMEs involved in three types of specialized activities.
Section 35	Transition to the IFRS for SMEs	Applies to a first-time adopter of the IFRS for SMEs.

Source: IASB (2009).

3.7. Adoption of the IFRS for SMEs across the world

Many countries all over the world have applied or planned to apply the IFRS for SMEs. In September 2010 and in January 2011, there were 66 and 73 jurisdictions, respectively, that have either adopted the IFRS for SMEs or stated a plan for this transition (Vasek, 2011).

In this section, the adoption process of the standard set in the EU, in developing countries, in the US, and in Turkey will be explained briefly.

3.7.1. Adoption of the IFRS for SMEs in the EU

One of the most important aims of the EU is to maintain financial reporting comparability among its members. The Fourth and Seventh EU Directives in the 1980s were the milestones for the development of a unique European accounting framework (Wittsiepe, 2008). Subsequently, the EU declared that the IFRS would be effective from 2005. In 2010, the EC suggested the use of the IFRS for SMEs and decided to seek the opinion of the EU financial statement users on this issue (Bohusova *et al.* 2012). Different jurisdictions held different opinions about the adoption of the IFRS for SMEs.

Austria, Belgium, Italy, Finland, France, and Germany are the major opponents of this standard set for several reasons. According to these countries, the IFRS for SMEs is very complex for micro-sized entities (Bohusova & Blaskova, 2012). In spite of some resistance, the majority of countries have supported the EC on the adoption of this new standard in the EU (Bohusova *et al.* 2012).

The most significant supporters of the IFRS for SMEs in the EU were the United Kingdom (UK) and Ireland (Bohusova *et al.* 2012). The Institute of Certified Public Accountants of Ireland (CPAI) and the UK Accounting Standards Board (ASB) supported the IASB in the development process of the IFRS for SMEs (Epstein & Jermakowicz, 2007).

In August 2009, the UK's ASB issued a consultation paper that showed the road map for responding to the financial reporting needs of small entities (Christie *et al.* 2010).

This road map indicated that the UK would replace its national GAAP with three-tier reporting, as shown below in Table 3.2 (PwC, 2009). According to this reporting system, the IFRS for SMEs will be applied by non-publicly accountable entities in the UK.

Table 3.2 Three-tier reporting in the UK

Accounting regime	**Nature of the entities**
Full IFRS	Publicly accountable entities
IFRS for SMEs	Non-publicly accountable entities
Financial Reporting Standards for Smaller Entities (FRSSE)	Small companies (annual revenue under 6.5 million pounds and fewer than 50 employees)

Source: PwC (2009).

Ireland follows the UK's financial reporting system. Thus, the three-tier reporting system is also supported by Ireland. The current proposal, which was issued by the ASB as an ED, suggests that a variant of the IFRS for SMEs will be used by medium-sized entities and the current UK/Irish GAAP will be used by small entities, as shown below in Table 3.3 (PwC, 2011).

Table 3.3 Three-tier reporting in Ireland

Accounting regime	**Nature of the entities**
Full IFRS	Publicly accountable entities
Financial Reporting Standards for Medium Sized Entities (FRSME)	Medium-sized entities
Financial Reporting Standards for Smaller Entities (FRSSE)	Small entities

Source: PwC (2011).

Other countries in the EU have not adopted the IFRS for SMEs or have not conducted any study about it because the EU has not yet declared any adoption plan for this standard.

3.7.2. Adoption of the IFRS for SMEs in the US

The standard-setting process in the US is perceived to obtain accounting standards rather than financial reporting standards because of the rules-based debate on accounting applications in this jurisdiction (Bennett *et al.* 2006). A move from principle-based accounting to rule-based accounting will require some changes in the mindset of the financial statement preparers (Gannon, 2008).

Global accounting convergence is recommended by the Sarbanes–Oxley Act of 2002 as a means of raising the quality of financial reporting and restoring investor confidence in publicly listed entities (Jermakowicz & Gornik-Tomaszewski, 2006). Much of the first decade of the IASB's activities has been directed towards convergence with the US GAAP (Walton, 2011). In 2000, the US SEC issued a Concepts Release to take the comments of professionals on the acceptance of the IAS in US filings (Casabona & Shoaf, 2002).

Subsequenly, the IASB arranged a meeting with the Financial Accounting Standards Board (FASB) and in September 2002 it signed the "Norwalk Agreement" with the FASB. The agreement involves the IASB and the FASB working on joint projects and the removal of some differences if it is feasible (Walton, 2011). This process is referred to as convergence and aims to increase the comparability of financial statements all over the world and to reduce the differences between the IFRS and the US GAAP (Weygandt *et al.* 2010). In November 2007, the SEC allowed foreign entities to adapt their financial statements to the IFRS as published by the IASB rather than to reconcile them to the US GAAP (Gannon, 2008). In 2008, the SEC issued a road map for the adoption of the IFRS in the US in place of the US GAAP and it proposed a decision to be made in 2011 (Walton, 2011). There are some milestones that need to be resolved before mandatory adoption of the IFRS in the US (Ankarath *et al.* 2010):

i. Improvements in accounting standards, in accordance with a memorandum of understanding established between the IASB and the FASB;
ii. Funding and accountability of the IASC foundation;

iii. Improvement in the ability to use interactive data for the IFRS reporting; and
iv. Education and training on the IFRS in the US.

According to this road map to convergence, the US SEC will evaluate those milestones and will decide whether to mandate the use of the IFRS for US issuers or not.

As discussed before, the full set of IFRS was created only for listed entities, so the IFRS for SMEs was issued for the use of small and unlisted entities. With the issuance of the IFRS for SMEs, the standard for private entities that do not have public accountability, the global reach of the IASB has been enhanced (Ankarath *et al.* 2010).

In the meantime, the FASB and the AICPA also published a proposal, "Enhancing the financial accounting and reporting standard-setting process for private companies" in 2006 (Christie *et al.* 2010). This showed that the FASB and the AICPA have recognized the need for a separate financial reporting standard set to be used by private entities that are for-profit entities of any size whose shares are not publicly traded (Christie *et al.* 2010). On February 24, 2010, the SEC indicated that there should be a single set of high-quality standards and supported the IASB's IFRS for SMEs project (Christie *et al.* 2010). The SEC will decide whether or not to incorporate the IFRS and the IFRS for SMEs. If the SEC decides to comply with those standards, reporting under the IFRS could start as early as 2015 or 2016 (PwC, 2011).

3.7.3. Adoption of the IFRS for SMEs in developing countries

As capital becomes a global "commodity," the ability to compete for this "commodity" requires countries, especially emerging economies, to strengthen their institutions and apply the reporting standards that govern their accounting and disclosure practices (Baker & Wallage, 2000). Therefore, emerging economies are trying to signal an image of improved financial reporting quality to their audience by applying the IFRS and by donning its brand name (Peng & Bewley, 2010). Emerging countries do not have enough resources and expertise to develop a standard such as the IFRS for SMEs. Therefore, while the developed countries that have their own accounting bodies involved in the standard-setting process have generally ignored the IFRS, developing countries have accepted and applied it (Chamisa, 2000). On the other hand, most of the emerging countries do not have their own accounting system (Neag *et al.* 2009), so the IFRS for SMEs gives them a chance to acquire a more developed accounting system.

Based on the IASB (2012) data, some of the emerging countries that have applied and/or proposed a plan to adopt the IFRS for SMEs in the next three years are: Argentina, Belize, Brazil, Bahamas, Barbados, Cambodia, Costa Rica, Dominican Republic, Egypt, El Salvador, Ethiopia, Chile, Guatemala, Guyana, Ghana, Honduras, Hong Kong, Jamaica, Lebanon, Malaysia, Mauritius, Namibia, Nepal, Nigeria, Nicaragua, Panama, Peru, the Philippines, Republic of Fiji Islands, South Africa, South Korea, Sierra Leone, Tanzania, Uganda, Venezuela, Zambia, Zimbabwe, and Singapore.

As seen from the list, most of the developing countries have adopted or will adopt the IFRS for SMEs in the near future (Bohusova & Blaskova, 2012). For example, South Africa was the first country to adopt the IFRS for SMEs in its ED (Stainbank, 2008). Figure 3.1 shows the countries that have adopted or planned to adopt the IFRS for SMEs across the world.

Figure 3.1 Countries that have adopted or proposed a plan to adopt the IFRS for SMEs

Source: IASB (2012).

3.8. Adoption of the IFRS for SMEs in Turkey

Turkey is one of the most important emerging countries in the world. As an emerging country, Turkey also needs high-quality financial information to access international financing resources (Alp & Ustundag, 2009). For this reason, many changes have taken place in the financial reporting practices of companies in Turkey in recent years. Firstly, the full set of IFRS was published for the use of publicly listed entities. The changes were related not only to listed entities, but also to unlisted and small ones. A while later, the IFRS for SMEs was translated into Turkish and published for the use of SMEs. The IFRS for SMEs proposes many changes to the financial reporting practices of SMEs. The adoption of the IFRS for SMEs is vitally important because SMEs have a significant role in the economic development of Turkey, especially on the employment level (Poroy Arsoy & Sipahi, 2007).

In this section, firstly a brief history of accounting, the accounting profession, and the financial reporting standards in Turkey will be presented. Then, the financial reporting standard-setting authorities in Turkey and the New Turkish Commercial Code will be explained.

3.8.1. A brief history of accounting in Turkey

Turkey's accounting applications have been affected by the countries with which it has intensive economic and political relations (Alp & Ustundag, 2009). In the first decades of the Republic, between 1920 and 1950, the Turkish economy was conservative and the state regulated all the economic activities (Alp & Ustundag, 2009). During those years of the Turkish Republic, there were very few private entities and limited private capital. Therefore, the Government took responsibility and set up heavy industry and several manufacturing entities called state economic enterprises (SEE), such as Sümerbank in the textile industry, Etibank in the mining industry, and Türkiye İş Bank in the banking sector (UNCTAD, 2008; Yarbaşı, 2008). The first SEE, Sümerbank, was founded in 1933 and its accounting system was developed by German experts. Thus, in the early years of the Turkish Republic, there was a significant effect of France and Germany on

Turkish accounting applications (Ağca & Aktaş, 2007). Subsequently, as the relations with the US increased, the accounting implications of Turkey were affected by this country's regulations (Ağca & Aktaş, 2007). The decade between 1950 and 1960 marked the first attempts to achieve a more liberal economy (UNCTAD, 2008). The Turkish Commercial Code was enacted in 1956, numbered 6762, for the liberalization activities of the economy (Yarbaşı, 2008). A uniform chart of accounts was published and put into use in 1972. This was followed by a set of accounting principles and a uniform chart of accounts for the use of private sector published in 1994 (Yarbaşı, 2008). In recent years, the harmonization of the financial reporting practices of entities has been the target of the regulatory bodies and necessary revisions have been made for this purpose.

3.8.2. The history of the accounting profession in Turkey

The accounting profession in Turkey was legitimized with the Law numbered 3568, called "The law of independent accountancy, certified public accountancy and sworn-in certified public accountancy" (Koc Yalkın *et al.* 2006). This Law was published in the *Official Gazette,* dated 13 June 1989, numbered 20194. The objectives of this Law were presented in the first article as follows (Koc Yalkın *et al.* 2006):

> … to ensure the healthy and reliable functioning of operations and transactions in enterprises to audit and evaluate the results of the operations within the framework of the relevant legislation, to present actual facts to the use of the concerned people and authorities, to regulate the fundamentals concerning the establishment, organization, operations, activities, and elections of the principle bodies of the Certified General Accountancy.

The profession was defined in the law as consisting of three major levels: independent accountant (IA), certified public accountant (CPA), and sworn-in certified public sccountant (sworn-in CPA) (Yarbaşı, 2008).

3.8.3. A brief history of the financial reporting standards in Turkey

To compete for global capital, Turkish regulators have recognized the importance of accounting standards that are accepted by jurisdictions all over the world (Akyüz *et al.* 2008). In fact, the harmonization activities in Turkey started in the mid-1970s with its membership of the IFAC (Pekdemir & Turel, 2007). In 1981, the IFAC and the IASC agreed about the IASC's full and complete authority in the development and publishing of the international reporting standards. All the members of the IFAC, including Turkey, became members of the IASC after the agreement between them (Pekdemir & Turel, 2007). Hence, the Expert Accountants' Association of Turkey (TMUD) and the Union of Chambers of Certified Public Accountants of Turkey (TÜRMOB) have become two important members of the IASB as Turkish professional bodies (Koc Yalkın *et al.* 2006). There were two effective bodies in Turkey to develop financial reporting standards: the Turkish Capital Market Board (SPK) and the Turkish Accounting Standards Board (TMSK).

The SPK developed the first financial accounting standards for publicly owned companies in 1989, following the establishment of the Istanbul Stock Exchange (ISE) in 1986 (UNCTAD, 2008). If the number of shareholders of a company exceeds 250, the company will be classified as publicly owned and will be regulated by the standards published by the SPK (UNCTAD, 2008).

In November 2003, the SPK issued the *Communiqué XI/25* to adapt the financial reporting standards fully to the IAS and the IFRS that will be applied by the listed companies on the ISE (Poroy & Sipahi, 2007). Financial reporting standards that are compatible with international applications have been published by the Banking Regulation and Supervision Agency (BDDK) for the application of banks and by the SPK for the application of listed entities (Alp & Ustundag, 2009).

Financial reporting has been seen a tool for calculating tax rather than for evaluating the financial position of entities by regulators until this time (Akyüz *et al.* 2008). With the improvement of those standards, the rules and regulations related to financial reporting have changed significantly. The communiqué that was issued by the SPK was the one of the most important steps towards harmonizing the financial reporting practices with international regulations (Poroy & Sipahi, 2007).

When the EU declared that the IFRS would be effective from 2005, the standard-setting authorities in Turkey also promulgated this set for the use of banks and listed entities (Koc Yalkın *et al.* 2006). For this purpose, the TMSK made an agreement with the IASB to translate and publish the IAS/IFRS and the related interpretations officially (UNCTAD, 2008). As of mid-2007, the TMSK has published 31 Turkish Accounting Standards (TMS) and 7 Turkish Financial Reporting Standards (TFRS) (Koc Yalkın *et al.* 2006).

A while later, the need for a separate standard for SMEs was also recognized in Turkey. For this purpose, the TMSK formed a Working Commission for SMEs to develop financial reporting standards for them to apply (Alp & Ustundag, 2009). This Working Commission was established by representatives from the TMSK, Ministry of Finance Revenue Administration, Capital Markets Board, Undersecretariat of Treasury, Banking Regulation and Supervision Board, TOBB, KOSGEB, Ankara University Faculty of Political Sciences, Independent Auditing Association, and Istanbul Chamber of Certified Public Accountants (ISMMMO) (Alp & Ustundag, 2009).

As a result of those studies, the IFRS for SMEs was issued in the *Official Gazette*, dated 1 November 2010, numbered 27746 and included in the scope of Turkey's New Commercial Code. With the publication of the New Commercial Code, the IFRS for SMEs has become mandatory for entities that do not have public accountability. Therefore, SMEs must present their financial statements in accordance with the IFRS for SMEs starting from January 1, 2013 in Turkey. However, the necessary communiqué has not been published for the application of the IFRS for SMEs, so the date of the application of the IFRS for SMEs has been postponed.

3.8.4. Financial reporting standards authorities in Turkey

Turkish regulatory bodies have given great importance to the IAS/IFRS to maintain transparent and comparable financial reporting and consider the EU integration process (Koc Yalkın *et al.* 2006). Thus, various institutions have focused on this issue and have performed a few studies to develop national accounting standards compatible with the international accounting standards (Koc Yalkın *et al.* 2006).

As a starting point, these institutions published their own accounting standards because, before the establishment of the TMSK, every institution, like the SPK, had the authority to do this. After the foundation of the TMSK, the versatile regulations in this area were removed and attempts to provide financial reporting practices' harmonization were accelerated (Alp & Ustundag, 2009). In this part, some of those institutions that had the authority to issue accounting standards in Turkey will be explained.

The SPK was established in 1982 to regulate capital markets and to protect the rights and benefits of the investors. As the international activities of entities and the size of the foreign capital increase, the need for a universally accepted financial reporting standards set has arisen. The SPK has published 34 standards for the use of the listed entities to meet the financial reporting needs of the related parties (Yarbaşı, 2008).

The BDDK was established in 2000 to regulate the banking sector and to protect the rights and interests of depositors (BDDK, 2005). This institution published 19 standards for the use of banks to create financial statements in concordance with internationally accepted standards in 2000 (Gökçen *et al.* 2011).

The Turkish Accounting and Auditing Standards Board (TMUDESK) was established in 1994 and continued its activities until the TMSK was founded (Koc Yalkın *et al.* 2006). It was constituted by the TÜRMOB to create financial reporting standards that maintain the presentation of reliable, comparable, transparent, and understandable financial information (Gökçen *et al.* 2011). This board was also responsible for issuing auditing standards. It has published 19 accounting standards (Gökçen *et al.* 2011).

The TMSK was founded to publish and improve the financial reporting standards in Turkey based on the Supplementary Article of the Capital Market Law dated December 15, 1999 and numbered 2499, as amended by Law 4487 (Akyüz *et al.* 2008; Alp & Ustundag, 2009). The first meeting of the board was held in 2002 and the TMSK has continued its activities since this date (Demirel & Gürsoy, 2011).

In 2011, the TMSK was replaced by a new institution called the Public Oversight, Accounting and Auditing Standards Authority (KGK). Now, the KGK is the unique authority with the Delegated Legislation dated September 26, 2011 and numbered 660, as amended by Law 6223.

3.8.5. New Turkish Commercial Code

The first Commercial Code of Turkey was translated from the French Commercial Code in 1850. As the relations with Germany became enhanced, following the establishment of the Turkish Republic in 1923, a second Commercial Code was promulgated in 1926, which was based on German commerce and company laws (UNCTAD, 2008). This law showed the German influence on Turkish legislation (Yarbaşı, 2008). Turkish Commercial Code 6762 was enacted in 1956 (Yarbaşı, 2008) and has been revised several times since then (Poroy Arsoy & Sipahi, 2007).

Issuing financial reporting standards was not enough to ensure their enforcement. The financial reporting standards should be legitimized for the application of entities. For this purpose, a new commercial code that will introduce the new financial reporting standards as mandatory has been discussed in several commissions since the beginning of 2007 (UNCTAD, 2008).

As a result of those discussions, the New Turkish Commercial Code has been effective starting from July 1, 2012, dated 13 January 2011, numbered 6102. According to this legislation, all entities, covering listed and unlisted ones, have to use the TMS and the TFRS (translation of the IAS and IFRS) in their financial reports.

Furthermore, independent auditing of the joint stock entities has been legitimized with the publication of the article 80 of the Law numbered 6455 on the *Official Gazette*, dated 11 April 2013, numbered 28615. According to the article of 397 of the New Turkish Commercial Code, all joint stock companies have been obligated for independent auditing. On the other hand, the limited entities are exempted from this obligation. According to this new regulation, financial statements and annual activity reports of the entities which have not performed audit shall be considered as not issued.

The publication of this regulation will affect the adoption process of the financial reporting standards in Turkey because the independent auditing of the entities will change their financial reporting structure. This is the first time all joint stock companies are subject to independent auditing in Turkey.

CHAPTER 4

THEORETICAL BACKGROUND AND HYPOTHESIS DEVELOPMENT

Entities' sustainable economic growth and profitability are affected by the efficient decisions of managers and investors, who use financial statements in their decision making (Nuhoğlu, 2008). Financial statements must be understandable and comparable to facilitate more efficient decisions and sustainable growth. Understandable and comparable financial statements can be prepared using the internationally accepted accounting standards that sustain mutual comprehension (Nuhoğlu, 2008; Gökçen *et al.* 2011). The need for internationally accepted accounting standards has attracted the attention of various parties, such as regulators, standard-setting authorities, accountants, auditors, and academicians. International harmonization of financial reporting practices to create internationally accepted standards has been the target of those parties for many years (Baker & Barbu, 2007). As a result, the international financial reporting standards movement has gained momentum, especially in recent years (Baker & Barbu, 2007; Hodgdon *et al.* 2009). In the end, two accounting standard sets have been published: the full set of IFRS and the IFRS for SMEs.

The full set of IFRS was published to meet the needs of the capital markets, and consequently addresses complex transactions, provides detailed guidance, includes a range of fair value and present value measurements, and requires thousands of disclosures (Mackenzie *et al.* 2011). After the needs of the capital markets' financial statement users had been satisfied with the full set of IFRS, all companies have been required to follow the convergence process, including SMEs all over the world (Fontes *et al.* 2005). SMEs are unwilling to use the full set of IFRS, because it is complex and non-applicable to them (Yarbaşı, 2008; Mackenzie *et al.* 2011). In fact, the financial reporting needs of SMEs are different from those of publicly accountable entities. The financial statement users of small entities are more interested in information about short-term cash flows, liquidity, and solvency (Mackenzie *et al.* 2011). Therefore, the need for another standard that is applicable to SMEs has arisen. The IFRS for SMEs was published to satisfy this need.

According to the IASB, 95% of entities will use the IFRS for SMEs and every jurisdiction will decide which entities will use this standard set (Daly, 2009). Now, the application of the IFRS for SMEs is on the agenda of many countries, including developed and developing ones, across the world.

The Turkish regulatory bodies are also following the latest developments related to the harmonization of entities' financial reporting practices to maintain compliance with the internationally accepted standards. In fact, the Turkish authorities are giving great importance to this standard, especially during Turkey's candidate process for the EU (Ataman, 2004). Turkey was recognized as a candidate for the EU in 1999 and compliance with the IFRS plays an important role in this process (Ataman, 2004).

Firstly, the full set of IFRS has been legitimized only for the use of publicly accountable entities (Gökçen *et al.* 2011). The IAS/IFRS have been translated into Turkish as the TMS/TFRS and published for this purpose (Ataman & Altuk Özden, 2009). Then, the IFRS for SMEs was published as a simplified set of financial reporting standards in accordance with the IASB's draft (Yarbaşı, 2008). The use of the IFRS for SMEs has been legitimized within the New Turkish Commercial Code in 2012. As a result, SMEs have entered the harmonization process. According to this regulation, entities will prepare their financial statements in accordance with the IFRS for SMEs starting from 2013. However, the necessary communiqué had not been published by the expected date of July 2012 by the Standard Authority. This regulation has been postponed because of this delay. However, the application of the IFRS for SMEs is still on the agenda of the Standard Authority, so entities should adopt this set properly by the application date. The preparedness of SMEs and CPAs plays a very significant role in this adoption process.

This study has measured the preparedness level of SMEs and CPAs to evaluate Turkey's adoption process of the IFRS for SMEs. The ideas of SME representatives and CPAs about the IFRS should be investigated to enable an effective adoption process for this standard set in Turkey. For this purpose, the views of SME representatives and CPAs were ascertained about several topics related to the IFRS for SMEs.

The characteristics of entities, such as size, internationality, auditing, etc., that may affect their preparedness level have been also determined within the scope of this research. Entities' level of preparedness has been measured by several indicators, such as the training of personnel and management, coordinating meeting, reforms in their current financial reporting systems, etc.

The contribution of this study to the existing literature is of great importance, since no prior Turkish research has dealt with this subject to this extent, according to the knowledge of the researcher.

SMEs are one of the most important actors that will affect the effectiveness of the adoption process of the IFRS for SMEs. The measurement of their level of preparedness will give a general idea about what has been undertaken and should be undertaken to achieve a more effective adoption process in Turkey. The findings of this study will show which characteristics of entities may affect their level of preparedness. This study will also investigate the perception and the preparedness of CPAs. The views of CPAs about the IFRS for SMEs, its advantages, and its disadvantages have a very significant role in the adoption process of this set. Furthermore, the number of studies that focus on how the financial statement users perceive the advantages, disadvantages, and other related problems of the IFRS/IFRS for SMEs is small. This study aims to measure the perception of the financial statement preparers, including SMEs and CPAs, regarding the advantages, disadvantages, and challenges of the IFRS for SMEs.

The results of the study propose many implications for the parties related to the IFRS for SMEs. Financial reporting standards authorities and regulatory bodies will benefit from the results of this study. Entities' motivations to use the IFRS for SMEs will be presented as a result of this research. The findings of this research will also present several implications for financial reporting issues of SMEs to similar developing countries.

The application and effective adoption of the IFRS for SMEs require commitment and reinforcement from accountants, regulatory bodies, academicians, auditors, and the international standard-setting authorities. The problems and obstacles in the adoption process will be overcome by the collaboration of those parties.

Firstly, the theoretical and empirical backgrounds of this study will be explained. Then, hypotheses will be developed based on the literature review. Lastly, the research model of the study will be presented.

4.1. Theoretical and empirical background

The harmonization of countries' financial reporting practices has received the attention of the academic and professional accounting literature in recent years. Firstly, the harmonization of the financial reporting practices of listed entities was the target of the financial reporting regulatory bodies. Subsequently, the need for a separate standard for SMEs arose, to achieve greater comparability between the financial statements of entities worldwide.

Because the IFRS is an earlier project of the IASB, most of the academic studies deal with this set rather than the IFRS for SMEs. So, the studies that examined the harmonization of financial reporting standards did so without discriminating the IFRS and the IFRS for SMEs. Numerous studies in the prior literature have investigated the financial reporting harmonization phenomenon.

Many earlier studies have analyzed the usefulness of the IFRS/IFRS for SMEs in developing countries (Chamisa, 2000; Abd-Elsalam & Weetman, 2003; Mir & Rahaman, 2005; Maingot & Zeghal, 2006; Prather-Kinsey, 2006; Zeghal & Mhedhbi, 2006; Bohusova & Nerudova, 2007; Tyrrall *et al.* 2007; Neag *et al.* 2009; Albu *et al.* 2010; Ballas *et al.* 2010; Maseko & Manyani, 2011; Bohusova & Blaskova, 2012;

Madawaki, 2012). A stream of studies has analyzed entities' compliance with or preparedness for the standards (Joshi & Ramadhan, 2002; Abd-Elsalam & Weetman, 2003; Ataman & Akay, 2004; Callao *et al.* 2007; Al-Shammari *et al.* 2008; Goodwin *et al.* 2008; Guerreiro *et al.* 2008; Atik, 2010; Kırlıoğlu & Şenol, 2011). Others have researched the effect of the IFRS/IFRS for SMEs on the comparability and relevance of financial reporting (Street *et al.* 1999; Taylor & Jones, 1999; Murphy, 2000; Schultz & Lopez, 2001; Ali, 2005; Dao & Hong, 2005; Fontes *et al.* 2005; Callao *et al.* 2007; Goodwin *et al.* 2008; Peng *et al.* 2008; Taylor, 2009; Cai & Wong, 2010; Chand *et al.* 2010; Hellmann *et al.* 2010; Qu & Zhang, 2010; Jones & Finley, 2011). Another stream of studies has dealt with the factors that affect entities' voluntary and mandatory adoption of the IFRS/IFRS for SMEs (Dumontier & Raffournier, 1998; El-Gazzar *et al.* 1999; Murphy, 1999; Tower *et al.* 1999; Abd-Elsalam & Weetman, 2003; Al-Shammari *et al.* 2008; Aledo *et al.* 2009; Djatej *et al.* 2009; Hodgdon *et al.* 2009; Pilcher & Dean, 2009). Furthermore, other studies have investigated the perception, views, thoughts, or preparedness of CPAs, auditors, accountants, etc. regarding the IFRS/IFRS for SMEs (Barniv & Fetyko, 1997; Glaum & Mandler, 1997; Joshi & Ramadhan, 2002; Larson & Street, 2004; Jermakowicz & Gornik-Tomaszewski, 2006; Jones & Higgins, 2006; McEnroe & Sullivan, 2006; Poroy Arsoy & Sipahi, 2007; Fearnley & Hines, 2007; Jeanjean & Stolowy, 2008; Nobes & Zeff, 2008; Sian & Roberts, 2009; Müllerova *et al.* 2010a; Navarro-Garcia & Bastida, 2010; Rezaee *et al.* 2010; Siam & Rahahleh, 2010; Cole *et al.* 2011; Cuzdriorean *et al.* 2011; Bunea *et al.* 2012).

Some of the studies that have aimed to research the relationship between firm characteristics and preparedness for or compliance with the IFRS/IFRS for SMEs are summarized in the following section.

Glaum and Mandler (1997) determined the differences between the answers of German managers and professors regarding accounting harmonization. They employed multiple regression analysis to determine the differences between the answers of the managers and those of the professors and to test several hypotheses. According to the findings of the study, managers are more positive towards national accounting standards than professors. Furthermore, managers who think that national accounting standards restrict the flow of German shares are more disposed to accept the Anglo-American accounting concept. Firm size and degree of internationalization also have a positive correlation with managers' attitudes.

Dumontier and Raffournier (1998) analyzed why firms comply with IAS voluntarily. They determined the firm characteristics that may affect entities' voluntary adoption behavior. They employed multivariate and univariate analyses to investigate the effect of firm characteristics on the voluntary adoption behavior of companies. According to the findings of the study, size, internationality, listing status, auditor type, and ownership diffusion have a significant association with voluntary compliance with IAS.

El-Gazzar *et al.* (1999) determined several factors (i.e. internationality, listing on foreign stock exchanges, capital structure, and geographical and trade membership) that may affect entities' voluntary adoption of the IAS. They employed multivariate analysis to investigate this association. The results of the study indicated that foreign operations, financing policy, membership of geographical and trade blocks in the EU, and multiple listings on foreign stock exchanges have a significant effect on enterprises' compliance with IAS.

Murphy (1999) examined the common characteristics of entities that have voluntarily adopted the IAS. The results of the study presented a profile of entities that have perceived several advantages of IAS and have adopted them. The firm characteristics examined were foreign sales activity, foreign stock exchange listings, leverage, market value, size, and audit firm. According to the findings of the study, only the foreign sales activity affects the enterprises' voluntary adoption behavior. Hence, companies that have higher levels of foreign activity find it beneficial to adopt the IAS.

Tower *et al.* (1999) analyzed the compliance of listed entities from six different countries: Australia, Hong Kong, Malaysia, the Philippines, Singapore, and Thailand. They also investigated the effect of firm characteristics on entities' compliance with IAS, such as firm size, country of origin, leverage, profit, etc. They employed questionnaire and content analysis for this purpose. According to the findings of the study, only the country of origin has a significant impact on entities' compliance with IAS.

Joshi and Ramadhan (2002) examined the degree of adoption of IAS by small and closely held Bahraini entities. They conducted the research by applying a questionnaire, which aimed to investigate entities' current financial reporting characteristics and adoption level of the IAS. This study also researched the relevance and appropriateness of the IAS to those small and closely held entities in terms of cost–benefit criteria. The results of this study showed that the respondents did not find it costly to apply the IAS in small and closely held entities. According to them, enterprises' ability to achieve financial resources and effective financial reporting will increase by adopting the IAS.

Ataman and Akay (2004) investigated the effectiveness of the adoption process of IFRS in the ICI (Istanbul Chamber of Industry) 500 companies by employing a questionnaire.

Jermakowicz and Gornik-Tomaszewski (2006) analyzed the implementation of the IFRS by EU publicly listed entities. This study aimed to determine the perception of the benefits and challenges of implementing the IFRS by EU companies. A questionnaire was sent to entities to investigate their perception of the IFRS. Most of the respondents indicated that they have adopted the IFRS not only for consolidation purposes; the adoption of the IFRS is costly, complex, and burdensome; the cost of capital will not decrease by applying the IFRS; the financial results will be more volatile; and the complex nature of the IFRS and the lack of implementation guidance will be the key challenges during the implementation process.

Maingot and Zeghal (2006) examined whether small business entities (SBEs) in Canada should use a separate or common standard set with big businesses. For this purpose, they employed a questionnaire. The research sample of this study included managers and owners of small businesses, preparers, auditors, and financial statement users of small entities. The findings showed that financial statements are generally prepared for tax purposes in SBEs. According to the findings, the current accounting standards are time-consuming, complex, and costly for SBEs and should be simplified for the use of those entities.

Poroy Arsoy and Sipahi (2007) performed an analysis of the strengths, weaknesses, opportunities, and threats (SWOT) of the adoption process of the IFRS for SMEs in Turkey. They employed a questionnaire for this purpose and asked the respondents to evaluate the strengths, weaknesses, opportunities, and threats of this set. The findings of the research showed that SMEs perceive that the financial information will be high-quality, transparent, and comparable as a result of applying the IFRS. On the other hand, the complexity of the standards, lack of training, and corporate structure of the SMEs seem to be obstacles to the adoption process.

Guerreiro *et al.* (2008) analyzed the possible effect of the firm characteristics on entities' level of preparedness for the IFRS. According to the findings of the study, some characteristics, including firm size, internationality, auditing firm size, and profitability, have a significant relationship with the preparedness of entities for the IFRS.

Aledo *et al.* (2009) analyzed the relationship between the firm-specific factors (i.e. firm size, capital structure, industry, auditor's opinion) and the selection of accounting options provided by the IFRS. For this purpose, they examined entities' annual reports. They determined that factors including size, leverage, industry, and the auditor's opinion influence entities' choice of accounting policy. The findings of the study were heterogeneous. The researchers indicated that the findings were heterogeneous across firms because entities' financial reporting practices are shaped by companies' policies.

Eierle and Haller (2009) explored the suitability of the IFRS for SMEs for entities of different sizes. They also determined the effect of size on entities' international exposure, the relevance of specific accounting issues, and preparers' perceptions of the costs and benefits of the application of selected methods. The findings of the study indicated that size affects entities' business activities and structure. The IFRS knowledge of entities and their cross-border activities are also affected by their size. On the other hand, there is no significant relationship between size and assessment of accounting methods. This shows that the IFRS is suitable for all types of entities, regardless of their size.

Atik (2010) investigated the perception of the owners, managers, or accountants of SMEs about the IFRS for SMEs. This study also aimed to analyze Turkish SMEs' current accounting structure, their satisfaction with the current accounting regulations, and their eagerness to use the IFRS for SMEs. The findings indicated that SMEs generally carry out financial reporting for tax purposes; SMEs want to apply the new standard; the application of the standard should be elective rather than mandatory; and international enterprises support the new standard more than others.

Iatridis and Rouvolis (2010) analyzed the effects of the transition from the Greek GAAP to the IFRS on enterprises' financial results and investigated the financial characteristics of entities that have adopted the IFRS voluntarily, including firm size, profitability, liquidity, leverage, etc. They also examined the effect of the IFRS adoption on publicly listed entities' financial performance. The findings showed that size, debt, and equity financing needs have a significant relationship with the voluntary adoption behavior of entities. Moreover, this research showed that accounting measures are more relevant after adopting the IFRS.

Müllerova *et al.* (2010a) investigated the adoption process of financial reporting standards in SMEs in the Czech Republic. This study showed that SMEs undertake financial reporting for tax purposes. The respondents perceived that the costs of applying the IFRS will exceed its benefits. Enterprises that have adopted the IFRS indicated that there are problems while reporting leasing, provisions, and exchange rate differences.

Navarro-Garcia and Bastida (2010) investigated the consequences of IFRS adoption in Spain by employing a questionnaire. The sample of their study included Spanish listed entities. The findings showed that the respondents perceive the IFRS as a high-quality regulation, significantly different from the existing implications, and troublesome. According to the respondents, the costs of applying of the IFRS will exceed its benefits in some cases.

Siam and Rahahleh (2010) performed a questionnaire to determine the views of accountants about the IFRS for SMEs. The sample of their study included the accountants of entities that are classified as SMEs according to the measurements of Jordan at the beginning of 2008. The results of the study showed that the accountants of SMEs in Jordan support the application of the IFRS in those entities. The accountants perceived that the efficiency and fairness of financial statements will increase as a result of the use of the IFRS. According to the respondents, there are some obstacles that will limit the compliance with the IFRS for SMEs, such as improper accounting systems and a lack of qualified personnel.

Cole *et al.* (2011) performed a survey to reach many respondents, such as financial analysts, auditors, shareholders, investors, etc., to understand their perception of the comparability of European IFRS financial statements. They also conducted interviews with three Belgian IFRS specialists to obtain their ideas about this issue. The findings of the study showed that only 41% of the respondents believe that European IFRS financial statements are comparable. According to the respondents, there are several areas that are problematic for the comparability of financial statements, such as differences in interpretations, disclosures, and subjectivity.

Kırlıoğlu and Şenol (2011) analyzed the awareness of Turkish SMEs about the IFRS and Basel II. They employed a questionnaire to measure the knowledge level and awareness of the respondents about the IFRS and Basel II applications. The findings of the study showed that the awareness of SMEs about this adoption process is quite low.

Siam and Al-Daass (2011) investigated the applicability of the financial reporting standards to Jordanian SMEs. They measured the applicability of the standards and determined their pros and cons. For this purpose, they employed a questionnaire with a sample of auditors who are listed in the Jordanian Society of Chartered Accountants.

According to the findings of this study, financial reporting standards are applicable to Jordanian SMEs, and auditors are willing to apply those standards.

Table 4.1 presents a summary of the studies that have investigated the association between the preparedness, perception, and adoption of entities with several firm characteristics, such as size, leverage, profitability, auditor size, internationality, capitalization, etc.

Table 4.1 Studies about entities' preparedness for and compliance with the IFRS/IFRS for SMEs

Author	Sample	Data source	Time	Analysis type/independent variables
Glaum and Mandler (1997)	German corporate managers and professors	C&L industry study	1992–1993	Multivariate test • Internationality* • Expected capital need • Listing on New York Stock Exchange* • Firm size* • Managerial discretion • Practical experience • Opinion of relevance • Opinion of international demand for German shares*
Dumontier and Raffournier (1998)	133 listed Swiss companies	Annual reports	1994	Univariate and multivariate tests • Listing status • Internationality* • Size* • Ownership structure* • Leverage • Capital intensity • Profitability • Auditors' type*
El-Gazzar *et al.* (1999)	87 listed companies	Worldscope	1999–1998–1997	Non-parametric test Multivariate test • Internationality* • Leverage* • Membership of the EU*
Murphy (1999)	44 Swiss companies	Worldscope November 1995 database and Moody's International Manuals	1995	Multivariate test • Foreign reporting activity* • Debt ratio • Capitalization • Size • Auditing firm

* The variables that have a significant impact on compliance with the IFRS/IFRS for SMEs.

Table 4.1 Studies about entities' preparedness for and compliance with the IFRS/IFRS for SMEs (continued)

Author	Sample	Data source	Time	Analysis type/independent variables
Tower *et al.* (1999)	60 listed entities from 6 countries	Questionnaire–annual report	1997	Content analysis Multivariate test • Firm size • Leverage • Profit • Industry • Country of reporting* • Number of days an enterprise takes to issue the annual report
Joshi and Ramadhan (2002)	36 Bahraini SMEs	Questionnaire	1999	Frequency analysis
Ataman and Akay (2004)	ICI 500 companies	Questionnaire	2001	Frequency analysis
Jermakowicz and Gornik-Tomaszewski (2006)	112 listed entities in Europe	Questionnaire	2004	Frequency analysis
Maingot and Zeghal (2006)	162 small business entities in Canada	Questionnaire	2005	Frequency analysis Univariate test • Designation, occupation, experience
Guerreiro *et al.* (2008)	31 Portuguese companies listed on the Euronext Lisbon Stock Exchange	Questionnaire	2003	Non-parametric test Multivariate test • Size* • Commercial internationalization • Auditor type* • Profitability* • Leverage
Aledo *et al.* (2009)	88 Spanish listed companies	Annual reports	2009	Multivariate test • Firm size* • Leverage* • Industry* • Profitability • Auditor's opinion*

* The variables that have a significant impact on compliance with the IFRS/IFRS for SMEs.

Table 4.1 Studies about entities' preparedness for and compliance with the IFRS/IFRS for SMEs (continued)

Author	Sample	Data source	Time	Analysis type/independent variables
Eierle and Haller (2009)	410 SMEs in Germany	Questionnaire	2009	Non-parametric test Frequency analysis
Atik (2010)	216 Turkish SMEs	Questionnaire	2010	Non-parametric test • Firm size • Having an accounting department • Commercial internationalization* • Legal status
Iatridis and Rouvolis (2010)	254 listed entities on the Athens Stock Exchange	Annual reports	2004–2005–2006	Multivariate test • Firm size* • Dividend • Growth • Profitability* • Liquidity • Equity financing needs* • Leverage*
Müllerova *et al.* (2010a)	132 SMEs in the Czech Republic	Questionnaire	2010	Frequency analysis
Müllerova *et al.* (2010b)	83 SMEs in the Czech Republic	Questionnaire	2010	Frequency analysis
Navarro-Garcia and Bastida (2010)	63 Spanish listed companies	Questionnaire	2004	Frequency analysis
Siam and Rahahleh (2010)	238 Jordan SMEs	Questionnaire	2008	Non-parametric test Frequency analysis
Cole *et al*. (2011)	426 financial statement users	Questionnaire	2009–2010	Non-parametric test Frequency analysis
Kırlıoğlu and Şenol (2011)	380 Turkish SMEs	Questionnaire	2011	Non-parametric test Frequency analysis
Siam and Al-Daass (2011)	132 auditors	Questionnaire	2010	Non-parametric test Frequency analysis

* The variables that have a significant impact on compliance with the IFRS/IFRS for SMEs.

4.2. Hypotheses of the research

This section develops hypotheses regarding organizations' preparedness for the IFRS for SMEs.

4.2.1. Firm size

Size is one of the most frequently used explanatory factors to explain the financial reporting behavior of entities (Sian & Roberts, 2009). Many prior studies have investigated how size affects the IFRS/IFRS for SMEs adoption process, preparedness, or compliance (Jones & Higgins, 2006; Al-Shammari *et al.* 2008; Goodwin *et al.* 2008; Çürük, 2009; Sian & Roberts, 2009).

The majority of prior studies have provided evidence of an association between entities' compliance with or preparedness for internationally accepted financial reporting standards and firm size. According to Glaum and Mandler (1997), the accountants of large entities have more positive attitudes towards the harmonization of financial reporting practices globally. There are several reasons behind this relationship.

Firstly, large entities are more sensitive to political costs. There is a significant positive relationship between firm size and political costs (Watts & Zimmerman, 1990). Large entities are more willing to apply the IFRS to overcome those political costs. Thus, the financial reporting practices of larger firms generate greater economic consequences for them (Jones & Higgins, 2006). Furthermore, the public interest of an entity is determined by its economic significance (Eierle & Haller, 2009). Large entities have a higher level of social responsibility, so they should be more transparent and strict in their financial reporting practices than micro-sized ones (Eierle & Haller, 2009).

Secondly, the adoption of the IFRS/IFRS for SMEs will be more costly for small-sized entities. Researchers explain this issue with reference to several aspects. According to Eierle and Haller (2009), small entities generally do not have enough accounting personnel, so they should obtain consulting services for higher fees. Singhvi and Desai (1971) determined that the compliance with international standards will be less costly for large entities because most of those entities produce the information necessary for the internal decision-making process. Besides, as the size of an entity increases, the disclosure level of this entity also increases because of the cost of additional disclosure (Dumontier & Raffournier, 1998; Tyrrall *et al.* 2007). Micro-sized entities generally do not have the financial capacity to overcome the cost of additional disclosure.

Furthermore, size is an important factor that determines entities' ability to adopt the international reporting sets because larger entities have more resources to spend on the preparation for and compliance with them (Murphy, 1999; Jones & Higgins, 2006; Al-Shammari *et al.* 2008; Eierle & Haller, 2009).

As a result, most of the studies have proposed that IFRS adoption will be more advantageous and less costly for larger entities than for small ones (Jones & Higgins, 2006; Al-Shammari *et al.* 2008).

Although there are a few studies that could not find a significant relationship between the size and the preparedness or adoption level of entities for the IFRS/IFRS for SMEs (Murphy, 1999; Jermakowicz & Gornik-Tomaszewski, 2006), many studies have found a positive relationship between the size and the preparedness or adoption level of entities for the IFRS/IFRS for SMEs (Dumontier & Raffournier, 1998; Abd-Elsalam & Weetman, 2003; Jones & Higgins, 2006; Al-Shammari *et al.* 2008; Goodwin *et al.* 2008; Guerreiro *et al.* 2008; Aledo *et al.* 2009; Hodgdon *et al.* 2009; Iatridis & Rouvolis, 2010). Thus, the following hypothesis is developed.

Hypothesis 1. There is a significant positive effect of the firm size on the preparedness of SMEs for the IFRS for SMEs.

Prior studies have used the total sales (Uyar, 2009; Cheung *et al.* 2010; Uyar, 2011) or the number of employees (Choi, 1999; Akhtaruddin *et al.* 2009) as a measurement of firm size. In this study, the number of employees was used to determine the size of an entity.

4.2.2. Internationality

As the internationalization of entities increases, the need for and importance of the harmonization of their financial reporting practices also increases (Atik, 2010). Multinational companies are trying to cope with international differentiations of financial reporting on a cost–benefit basis (El-Gazzar, 1999). So, there are two groups of entities that may benefit from applying international reporting standards more than others (Murphy, 1999: 122):

i. Entities in countries where there are no national reporting standards; and
ii. Multinational entities that seek to prepare a common set of financial statements.

Firms that obtain a significant part of their revenues from international markets tend to develop international policies in several areas, including investing, marketing, financing, and disclosure (El-Gazzar *et al.* 1999). Therefore, entities that undertake international activities may find the adoption of IFRS advantageous to make their financial statements more reliable internationally (Murphy, 1999; Guerreiro *et al.* 2008). International entities will face additional regulatory obstacles related to disclosure requirements, and thus will have more incentive to present timely and complete disclosures (Hodgdon *et al.* 2009). Another reason that makes the adoption of international reporting standards beneficial for those entities is their wider range of decision makers (Murphy, 1999).

According to Hodgdon *et al.* (2009), entities with international operations will face different and challenging financial reporting regulations of the countries in which they operate, so those firms may have a greater incentive to adopt international financial reporting standards and to make more and complete disclosures about their activities. Furthermore, entities that try to obtain financing from international banks and other international financial institutions will find it beneficial to comply with international reporting standards (Dumontier & Raffournier, 1998).

Barniv and Fetyko (1997) determined that the harmonization of financial reporting standards has been supported, especially by the largest multinational entities. As the size of the international activities of entities increases, their willingness to comply with an international standard set also increases.

El-Gazzar *et al.* (1999) found that firms are more motivated to adopt IAS voluntarily in order to enhance their foreign activities. They found a significant positive relationship between the adherence to the IAS and the percentage of foreign sales. According to them, compliance with internationally accepted standards reduces the risk of international users of financial statements and resource providers and helps the firm to obtain international resources at reasonable costs.

Some studies could not find any significant relationship between the level of international activities of entities and their preparedness for or adoption of the international reporting standards (Hodgdon *et al.* 2009). On the other hand, many studies have found a significant positive relationship between the internationality of entities and their preparedness for and adoption level of the IFRS/IFRS for SMEs (Dumontier & Raffournier, 1998; Murphy, 1999; Al-Shammari *et al.* 2008; Guerreiro *et al.* 2008; Atik, 2010). Hence, the following hypothesis is developed:

Hypothesis 2. There is a significant positive relationship between the internationality of SMEs and their preparedness for the IFRS for SMEs.

Most studies have employed the percentage of the foreign sales to the total sales as a measurement of internationality (Barniv & Fetyko, 1997; Dumontier & Raffournier, 1998; El-Gazzar *et al.* 1999; Murphy, 1999). In this study, the entities were categorized according to their international activities. The entities that carry out foreign sales were categorized as international companies, so they are coded as one, and zero otherwise.

4.2.3. Independent auditing

The prior literature has shown that independent auditing or the auditing firm size affects entities' financial reporting practices (Dumontier & Raffournier, 1998; Aledo *et al.*

2009; Hodgdon *et al.* 2009). Many studies have investigated the effect of auditing on the compliance with and preparedness for the IFRS/IFRS for SMEs (Dumontier & Raffournier, 1998; Murphy, 1999; Abd-Elsalam & Weetman, 2003; Goodwin *et al.* 2008; Aledo *et al.* 2009; Hodgdon *et al.* 2009). Most of the prior studies indicated that the IFRS compliance and adoption level of entities that are audited by large and international auditing firms are higher compared with others (Abd-Elsalam & Weetman, 2003; Goodwin *et al.* 2008; Hodgdon *et al.* 2009). Auditing and effective enforcement mechanisms are very important in maintaining compliance with the IFRS (Hodgdon *et al.* 2009). According to Aledo *et al.* (2009), the auditing firm size affects entities' financial reporting practices. Hodgdon *et al.* (2009) stated that the auditing firm size positively affects entities' IFRS compliance. Abd-Elsalam and Weetman (2003) also determined the significant positive effect of the auditing firm size on companies' compliance with the IFRS. According to Goodwin *et al.* (2008), entities that are audited by Big 4 auditing firms are more prepared for the international reporting standards. On the other hand, Murphy (1999) could not find any significant relationship between auditing and entities' adoption of or preparedness for the IFRS. Thus, the following hypothesis is developed:

Hypothesis 3. There is a significant positive effect of independent auditing on the preparedness of SMEs for the IFRS for SMEs.

Independent auditing is mandatory only for publicly listed entities in Turkey. The independent auditing of all capital stock companies has been legitimized within the New Turkish Commercial Code. Because auditing is not mandatory for SMEs in Turkey, entities can obtain auditing services voluntarily. Voluntary auditing of the financial statements of entities has been determined as a measurement of the financial reporting quality in this research. Thus, entities that use an auditing service voluntarily are coded as one, and zero otherwise.

4.2.4. Age of the company

The age of a company, i.e. its stage of development and growth, can affect its financial reporting practices in several ways (Owusu-Ansah, 1998). According to Al-Shammari *et al.* (2008), older companies have more established financial reporting systems; therefore, compliance with international reporting standard sets will be less costly for them. Owusu-Ansah (1998) also stated that the cost of collecting, processing, and presenting data will be more burdensome for younger companies than for older ones. Hence, the age of a company can affect its compliance with or preparedness for the IFRS/IFRS for SMEs.

In the prior literature, Al-Shammari *et al.* (2008) examined the effect of age on entities' compliance with or preparedness for the IFRS and found a significant positive effect of the age of the company on its compliance with international reporting standards. Hence, the following hypothesis is developed:

Hypothesis 4. There is a significant positive effect of the age of SMEs on their preparedness for the IFRS for SMEs.

The age of an SME has been measured as the number of years since its foundation in compliance with the prior literature (Choi, 1999; Al-Shammari *et al.* 2008; Hossain, 2008; Abd-Rahman *et al.* 2011).

4.2.5. Existence of an accounting department

Entities' technical capability and institutional structure affect their financial reporting practices. Entities that have technical capability and an established financial reporting system will also have greater capacity to adopt new accounting applications.

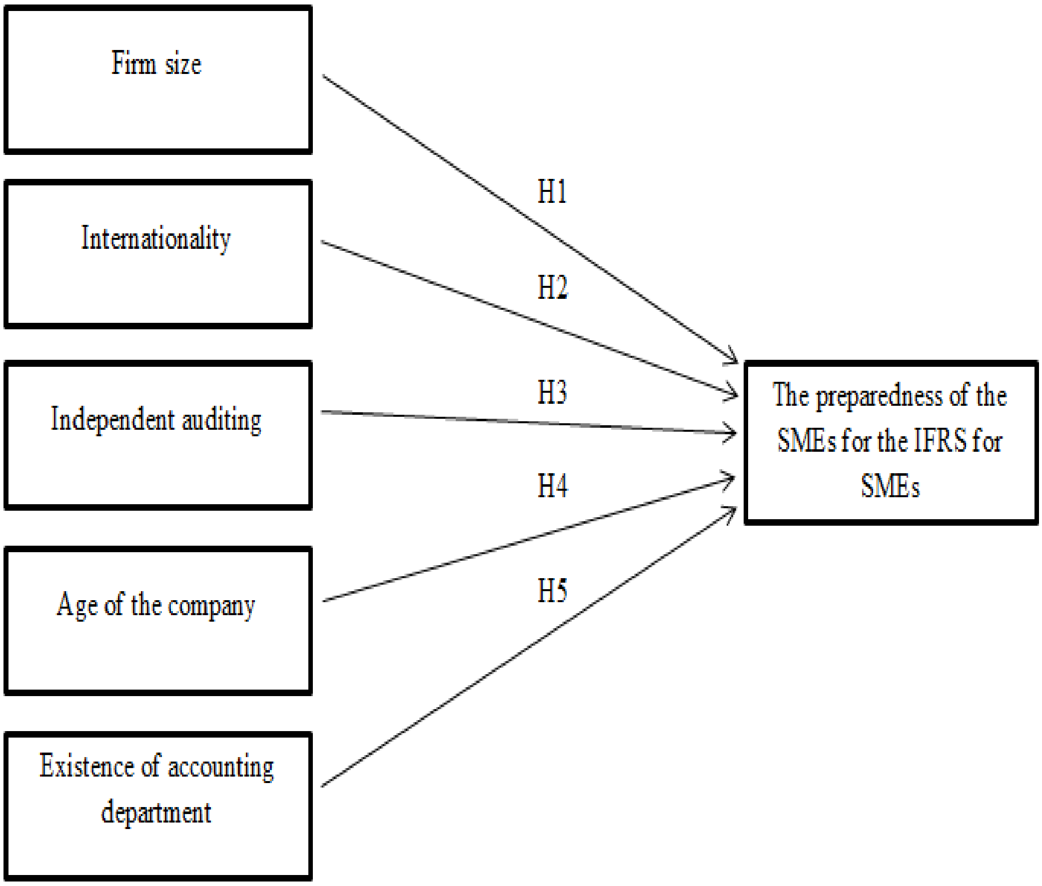
Many departments within entities can impose the adoption process of new financial reporting practices, such as the information technology department, human resources department, and external auditors (Jones & Higgins, 2006). The existence of those departments is a measurement of an established financial reporting system.

According to Al-Shammari *et al.* (2008), the compliance with IFRS will be less costly for those entities that have a more established financial reporting system. Hence, the entities that have an accounting department and thus an established financial reporting system will be more willing to apply the IFRS/IFRS for SMEs. Thus, the following hypothesis is developed:

Hypothesis 5. There is a significant positive affect of the existence of an accounting department on the preparedness of SMEs for the IFRS for SMEs.

Entities were categorized into two groups based on the existence of an accounting department. Those that have an accounting department are coded as one, and zero otherwise.

Figure 4.1 Research model



The research model is specified based on the discussions above and is presented in Figure 4.1. The independent variables of the model are firm size; internationality; independent auditing; age of the company; and existence of accounting department. The depent variable of the model is the preparedness of the SMEs for the IFRS for SMEs.

CHAPTER 5

A SURVEY OF THE IFRS FOR SMEs

In this chapter, an analysis of the questionnaire will be carried out. Firstly, the descriptive statistics of the respondents, SMEs, and CPAs will be presented. Then, an analysis of the preparedness of SMEs and CPAs for the IFRS for SMEs will be performed. Furthermore, the perception of SMEs and CPAs of the costs, benefits, relevance, advantages, and disadvantages of the IFRS for SMEs will be analyzed.

Data were collected through the questionnaire survey. The sample of the study was determined by selecting the respondents randomly from entities that have SME qualifications according to the criteria of the Turkish Republic. The final sample of the study consisted of 198 SMEs and 210 CPAs. The questionnaire was conducted during the months of April, May, and June 2012.

The perception of the respondents was measured on a five-point Likert scale from 1 to 5 (i.e. 5=strongly agree; 4=agree; 3=neutral; 2=disagree; 1=strongly disagree). The questions of the survey were determined by taking into consideration the previous literature.

The preparedness of SMEs and CPAs for adopting the IFRS for SMEs was measured with several questions. The entities were categorized into two groups according to their preparedness. The prepared entities were indicated as one and the unprepared entities as zero. The effect of several characteristics on the preparedness of SMEs was measured with parametric and non-parametric tests.

Several studies have employed parametric tests to detect the relationship between firms' characteristics and their preparedness for and adoption of the IFRS/IFRS for SMEs, such as ordinary least square (OLS), ordinal, and logistic regression.

Many prior studies have used OLS regression to analyze the relationship between firms' characteristics and their compliance with international financial reporting practices, such as standard sets (Abd-Elsalam & Weetman, 2003; Al-Shammari *et al.*

2008; Hodgdon *et al.* 2009). Guerreiro *et al.* (2008) used ordinal regression to determine the effect of firm characteristics on the preparedness level of listed entities for the IFRS.

Logistic regression is also one of the most popular methods used to measure the effect of several factors on the preparedness for, adoption of, and adherence to the IFRS/IFRS for SMEs. The logistic regression model is useful when the dependent variable is categorical data and dichotomous (Iatridis & Rouvolis, 2010). Many prior studies have employed this method (Dumontier & Raffournier, 1998; El-Gazzar *et al.* 1999; Zeghal & Mhedhbi, 2006; Goodwin *et al.* 2008; Aledo *et al.* 2009, Iatridis & Rouvolis, 2010; Kim *et al.* 2011). Because the dependent variable is dichotomous in the research model of this study, logistic regression was employed. The dependent variable is the preparedness of SMEs for the IFRS for SMEs. The dichotomous variable takes the value one if an entity has made preparations for the IFRS, and zero otherwise.

5.1. Descriptive statistics

The analysis of the demographics of the SMEs and the CPAs will be presented in this section.

5.1.1. Demographics of the respondents

Several characteristics of the respondents and firms are analyzed in this section. The answers of the respondents may be affected by various characteristics, such as experience, education level, and position. Therefore, the characteristics of the respondents were analyzed and are presented below.

Most of the respondents have experience of between 6 and 15 years in the accounting field (55.1%). The percentage of the respondents who have experience of between 0 and 5 years and more than 15 years are nearly the same, respectively 22.7% and 22.2%.

The education level of the respondents was also analyzed. Nearly half of the respondents have a bachelor’s degree (49.0%). Only two respondents have an elementary or secondary school degree (1.0%) and only six respondents have a master’s degree (3.0%). Sixty-one respondents have a high school degree (30.8%) and thirty-two respondents graduated from vocational school (16.2%). As a conclusion, nearly all of the respondents have at least a high school degree (99.0%).

The position of the respondents was also investigated. Most of the respondents are accountants who work in entities' accounting departments (51.5%). Sixty-nine respondents are accounting or finance managers (34.9%), eighteen respondents are owners (9.0%), and nine respondents are partners (4.5%).

As a result, the respondents of this survey are experienced in the field of accounting, have a considerable education level, and have a position related to accounting. The background and experience of the respondents increase the reliability of the answers given by them about entities' financial reporting practices. Those findings show that they have the necessary competence to answer the survey questions.

The information level of the respondents about the IFRS for SMEs was investigated. This is also an indicator of their preparedness. Most of the respondents indicated that they do not know the IFRS for SMEs (32.3%) or have less information about this standard (37.4%). Only one of the respondents stated that his information level about this set is very good. This finding shows that the majority of the respondents have not carried out enough preparations for this standard or have not had the necessary training yet.

Detailed information about the descriptive statistics of the respondents is presented in Table 5.1.

Table 5.1 Demographics of the respondents

Characteristic		No.	%
1. Experience	0–5 years	45	22.7
	6–15 years	109	55.1
	More than 15 years	44	22.2
	Total	198	100
2. Education level	Elementary or secondary school	2	1.0
	High school	61	30.8
	Vocational school (two-year)	32	16.2
	Bachelor's degree	97	49.0
	Master's degree	6	3.0
	Total	198	100
3. Position	Owner	18	9.1
	Partner	9	4.5
	Accounting or finance manager	69	34.9
	Accountant	102	51.5
	Total	198	100
4. What is your information level about the IFRS for SMEs?			
	Zero	64	32.3
	Less	74	37.4
	Moderate	45	22.7
	Good	14	7.1
	Very good	1	0.5
	Total	198	100

No. : frequency

5.1.2. Descriptive statistics of the entities

The results of the descriptive statistics (i.e. operating year, status, number of employees, and industry) of the surveyed entities are presented in Table 5.2.

Most of the entities have operated for more than fifteen years (44.4%). Only twenty-five of them have operated for less than five years (12.6%).

A total of 63.1% of the entities are limited companies, 20.7% of them are corporations, and 15.7% of them are sole proprietorships. Only one of the entities is a non-limited company (0.5%).

The number of employees is a measurement of the size of the entities. SMEs are entities that employ fewer than 250 employees. Several studies have used the number of employees as a measurement of firm size (Choi, 1999; Akhtaruddin *et al.* 2009). The research sample of this study includes entities that have fewer than 10 employees (23.7%), between 10 and 49 employees (51.0%), and between 50 and 250 employees (25.3%).

The entities were categorized according to the industry in which they operate. The majority of the entities are engaged in manufacturing activities (59.6%), 28.3% of them are merchandising companies, and 12.1% of them are service companies. The majority of the entities are not audited by an independent auditing entity (76.3%). Some questions in this survey aimed to understand the accounting activities of the entities. For this purpose, the respondents were asked if they use consultancy services and have an accounting department. Most of the entities indicated that they use consultancy services (79.3%) and most of them have an accounting department (82.8%). The import and export activities of the entities were investigated to measure their internationality: 52.5% of the entities have import activities and 57.6% of them have export activities.

The size of the foreign sales of the entities showed that they carry out export activities but not in large amounts. Of the entities that undertake export activities, 72.7% make less than 10.0% of their total sales abroad.

The financial statements that are prepared by the entities were analyzed to investigate their financial reporting practices. The question related to this topic included the financial statements that are mandatory within the scope of IFRS for SMEs. The respondents were asked whether they prepare those financial statements or not. According to the survey results, the income statement and balance sheet are financial statements most frequently prepared by the entities, 97.5% and 96.5%, respectively, and 31.8% prepare a cash flow statement. The least prepared financial statements are the statement of retained earnings (15.7%) and the statement of changes in equity (16.2%). According to the prior studies, the most frequently prepared financial statements are the balance sheet, income statement, and cash flow statement (Joshi & Ramadhan, 2002; Atik, 2010), so the results of this research are compatible with those of prior studies. Furthermore, the findings of this study show that the majority of entities prepare the main financial statements regardless of their size.

The respondents were also asked why they prepare those financial statements. The majority of the respondents indicated that they prepare financial statements to present them to the tax authority (88.4%). The entities, especially the unlisted ones, generally prepare financial statements and present financial information for tax purposes. The prior studies also support this finding (Maingot & Zeghal, 2006; Poroy Arsoy & Sipahi, 2007; Köse, 2009; Atik, 2010; Müllerova *et al.* 2010a; Şensoy & Perek, 2010; Maseko & Manyani, 2011). Accounting has been accepted as a tool for calculating taxable income in Turkey (Poroy Arsoy & Sipahi, 2007). In 2004, the IASB invited entities to comment on the first issues regarding SMEs. The views of the entities indicated that one of the most important external users of financial statements is the tax authority (Cuzdriorean *et al.* 2011). Therefore, not only in Turkey but also in many countries the accounting systems are tax-oriented (Larson & Street, 2004).

Other common purposes of financial statement preparation are controlling costs (75.8%), budgeting (68.7%), the evaluation of the financial position (64.1%), pricing (57.1%), and investment decisions (55.6%). The results of this study and those of prior research reveal that entities also use financial information for managerial decisions, such as budgeting, investment, and controlling of costs (Maingot & Zeghal, 2006; Köse, 2009). In conclusion, entities prepare financial statements mostly for tax purposes and rarely for pricing and investment decisions.

The awareness of SMEs about the IFRS for SMEs was measured. Most of the respondents are aware that the IFRS for SMEs will be mandatory starting from 2013 (61.6%). However, a considerable amount of entities are still not aware of the adoption process of the IFRS for SMEs (38.4%). For an effective adoption process of IFRS for SMEs, the awareness of the related parties, such as entities, professionals, academicians, and all of the stakeholders, should be maintained. Effective coordination and communication of those parties will ease the transition process to the standards.

Most of the respondents indicated that they would not prefer to apply the IFRS for SMEs if it was elective rather than mandatory (63.6%). The financial statement preparers' unwillingness regarding the IFRS for SMEs adoption may cause reluctance to change. Only 36.4% of the respondents stated that they would apply the IFRS for SMEs if it was not mandatory. This finding contradicts Atik (2010). According to her study, 88.19% of entities would prefer to apply the IFRS for SMEs if it was elective rather than mandatory.

The expectations of the respondents about the adoption process of the IFRS for SMEs were investigated within the scope of this research. Most of the respondents stated that the adoption process of the IFRS for SMEs will be completed in 1–2 years (36.9%) or 3–4 years (39.9%) in Turkey. Only 5.5% of the respondents were very pessimistic about the adoption process of the IFRS for SMEs and indicated that this process will never be completed.

The views of the respondents about the adoption process for the IFRS for SMEs in their entities were also sought. The results show that the respondents are more optimistic about the adoption process of this new standard for their entities. Of the respondents, 56.6% indicated that the IFRS for SMEs adoption process will be completed in 1-2 years in their entity and a considerable amount of them stated that the adoption process for the IFRS for SMEs will be completed immediately (28.8%).

Table 5.2 Descriptive statistics of the entities

Characteristic		No.	%
1. Operating year	0–5 years	25	12.6
	6–15 years	85	43.0
	More than 15 years	88	44.4
	Total	198	100
2. Status	Limited company	125	63.1
	Corporation	41	20.7
	Sole proprietorship	31	15.7
	Non-limited company	1	0.5
	Total	198	100
3. Number of employees	Fewer than 10	47	23.7
	10–49	101	51.0
	50–250	50	25.3
	Total	198	100
4. Industry	Manufacturing	118	59.6
	Merchandising	56	28.3
	Service	24	12.1
	Total	198	100
5. Independent auditing	Yes	47	23.7
	No	151	76.3
	Total	198	100
6. Consultancy services	Yes	157	79.3
	No	41	20.7
	Total	198	100
7. Existence of an accounting department			
	Yes	164	82.8
	No	34	17.2
	Total	198	100
8. Import activities	Yes	104	52.5
	No	94	47.5
	Total	198	100
9. Export activities	Yes	114	57.6
	No	84	42.4
	Total	198	100
10. Rate of exports	0–10%	144	72.7
	11–25%	20	10.1
	26–35%	11	5.6
	36–50%	5	2.5
	More than 50%	18	9.1
	Total	198	100

No.: frequency

Table 5.2 Descriptive statistics of the entities (continued)

Characteristic		No.	%
11. Prepared financial statements			
	Balance sheet	191	96.5
	Income statement	193	97.5
	Cash flow statement	63	31.8
	Statement of retained earnings	31	15.7
	Statement of changes in equity	32	16.2
12. Purposes of preparing financial statements			
	Pricing	113	57.1
	Budgeting	136	68.7
	Determination of strategy	104	52.5
	New product decision	105	53.0
	Performance evaluation	105	53.0
	Investment decision	110	55.6
	Evaluation of financial position	127	64.1
	Tax purposes	175	88.4
	Controlling of costs	150	75.8
13. Awareness about the IFRS for SMEs			
	Yes	122	61.6
	No	76	38.4
	Total	198	100
14. If the IFRS for SMEs was elective rather than mandatory, would you intend to apply this standard?			
	Yes	72	36.4
	No	126	63.6
	Total	198	100
15. Expected adoption process in Turkey			
	Immediately	2	1.0
	1–2 years	73	36.9
	3–4 years	79	39.9
	5–6 years	33	16.7
	Never	11	5.5
	Total	198	100
16. Expected adoption process in the SME			
	Immediately	57	28.8
	1–2 years	112	56.6
	3–4 years	18	9.1
	5–6 years	3	1.5
	Never	8	4.0
	Total	198	100

No.: frequency

5.1.3. Descriptive statistics of the CPAs

The descriptive statistics of the CPAs were analyzed. Several characteristics of the respondents were presented because those characteristics may affect their perception about the IFRS for SMEs. The analysis results about the characteristics of the respondents are presented in Table 5.3.

Most of the respondents have experience of between 6 and 15 years in the field of accounting (40.0%); 20.0% of them have experience of between 0 and 5 years; 16.2% of them have experience of between 16 and 20 years; and 23.8% have experience of more than 20 years. The majority of the respondents have a bachelor's degree (75.7%). Only 6.7% of them have graduated from high school and 5.2% of them have graduated from vocational school. A considerable amount of the respondents have a master's degree (12.4%). A total of 74.8% of the respondents are CPAs; 21.0% of them are public accountants, 3.3% of them are sworn-in CPAs, and only 1.0% of them are interns. Most of the CPAs are aware of the IFRS for SMEs and know that this standard will be mandatory for SMEs starting from the beginning of 2013 (95.7%). The majority of CPAs indicated that their information level about the IFRS for SMEs is moderate (50.0%).

The views of the CPAs were also ascertained about the adoption process of the IFRS for SMEs in Turkey. The results showed that the CPAs are optimistic about the adoption process of the IFRS for SMEs in Turkey. Most of the respondents stated that the compliance with this standard will be completed in one to two years (40.0%) or in three to four years (33.8%), and 4.3% of the CPAs expect that the compliance with this standard will be completed immediately. Only 3.3% of the respondents stated that the process for the IFRS for SMEs adoption will never be completed.

The results of the demographic statistics of the CPAs show that most of them are experienced, have at least a bachelor's degree, and are aware of the adoption process of the IFRS for SMEs. All these findings show that experienced and competent people in the field of accounting participated in the survey.

The size of the CPA firms was investigated based on their number of clients. The majority of the CPA firms are medium-sized and have between 10 and 50 clients (57.1%); 8.1% of them have fewer than 10 clients, 28.6% of them have between 51 and 100 clients, and only 6.2% of them have more than 100 clients.

Table 5.3 Demographic statistics of the CPAs

Characteristic		No.	%
1. Experience	0–5 years	42	20.0
	6–15 years	84	40.0
	16–20 years	34	16.2
	More than 20 years	50	23.8
	Total	210	100
2. Education level	High school	14	6.7
	Vocational school (two-year)	11	5.2
	Bachelor's degree	159	75.7
	Master's degree	26	12.4
	Total	210	100
3. Position	Public accountant	44	21.0
	Certified public accountant	157	74.7
	Sworn-in CPA	7	3.3
	Intern	2	1.0
	Total	210	100
4. Awareness about the IFRS for SMEs			
	Yes	201	95.7
	No	9	4.3
	Total	210	100
5. What is your information level about the IFRS for SMEs?			
	None	7	3.3
	A little	61	29.1
	Moderate	105	50.0
	Good	34	16.2
	Very good	3	1.4
	Total	210	100
6. Expected adoption process in Turkey			
	Immediately	9	4.3
	1–2 years	84	40.0
	3–4 years	71	33.8
	5–6 years	39	18.6
	Never	7	3.3
	Total	210	100
7. Number of clients			
	Fewer than 10	17	8.1
	10–50	120	57.1
	51–100	60	28.6
	More than 100	13	6.2
	Total	210	100

No.: frequency

Furthermore, the impact of firm characteristics on entities' preparedness for the IFRS for SMEs was investigated simply (Table 5.4). First of all, the effect of size on the preparedness of the entities was investigated. The entities that employ fewer than 10 people, between 10 and 49 people, and 50 to 250 people were categorized as micro, small, and medium, respectively. A total of forty-nine entities have made preparations for the IFRS for SMEs. According to the results, most of the entities that have made preparations for this standard employ more than nine people. Only three of the entities that are categorized as micro have made preparations for this standard. Seventeen of the entities that indicated that they have made preparations for this standard are audited independently. The industry variable was categorized as manufacturing, merchandising, and service. According to the findings, thirty-two of the entities that have made preparations for the IFRS for SMEs are manufacturing entities, fourteen of them are merchandising entities, and three of them are service entities. The entities were categorized according to whether they use consultancy services or not. Forty-three of the entities that have made preparations for the IFRS for SMEs do use consultancy services. The existence of an accounting department may reveal the organization of accounting activities of an entity. According to the results of this study, forty-four of the entities that have made preparations for the IFRS for SMEs have an accounting department. According to the findings of this research, thirty-three of the entities that have made preparations for the IFRS for SMEs undertake exporting and importing activities. As the internationality of the entities increases, their preparations for this set also increase. As a result, the findings of a cross-tabulation analysis show that most of the entities that have made preparations for the IFRS for SMEs have more than ten employees, are audited independently, use consultancy services, have an accounting department, and undertake importing or exporting activities.

Table 5.4 Descriptive statistics and the preparedness of the SMEs

	Have you made any preparations for the adoption of the IFRS for SMEs in your company?		
	Yes	**No**	**Total**
1. Number of employees			
Less than 10	3	44	47
10–49	28	73	101
50–250	18	32	50
Total	49	149	198
2. Independent auditing			
Yes	17	30	47
No	32	119	151
Total	49	149	198
3. Industry			
Manufacturing	32	86	118
Merchandising	14	42	56
Service	3	21	24
Total	49	149	198
4. Consultancy services			
Yes	43	114	157
No	6	35	41
Total	49	149	198
5. Existence of an accounting department			
Yes	44	120	164
No	5	29	34
Total	49	149	198
6. Import activities			
Yes	33	71	104
No	16	78	94
Total	49	149	198
7. Export activities			
Yes	33	81	114
No	16	68	84
Total	49	149	198

Moreover, the impact of characteristics on the preparedness of CPAs for the IFRS for SMEs was investigated simply (Table 5.5). In total, fifty-nine of the CPAs who have made preparations for the IFRS for SMEs have experience of between 6 and 15 years in the field of accounting. Only twenty-two of the CPAs who have prepared for this set have experience of less than 5 years. A large percentage of the CPAs who have made preparations for the IFRS for SMEs have at least a bachelor's degree. The number of clients is a measurement of the size of a CPA firm. It is expected that as the size of a CPA firm increases, the level of preparedness of its personnel for new applications will increase. Most of the CPAs who have made preparations for the IFRS for SMEs are personnel of a CPA firm that has more than ten clients. The findings of the cross-tabulation analysis show that the CPAs who have made preparations for the IFRS for SMEs have more than five years' experience in the field of accounting and have at least a bachelor's degree.

Table 5.5 CPA characteristics and the preparedness for the IFRS for SMEs

	Have you made any preparations for the IFRS for SMEs?		
	Yes	**No**	**Total**
1. Experience			
0–5 years	22	20	42
6–15 years	59	25	84
16–20 years	26	8	34
More than 20 years	37	13	50
Total	144	66	210
2. Education level			
High school	9	5	14
Vocational school (two-year)	9	2	11
Bachelor's degree	109	50	159
Master's degree	17	9	26
Total	144	66	210
3. Number of clients			
Fewer than 10	12	5	17
10–50	87	33	120
51–100	36	24	60
More than 100	9	4	13
Total	144	66	210

5.2. Preparedness

The preparedness of the entities and the CPAs for the IFRS for SMEs is analyzed in this section.

5.2.1. Preparedness of the entities for the IFRS for SMEs

The preparedness level of the entities for the IFRS for SMEs was investigated. The questions that were set to measure the preparedness of the SMEs are based on the prior literature (Guerreiro *et al.* 2008; Ballas *et al.* 2010). Guerreiro *et al.* (2008) measured the preparedness of entities with several factors, such as the training of personnel and changes in the entities' financial reporting systems. As a result of the prior literature, a total of five questions were formulated to measure the preparedness of the entities: one general question and four specific questions. The general question aimed to investigate whether the entities have made any preparations for the IFRS for SMEs. The other specific research questions consisted of the following:

i. Have your accounting personnel taken training for the IFRS for SMEs?
ii. Has your management taken training about the IFRS for SMEs?
iii. Have you adopted your current accounting program for the IFRS for SMEs?
iv. Have you arranged meetings within the company to inform your accounting personnel?

Table 5.6 shows the research results related to the entities' level of preparedness for the IFRS for SMEs. Only 24.7% of the entities have made preparations for the IFRS for SMEs; 75.3% of the entities have not made any preparations for the IFRS for SMEs. Forty-five of the entities that have made preparations for the IFRS for SMEs have attended IFRS training (22.7%). The management of five of the entities has taken IFRS training (2.5%). The transition process of a new financial reporting system includes not only training, but also several alterations to the information systems, such as computer support and software applications (Ballas *et al.* 2010). Only one of the entities has adapted its current accounting program to the IFRS for SMEs (0.5%). Seven of the entities have arranged meetings within the company to inform their accounting personnel (3.5%).

It seems that the majority of the entities are not sufficiently prepared for this new application, which will be effective starting from the beginning of 2013 in Turkey. The entities that have made preparations have only taken training. A large percentage of the entities have not held any meetings related to the IFRS for SMEs or searched for a new accounting program.

Table 5.6 Preparedness of the entities for the IFRS for SMEs

	Yes		No	
Item	**No.**	**%**	**No.**	**%**
Preparedness: Have you made any preparations for the adoption of the IFRS for SMEs in your company?	49	24.7	149	75.3
P1. Our accounting personnel have taken the IFRS for SMEs training.	45	22.7	153	77.3
P2. Our management has taken the IFRS for SMEs training.	5	2.5	193	97.5
P3. We have adopted our current accounting program for the IFRS for SMEs.	1	0.5	197	99.5
P4. We have arranged meetings within the company to inform our accounting personnel.	7	3.5	191	96.5

No.: frequency

5.2.1.1. Univariate analysis: the impact of firm characteristics on the preparedness of the entities

Non-parametric tests were employed to assess the effect of several firm characteristics on the SMEs' level of preparedness for the IFRS. Many studies have used non-parametric tests to determine the relationship between several characteristics and entities' preparedness for or adoption of the IFRS in the prior literature (Barniv & Fetyko, 1997; El-Gazzar *et al.* 1999; Guerreiro *et al.* 2008; Eierle & Haller, 2009; Atik, 2010; Siam & Rahahleh, 2010; Cole *et al.* 2011; Siam & Al-Daass, 2011).

The sample of this study was categorized into two groups according to their characteristics, such as firm size, independent auditing, internationality, status, industry, etc. The differences between those groups were analyzed by performing two-sample t-tests and non-parametric tests (Kruskal–Wallis chi square). The results of those analyses were the same, so only the findings of the Kruskal–Wallis chi square test are presented in Table 5.7.

Prior studies have shown that as the size of entities increases, their preparedness level for new applications also increases (Dumontier & Raffournier, 1998; Abd-Elsalam & Weetman, 2003; Jones & Higgins, 2006; Al-Shammari *et al.* 2008; Goodwin *et al.* 2008; Guerreiro *et al.* 2008; Aledo *et al.* 2009; Hodgdon *et al.* 2009). The results of this study also support this finding. The findings of this study reveal that as the size of an entity increases, its level of preparedness for the IFRS for SMEs increases. Only one entity has adapted its current accounting program to the IFRS for SMEs. This entity is a large-sized one with more than 50 employees.

In conclusion, entities' size affects their level of preparedness for new applications. As the size of the entities increases, their preparedness for the IFRS for SMEs also increases. Possible reasons that affect the preparedness level of the micro entities may be a lack of qualified staff and scarce resources. Micro-sized entities are on the opposite side to listed entities: their willingness to apply the IFRS for SMEs will be low (Neag *et al.* 2009). On the other hand, larger entities have greater sources and time to devote to the implementation process of new standard sets, so it is expected that those entities will have greater knowledge about the new applications than micro-sized ones (Jones & Higgins, 2006).

The preparedness level of the entities did not differ according to their age. It is expected that as the experience of an entity increases, its preparedness level for a new accounting application will increase (Al-Shammari *et al.* 2008). The results of this study contradict this finding.

The auditing activities of an entity affect its financial reporting practices. The quality of the information that is presented by entities that are audited by independent auditing firms will increase. Many prior studies have revealed that the auditing properties of an entity affect their compliance with or preparedness for the IFRS/IFRS for SMEs (Abd-Elsalam & Weetman, 2003; Goodwin *et al.* 2008; Hodgdon *et al.* 2009). The analysis results of this study support this finding. The entities that are audited by an independent auditing firm have made preparations for the IFRS for SMEs. There is a significant positive effect of independent auditing of the entities on their preparedness for the IFRS for SMEs.

The international activities of an entity, such as exporting and importing, will also affect its willingness to adopt a new international financial reporting set. The findings of this study show that most of the entities that carry out importing and exporting activities are prepared for the IFRS for SMEs. This finding is compatible with the prior literature (Barniv & Fetyko, 1997; Dumontier & Raffournier, 1998; Murphy, 1999; Al-Shammari *et al.* 2008; Guerreiro *et al.* 2008; Atik, 2010).

According to the findings, the majority of the entities that indicated that they engage in exporting have taken IFRS training. There are several reasons behind this fact. International entities should be more transparent than national ones (El-Gazzar *et al.* 1999) because they are more visible on foreign markets (Dumontier & Raffournier, 1998). Therefore, they are more willing to comply with internationally accepted financial reporting standard sets. Majority of the entities that carry out importing have made preparations for the IFRS for SMEs and have taken IFRS for SMEs training.

In conclusion, the international activities of an entity can affect its preparedness for an international reporting standard set. As the internationalization of activities of an entity increases, it gives more importance to the harmonization of financial reporting. Thus, entities that undertake international operations are more eager to make preparations for the adoption process of the IFRS for SMEs.

The existence of an accounting department in an entity may affect its financial reporting practices. It is expected that the entities that have an accounting department will make preparations for the IFRS for SMEs. The findings of this study show that the entity that has adopted an accounting program that is compatible with the IFRS for SMEs has an accounting department. Contrary to the expectations, other items of preparation for the IFRS for SMEs do not differ according to the existence of an accounting department.

Some entities obtain consultancy services from professional accounting bodies. Those entities may make preparations for the new accounting applications with the reinforcement of those professional bodies. The analysis results of this study show that the entities that use consultancy services are more prepared for the IFRS for SMEs. The findings of this study reveal that those entities also have more training about the IFRS for SMEs.

The industry that the entities are engaged in may affect their accounting applications. In fact, all entities, whether in manufacturing or service businesses, are obliged to apply the same standards. There is no particular expectation that the variable of industry will affect the preparedness of entities (Abd-Elsalam & Weetman, 2003). The variable is categorized as manufacturing, merchandising, and service. The research results show that the entities' adoption of and preparedness level for the IFRS for SMEs do not differ according to the industry in which they operate. This finding is compatible with prior studies (Abd-Elsalam & Weetman, 2003; Jones & Higgins, 2006).

The entities that are classified as corporations may have a well-organized accounting system and make more preparations for new accounting applications. The evidence of this study suggests that corporations' accounting personnel have taken more training related to the IFRS for SMEs.

Table 5.7 Univariate analysis: the impact of firm characteristics on the preparedness of the entities

	Firm size (employee number)				Kruskal–Wallis chi square	Operating years				Kruskal–Wallis chi square
	0–9		More than 9			0–15		More than 15		
	Mean	SD	Mean	SD		Mean	SD	Mean	SD	
Preparedness: We have made preparations for the IFRS for SMEs.	0.06	0.247	0.30	0.462	11.104***	0.12	0.332	0.27	0.443	2.484
P1. Our accounting personnel have taken the IFRS for SMEs training.	0.06	0.247	0.28	0.450	9.327***	0.12	0.332	0.24	0.430	1.865
P2. Our management has taken the IFRS for SMEs training.	0.02	0.146	0.03	0.161	0.039	0.00	0.000	0.03	0.168	0.738
P3. We have adopted our current accounting program for the IFRS for SMEs.	0.02	0.146	0.00	0.000	3.213*	0.00	0.000	0.01	0.076	0.145
P4. We have arranged meetings within the company to inform our accounting personnel.	0.02	0.146	0.04	0.196	0.356	0.04	0.200	0.03	0.184	0.018
	Independent auditing				**Kruskal–Wallis chi square**	**Export**				**Kruskal–Wallis chi square**
	Yes		**No**			**Yes**		**No**		
	Mean	**SD**	**Mean**	**SD**		**Mean**	**SD**	**Mean**	**SD**	
Preparedness: We have made preparations for the IFRS for SMEs.	0.36	0.486	0.21	0.410	4.296**	0.29	0.456	0.19	0.395	2.532
P1. Our accounting personnel have taken the IFRS for SMEs training.	0.30	0.462	0.21	0.405	1.740	0.29	0.456	0.14	0.352	5.890***
P2. Our management has taken the IFRS for SMEs training.	0.04	0.204	0.02	0.140	0.746	0.03	0.161	0.02	0.153	0.012
P3. We have adopted our current accounting program for the IFRS for SMEs.	0.00	0.000	0.01	0.081	0.311	0.00	0.000	0.01	0.109	1.357
P4. We have arranged meetings within the company to inform our accounting personnel.	0.09	0.282	0.02	0.140	4.451**	0.04	0.185	0.04	0.187	0.001
	Import				**Kruskal–Wallis chi square**	**Accounting department**				**Kruskal–Wallis chi square**
	Yes		**No**			**Exist**		**Non-exist**		
	Mean	**SD**	**Mean**	**SD**		**Mean**	**SD**	**Mean**	**SD**	
Preparedness: We have made preparations for the IFRS for SMEs.	0.32	0.468	0.17	0.378	5.707***	0.27	0.444	0.15	0.359	2.211
P1. Our accounting personnel have taken the IFRS for SMEs training.	0.32	0.468	0.13	0.335	10.061***	0.24	0.431	0.15	0.359	1.496
P2. Our management has taken the IFRS for SMEs training.	0.02	0.138	0.03	0.177	0.321	0.02	0.155	0.03	0.171	0.029
P3. We have adopted our current accounting program for the IFRS for SMEs.	0.00	0.000	0.01	0.103	1.106	0.00	0.000	0.03	0.171	4.824***
P4. We have arranged meetings with in the company to inform our accounting personnel.	0.03	0.168	0.04	0.203	0.271	0.04	0.188	0.03	0.171	0.042

* Significant at the 0.1 level; ** significant at the 0.05level; *** significant at the 0.01level
SD: standard deviation

Table 5.7 Univariate analysis: the impact of firm characteristics on the preparedness of the entities (continued)

	Consultancy services					Industry				
	Yes		No		Kruskal–Wallis	Manufacturing		Merchandising and services		Kruskal–Wallis
	Mean	SD	Mean	SD	chi square	Mean	SD	Mean	SD	chi square
Preparedness: We have made preparations for the IFRS for SMEs.	0.27	0.447	0.15	0.358	2.825*	0.25	0.437	0.25	0.432	0.030
P1. Our accounting personnel have taken the IFRS for SMEs training.	0.25	0.437	0.12	0.331	3.249*	0.27	0.447	0.21	0.410	0.729
P2. Our management has taken the IFRS for SMEs training.	0.03	0.176	0.00	0.000	1.333	0.04	0.187	0.02	0.144	0.345
P3. We have adopted our current accounting program for the IFRS for SMEs.	0.01	0.080	0.00	0.000	0.261	0.01	0.092	0.01	0.080	0.394
P4. We have arranged meetings within the company to inform our accounting personnel.	0.04	0.192	0.02	0.156	0.181	0.02	0.134	0.04	0.202	0.670

	Status				
	Corporation		Other status		Kruskal–Wallis
	Mean	SD	Mean	SD	chi square
Preparedness: We have made preparations for the IFRS for SMEs.	0.34	0.480	0.22	0.418	2.440
P1. Our accounting personnel have taken the IFRS for SMEs training.	0.34	0.480	0.20	0.399	3.820*
P2. Our management has taken the IFRS for SMEs training.	0.02	0.156	0.03	0.158	0.002
P3. We have adopted our current accounting program for the IFRS for SMEs.	0.00	0.000	0.01	0.080	0.261
P4. We have arranged meetings within the company to inform our accounting personnel.	0.07	0.264	0.03	0.158	2.157

* Significant at the 0.1 level
SD: standard deviation

5.2.1.2. Multivariate analysis: the impact of firm characteristics on the preparedness of the entities

Before evaluating the research model, correlation analysis was employed to detect the existence of the multicollinearity problem among the independent variables. Table 5.8 presents the findings of this analysis. According to the results, the preparedness of entities has a positive significant correlation with firm size and independent auditing.

Moreover, there is no multicollinearity among the independent and the dependent variables as 0.80 (Bryman & Cramer, 2009) and 0.90 (Hair *et al.* 2009) are considered as a threshold for the multicollinearity problem. According to Lind *et al.* (2002), correlations among the independent variables between -0.70 and 0.70 do not cause difficulties for the regression analyses.

There are significant positive correlations between several independent variables of the research model but none of them exceed the threshold values. Hence, those correlations do not create a multicollinearity problem for the research model.

Table 5.8 Correlation analysis

	Firm size	Age of the company	Independent auditing	Accounting department	Internationality	Preparedness
Firm size	1.000	0.253**	0.228**	0.344**	0.170*	0.237**
Age of the company	0.253**	1.000	0.105	0.069	0.166*	0.112
Independent auditing	0.228**	0.105	1.000	0.128	0.215**	0.148*
Accounting department	0.344**	0.069	0.128	1.000	0.070	0.106
Internationality	0.170*	0.166**	0.215**	0.070	1.000	0.113
Preparedness	0.237**	0.112	0.148*	0.106	0.113	1.000

* Significant at the 0.1 level; ** significant at the 0.05 level

Besides this analysis, variance inflation factor (VIF) analysis should be performed to detect the presence of collinearity (Zeghal & Mhedhbi, 2006; Akhtaruddin *et al.* 2009). Independent variables with a VIF of 10 or above are considered as highly correlated with one or more of the other variables in the model (McClave *et al.* 2005; Akhtaruddin *et al.* 2009). VIF analysis was performed to detect the possible collinearity problems between the independent variables. The results of this analysis are presented in Table 6.9.

Table 5.9 Collinearity diagnostics

	Collinearity statistics	
Independent variables	**Tolerance**	**VIF**
Firm size	0.796	1.296
Internationality	0.925	1.082
Independent auditing	0.913	1.095
Age of the company	0.919	1.088
Existence of an accounting department	0.879	1.138

The VIF values do not exceed the threshold value of 10, as seen from Table 5.9. There is no multicollinearity problem between the independent variables of the research model in this study.

Logistic regression analysis was carried out to determine the association between the firm characteristics, including operating year, size, auditing, internationality, existence of an accounting department, and preparedness of the entities for the IFRS for SMEs. Logistic regression was employed because the dependent variable is dichotomous and takes only two values, one and zero (Zeghal & Mhedhbi, 2006; Iatridis & Rouvolis, 2010).

The research model is as follows:

Log $[P_i/(1-P_i)] = a_0 + a_1SIZE_i + a_2INT_i + a_3AUDITING_i + a_4AGE_i + a_5EAD + e_i$

P_i is the probability of preparedness for the IFRS for SMEs and takes one if the entity has made any preparations for the IFRS for SMEs, and zero otherwise;

$SIZE_i$ (firm size) takes the value one if the entity employs more than 9 employees, and zero otherwise;

INT_i (internationality) takes the value one if the entity undertakes export activities, and zero otherwise;

$AUDITING_i$ (independent auditing) takes the value one if the entity uses independent auditing services, and zero otherwise;

AGE_i (operating year) takes the value one if the entity has operated for more than 15 years, and zero otherwise;

EAD_i (existence of accounting department) takes the value one if the entity has a separate accounting department, and zero otherwise;

e_i is the margin of error.

The results are presented in Table 5.10.

Table 5.10 Results of the logistic regression analysis

Factors	Expected sign	Coefficient	Wald statistic
SIZE	+	1.584***	5.908
INT	+	0.297	0.659
AUDITING	+	0.394	1.062
AGE	+	0.503	0.564
EAD	+	0.206	0.138
Constant		-3.376***	13.815
Model chi square		16.750***	
Sample size		198	

*** Significant at the 0.01 level. Dependent variable: P_i is the probability of preparedness for the IFRS for SMEs and takes one if the entity has made any preparations for the IFRS for SMEs, and zero otherwise. Independent variables: $SIZE_i$ (firm size) takes the value one if the entity employs more than 9 employees, and zero otherwise; INT_i (internationalization) takes the value one if the entity carries out export activities, and zero otherwise; $AUDITING_i$ (independent auditing) takes the value one if the entity uses independent auditing services, and zero otherwise; AGE_i (operating year) takes the value one if the entity has operated for more than 15 years, and zero otherwise; EAD_i (accounting organization) takes the value one if the entity has a separate accounting department, and zero otherwise.

The findings show that only the size affects the SMEs' preparedness for the IFRS. This finding is compatible with the prior literature (Dumontier & Raffournier, 1998; Abd-Elsalam & Weetman, 2003; Jones & Higgins, 2006; Al-Shammari *et al.* 2008; Goodwin *et al.* 2008; Guerreiro *et al.* 2008; Hodgdon *et al.* 2009; Aledo *et al.* 2009; Iatridis & Rouvolis, 2010). As the size of an entity increases, its preparedness for the IFRS also increases. There may be several reasons behind this fact. The size of an entity affects its financial reporting practices. Large-sized entities have more resources and established financial reporting systems to utilize new applications. Large-sized entities may have more personnel to apply this standard compared with micro-sized ones. Large-sized entities may intend to grow and to become a listed company. They also have more foreign activities and financing than others. Hence, the IFRS for SMEs seems to be more advantageous for and applicable to large-sized entities.

The other independent variables do not affect the preparedness of the entities according to the logistic regression analysis. In fact, the non-parametric tests reveal the effect of size, internationality, and independent auditing on the preparedness of the entities. At this point, the results of the non-parametric tests and logistic regression do not support each other completely.

5.2.2. Preparedness of the CPAs for the IFRS for SMEs

The preparedness of the CPAs was investigated with eight questions. One of those questions aims to detect whether the CPAs have made any preparations for the IFRS for SMEs in general. The other questions aimed to investigate the preparedness level of the SMEs for this standard in more detail. The questions are listed below.

i. Have you taken any training about the IFRS for SMEs?
ii. Have you arranged any meetings about the IFRS for SMEs?
iii. Do you have any sources about the IFRS for SMEs?
iv. Have you organized meetings for your clients about the IFRS for SMEs?
v. Have you given training to your clients?
vi. Have you searched for accounting programs to adopt the IFRS for SMEs?
vii. Have you adopted your current accounting program for the IFRS for SMEs?

The results of the analysis are presented in Table 5.11.

In total, 210 CPAs answered the survey, of whom 144 have made preparations related to the IFRS for SMEs (68.6%), and 142 of the CPAs have taken training for the IFRS for SMEs (67.6%). A large percentage of the CPAs have attended training related to the IFRS for SMEs. Training is the most widespread activity that is preferred by the CPAs to make preparations for the IFRS for SMEs. The trade bodies have sent invitations to the CPAs to attend trainings. Altogether 41 of the CPA firms have arranged meetings about the IFRS for SMEs in their CPA firms (19.5%). Only 18 of the CPA firms have sources about the IFRS for SMEs (8.6%), and 40 have organized meetings to inform their clients about the IFRS for SMEs (19.0%); 19 of the CPA firms have given trainings to their clients (9.0%); 17 of have searched for accounting programs (8.1%); and only 8 have adopted their current program for the IFRS for SMEs (3.8%).

Table 5.11 Preparedness of the CPAs for the IFRS for SMEs

Item	Yes		No	
	No.	%	No.	%
Preparedness: Have you made any preparations for the adoption of the IFRS for SMEs?	144	68.6	66	31.4
P1. Training about the IFRS for SMEs has been taken.	142	67.6	68	32.4
P2. We have arranged meetings about the IFRS for SMEs adoption.	41	19.5	169	80.5
P3. Sources about the IFRS for SMEs have been acquired.	18	8.6	192	91.4
P4. We have organized meetings for our clients about the IFRS for SMEs.	40	19.0	170	81.0
P5. We have given training to our clients.	19	9.0	191	91.0
P6. Accounting programs have been sought.	17	8.1	193	91.9
P7. We have adopted our current program for the IFRS for SMEs.	8	3.8	202	96.2

No.: frequency

5.2.2.1. Univariate analysis of the preparedness of the CPAs

The effects of several characteristics on the preparedness level of the CPAs and the CPA firms were investigated. For this purpose, non-parametric tests were employed. The findings of those tests are presented in Table 5.12. Experience is one of the variables that may affect the preparedness of the CPAs for new accounting applications, such as the IFRS/IFRS for SMEs. As the experience of the CPAs increases, their knowledge in the field of accounting and expertise also increases. More experienced CPAs may be more curious about the new accounting regulations. The evidence of this study also supports those findings. According to the analysis results of this study, experience has a significant positive effect on the preparedness of the CPAs for the IFRS for SMEs. As the experience of the CPAs increases, their preparedness for this new standard also increases. Besides this, the experienced CPAs have had more training for the IFRS for SMEs. Experience has a significant positive effect on their training. The preparedness level of the CPAs does not differ according to their education level. The education level of the CPAs does not have a significant effect on their preparedness. The number of clients is a measurement of size of a CPA firm. It is expected that the personnel of a large-sized CPA firm will be more prepared for the new accounting applications and regulations. According to analysis results, the personnel of the CPA firms that have more than 50 clients have made preparation for the IFRS for SMEs in compliance with the expectations. As a result, the CPAs who have more than 15 years' experience and are personnel of the CPA firms those have more than 50 clients have made more preparations for the IFRS for SMEs.

Table 5.12 Univariate analysis of the preparedness of the CPAs

	Experience				Kruskal–Wallis chi square	Education level				Kruskal–Wallis chi square
	0–15 years		More than 15			High school and bachelor's degree		Master's degree		
	Mean	SD	Mean	SD		Mean	SD	Mean	SD	
Preparedness: We have made preparations for the IFRS for SMEs.	0.57	0.497	0.69	0.465	3.014*	0.64	0.490	0.62	0.488	0.053
P1. Training about the IFRS for SMEs has been taken.	0.63	0.486	0.75	0.436	3.467*	0.72	0.458	0.67	0.471	0.248
P2. We have arranged meetings about the IFRS for SMEs adoption.	0.19	0.394	0.20	0.404	0.045	0.16	0.374	0.20	0.401	0.223
P3. Sources about the IFRS for SMEs have been acquired.	0.10	0.295	0.07	0.259	0.363	0.12	0.332	0.08	0.274	0.424
P4. We have organized meetings for our clients about the IFRS for SMEs.	0.20	0.400	0.18	0.385	0.128	0.16	0.374	0.19	0.397	0.170
P5. We have given training to our clients.	0.09	0.283	0.10	0.295	0.038	0.08	0.277	0.09	0.290	0.038
P6. Accounting programs have been sought.	0.09	0.283	0.07	0.259	0.170	0.04	0.200	0.09	0.282	0.637
P7. We have adopted our current program for the IFRS for SMEs.	0.03	0.176	0.05	0.214	0.345	0.04	0.200	0.04	0.191	0.030

	CPA firm size (number of clients)				Kruskal–Wallis chi square
	0–50		More than 50		
	Mean	SD	Mean	SD	
Preparedness: We have made preparations for the IFRS for SMEs.	0.69	0.463	0.48	0.503	9.202***
P1. Training about the IFRS for SMEs has been taken.	0.71	0.456	0.62	0.490	1.816
P2. We have arranged meetings about the IFRS for SMEs adoption.	0.23	0.420	0.14	0.346	2.405
P3. Sources about the IFRS for SMEs have been acquired.	0.10	0.304	0.05	0.229	1.359
P4. We have organized meetings for our clients about the IFRS for SMEs.	0.23	0.420	0.12	0.331	3.260*
P5. We have given training to our clients.	0.11	0.313	0.05	0.229	1.723
P6. Accounting programs have been sought.	0.08	0.273	0.08	0.277	0.002
P7. We have adopted our current program for the IFRS for SMEs.	0.04	0.188	0.04	0.200	0.027

* Significant at the 0.1 level; *** significant at the 0.01

SD: standard deviation

5.3. Perception of the SMEs and the CPAs of the IFRS for SMEs

The general perception of the SMEs and CPAs of the IFRS for SMEs was measured with eleven statements, which were determined based on the previous literature (Jermakowicz & Gornik-Tomaszewski, 2006; Poroy Arsoy & Sipahi, 2007; Navarro-Garcia & Bastida, 2010; Rezaee *et al.* 2010). The answers of the respondents were measured on a five-point Likert scale. As the score increases, the respondents agree with the statement more, and vice versa.

The internal consistency and reliability of the survey instrument were measured using Cronbach's alpha (Cronbach, 1951). According to Nunnaly (1978), a score of 0.70 is acceptable. The Cronbach's alpha values of perception scale of the SME and CPA survey instruments are very close to the acceptable value: 0.607 and 0.601, respectively. This finding shows the reliability of the perception scale of the survey instrument that has been used for this research.

5.3.1. Perceptions of the SMEs of the IFRS for SMEs

The perception of the SMEs was measured with eleven statements related to the IFRS for SMEs. The respondents were required to evaluate the statements based on a Likert scale from 1 to 5 (i.e. 5=strongly agree; 4=agree; 3=neutral; 2=disagree; 1=strongly disagree). The analysis results are presented in Table 5.13. Most of the respondents agree that the IFRS for SMEs will provide a fairer view (mean=3.47) and will be appropriate for decision making (mean=3.46). The fairness of the financial statements is one of the most important outcomes of the IFRS/IFRS for SMEs. Many studies have measured the expectation of financial statement preparers about the fairness of the financial statements (Kirk, 2006; Rezaee *et al.* 2010). There is a general consensus that the IFRS/IFRS for SMEs will promote a true and fair presentation of financial statements (Aledo *et al.* 2009).

The majority of the respondents also agree that the IFRS for SMEs is detailed (mean=3.55) and complex (mean=3.30). There is a general consensus that one of the most important challenges in implementing the IFRS/IFRS for SMEs is the complexity of those standards. Prior studies agree with this finding (Jermakowicz & Gornik-Tomaszewski, 2006; Maingot & Zeghal, 2006; Fearnley & Hines, 2007; Alp & Ustundag, 2009; Neag *et al.* 2009; Navarro-Garcia & Bastida, 2010; Bunea *et al.* 2012; Quagli & Paoloni, 2012). The complexity of financial reporting standards affects their interpretation (Chand *et al.* 2010). According to Chand *et al.* (2010), principle-based standards generally do not contain certain expressions and thus require the professional judgment of the applicants. Thus, professionals consider financial reporting standards to be more complex than rule-based ones. Accountants are generally familiar with rule-based accounting applications and the lack of professional judgment seems to be most compelling factor for them (Albu *et al.* 2010). Furthermore, complexity decreases the understandability of the standards. In fact, the respondents are not sure about the understandability of the IFRS for SMEs (mean=2.90). The financial statement preparers will be sure about the understandability of the standards after they have applied them.

According to the respondents, the cost of the IFRS for SMEs will exceed its benefits (mean=3.32). Prior studies support this finding (Poroy Arsoy & Sipahi, 2007; Bunea-Bontas *et al.* 2011). It is generally thought that the costs of applying the IFRS for SMEs will exceed its benefits, especially for micro-sized entities. This means that the total costs of the generation of information compatible with the financial reporting standards will exceed the benefits to be obtained from having this information (Alfredson *et al.* 2009). The costs may be related to the collection, storage, retrieval, presentation, analysis, interpretation, loss of competitive position, auditing, etc. (Alfredson *et al.* 2009; Bunea *et al.* 2012). Furthermore, the IFRS adoption will increase the reporting costs because of the higher disclosure requirements (Navarro-Garcia & Bastida, 2010) and increase the earnings volatility (Iatridis & Rouvolis, 2010; Navarro-Garcia & Bastida, 2010). Besides all this, the IFRS application will be burdensome especially for small entities in terms of cost–benefit analysis (Jones & Higgins, 2006; Bunea-Bontas *et al.* 2011) because those entities have limited staff and resources to adopt the standard (Poroy Arsoy & Sipahi, 2007).

In fact, several revisions to the full set of IFRS have been made to reduce the burden for SMEs, such as omitting irrelevant topics from the IFRS, simplifying the accounting policies and the measurement and reporting requirements, reducing the scope of the necessary disclosures, etc. (Albu *et al.* 2010; Müllerova *et al.* 2010a). Despite these revisions, SMEs still perceive the IFRS for SMEs as burdensome for them.

The majority of the respondents agree that the IFRS for SMEs is flexible (mean=3.40). Flexibility is a general characteristic of principle-based standards. Many studies have indicated that the IFRS/IFRS for SMEs are more flexible than many countries' national rule-based standards (Navarro-Garcia & Bastida, 2010).

The respondents are not sure whether the adoption of the IFRS for SMEs is an inaccessible aim that cannot be achieved (mean=3.21); the IFRS for SMEs differs significantly from the existing applications (mean=3.31); and the IFRS for SMEs is better than the existing applications (mean=3.24).

The effect of several characteristics on the perception of the SMEs was analyzed with non-parametric tests. The results of the analyses are presented in Table 5.14.

The personnel of the entities that have operated for more than 15 years perceive that the adoption of the IFRS for SMEs is an inaccessible aim that cannot be achieved. As the operating year or the experience of the entities increases, they become more conservative regarding new applications. They may not easily accept the application of new accounting or financial reporting regulations.

According to the findings, the size of an entity affects its perception about the IFRS for SMEs in some ways. The size of an entity is classified based on its number of employees. The entities that have more than ten employees agree that "the IFRS for SMEs will provide a fairer view," whereas smaller entities generally disagree with this statement. Because the large-sized entities have made more preparations for the IFRS for SMEs, they may perceive the advantage of the fair view. On the other hand, the micro entities agree that "the IFRS for SMEs is complex" and "the adoption of the IFRS for SMEs is an inaccessible aim that cannot be achieved." The micro-sized entities have carried out less preparation for the IFRS for SMEs compared with large-sized ones, so they may be more pessimistic about the adoption process of this standard and may see this set as an inaccessible aim. The micro entities see this standard as complex because they may not have enough information about its applications. The entities that are audited independently surprisingly agree that "the IFRS for SMEs is complex." The entities that have an accounting department also perceive the IFRS for SMEs as complex. According to them, the IFRS for SMEs is better than the existing applications. According to the entities that have international activities, such as exporting, the IFRS for SMEs is understandable. The prepared entities perceive that the IFRS for SMEs will provide a fairer view and will be appropriate for decision making. According to the prepared entities, the IFRS for SMEs is detailed.

Table 5.13 Perceptions of the SMEs of the IFRS for SMEs

	Strongly disagree		Disagree		Neutral		Agree		Strongly agree			
	No.	%	No.	%	No.	%	No.	%	No.	%	Mean	SD
1. The IFRS for SMEs will provide a fairer view.	1	0.5	19	9.6	74	37.4	93	47.0	11	5.6	3.47	0.765
2. The IFRS for SMEs is appropriate for decision making.	2	1.0	22	11.1	63	31.8	105	53.0	6	3.0	3.46	0.771
3. The IFRS for SMEs is complex.	1	0.5	31	15.7	79	39.9	82	41.4	5	2.5	3.30	0.779
4. The IFRS for SMEs is detailed.	0	0.0	11	5.6	75	37.9	105	53.0	7	3.5	3.55	0.657
5. The IFRS for SMEs is understandable.	3	1.5	57	28.8	95	48.0	42	21.2	1	0.5	2.90	0.758
6. The IFRS for SMEs adoption is an inaccessible aim that cannot be achieved.	2	1.0	45	22.7	69	34.8	74	37.4	8	4.0	3.21	0.874
7. The IFRS for SMEs is flexible.	0	0.0	27	13.6	73	36.9	90	45.5	8	4.0	3.40	0.772
8. The IFRS for SMEs significantly differs from the existing applications.	1	0.5	28	14.2	82	41.4	82	41.4	5	2.5	3.31	0.763
9. The cost of the IFRS for SMEs will exceed its benefits.	0	0.0	24	12.1	94	47.5	72	36.4	8	4.0	3.32	0.738
10. The IFRS for SMEs is better than the existing applications.	3	1.5	24	12.1	99	50.0	66	33.3	6	3.1	3.24	0.762
11. The IFRS for SMEs will be time-consuming for enterprises.	1	0.5	22	11.1	60	30.3	103	52.0	12	6.1	3.52	0.792

No.: frequency
SD: standard deviation

Table 5.14 Firm characteristics and the perceptions of the SMEs of the IFRS for SMEs

	Operating year				Kruskal–Wallis chi square	Firm size (employee number)				Kruskal–Wallis chi square
	0–15 years		More than 15 years			0–9		More than 9		
	Mean	SD	Mean	SD		Mean	SD	Mean	SD	
1. The IFRS for SMEs will provide a fairer view.	3.28	0.843	3.50	0.752	1.610	3.28	0.743	3.54	0.764	4.403**
2. The IFRS for SMEs is appropriate for decision making.	3.24	0.779	3.49	0.767	2.412	3.34	0.731	3.50	0.782	1.748
3. The IFRS for SMEs is complex.	3.24	0.779	3.31	0.780	0.315	3.51	0.688	3.23	0.795	4.065**
4. The IFRS for SMEs is detailed.	3.44	0.712	3.56	0.650	0.791	3.51	0.621	3.56	0.670	0.251
5. The IFRS for SMEs is understandable.	2.84	0.800	2.91	0.754	0.112	2.89	0.759	2.91	0.760	0.001
6. The IFRS for SMEs adoption is an inaccessible aim that cannot be achieved.	3.60	0.816	3.15	0.870	5.113**	3.51	0.856	3.11	0.861	7.246***
7. The IFRS for SMEs is flexible.	3.48	0.823	3.39	0.766	0.235	3.45	0.775	3.38	0.773	0.278
8. The IFRS for SMEs significantly differs from the existing applications.	3.16	0.688	3.34	0.772	1.362	3.28	0.682	3.32	0.788	0.181
9. The cost of the IFRS for SMEs will exceed its benefits.	3.40	0.764	3.31	0.736	0.418	3.40	0.681	3.30	0.755	0.615
10. The IFRS for SMEs is better than the existing applications.	3.08	0.812	3.27	0.754	1.686	3.32	0.783	3.22	0.756	0.282
11. The IFRS for SMEs will be time-consuming for enterprises.	3.52	0.653	3.52	0.811	0.092	3.53	0.718	3.52	0.815	0.001

	Independent auditing				Kruskal–Wallis chi square	Accounting department				Kruskal–Wallis chi square
	Yes		No			Yes		No		
	Mean	SD	Mean	SD		Mean	SD	Mean	SD	
1. The IFRS for SMEs will provide a fairer view.	3.60	0.771	3.44	0.762	2.082	3.46	0.794	3.50	0.613	0.693
2. The IFRS for SMEs is appropriate for decision making.	3.36	0.845	3.49	0.747	0.604	3.46	0.763	3.44	0.824	0.000
3. The IFRS for SMEs is complex.	3.13	0.679	3.35	0.802	3.615**	3.24	0.784	3.56	0.705	4.099**
4. The IFRS for SMEs is detailed.	3.43	0.683	3.58	0.647	1.878	3.54	0.659	3.56	0.660	0.038
5. The IFRS for SMEs is understandable.	3.04	0.690	2.86	0.775	2.114	2.89	0.751	2.97	0.797	0.463
6. The IFRS for SMEs adoption is an inaccessible aim that cannot be achieved.	3.06	0.895	3.25	0.866	1.115	3.17	0.855	3.38	0.954	1.560
7. The IFRS for SMEs is flexible.	3.30	0.749	3.43	0.779	0.756	3.38	0.770	3.50	0.788	0.727
8. The IFRS for SMEs significantly differs from the existing applications.	3.32	0.695	3.31	0.785	0.008	3.34	0.747	3.18	0.834	0.797
9. The cost of the IFRS for SMEs will exceed its benefits.	3.34	0.731	3.32	0.743	0.129	3.33	0.719	3.29	0.836	0.053
10. The IFRS for SMEs is better than the existing applications.	3.34	0.731	3.21	0.771	1.189	3.20	0.717	3.47	0.929	3.524*
11. The IFRS for SMEs will be time-consuming for enterprises.	3.45	0.829	3.54	0.781	0.312	3.52	0.802	3.50	0.749	0.021

* Significant at the 0.1 level; ** significant at the 0.05 level; *** significant at the 0.01 level
SD: standard deviation

Table 5.14 Firm characteristics and the perceptions of the SMEs of the IFRS for SMEs (continued)

	Export				Kruskal–Wallis chi square	Preparedness				Kruskal–Wallis chi square
	Yes		No			Yes		No		
	Mean	SD	Mean	SD		Mean	SD	Mean	SD	
1. The IFRS for SMEs will provide a fairer view.	3.45	0.765	3.51	0.768	0.076	3.67	0.774	3.41	0.753	4.637**
2. The IFRS for SMEs is appropriate for decision making.	3.47	0.789	3.44	0.750	0.361	3.63	0.755	3.40	0.770	4.462**
3. The IFRS for SMEs is complex.	3.24	0.823	3.38	0.710	0.942	3.29	0.866	3.30	0.751	0.023
4. The IFRS for SMEs is detailed.	3.58	0.703	3.50	0.591	0.997	3.76	0.662	3.48	0.643	8.299***
5. The IFRS for SMEs is understandable.	2.81	0.763	3.04	0.735	3.839**	2.78	0.823	2.95	0.733	2.006
6. The IFRS for SMEs adoption is an inaccessible aim that cannot be achieved.	3.17	0.921	3.26	0.808	0.418	3.04	0.957	3.26	0.841	1.757
7. The IFRS for SMEs is flexible.	3.38	0.780	3.43	0.765	0.039	3.45	0.843	3.38	0.750	0.419
8. The IFRS for SMEs significantly differs from the existing applications.	3.28	0.826	3.36	0.670	0.037	3.33	0.875	3.31	0.725	0.349
9. The cost of the IFRS for SMEs will exceed its benefits.	3.33	0.737	3.31	0.744	0.278	3.45	0.843	3.28	0.698	1.984
10. The IFRS for SMEs is better than the existing applications.	3.18	0.833	3.33	0.646	1.119	3.27	0.785	3.23	0.757	0.192
11. The IFRS for SMEs will be time-consuming for enterprises.	3.54	0.822	3.49	0.752	0.490	3.57	0.866	3.50	0.768	0.652

** Significant at the 0.05 level;*** significant at the 0.01 level
SD: Standard deviation

5.3.2. Perceptions of the CPAs of the IFRS for SMEs

The perception of the IFRS for SMEs by the CPAs was measured by eleven sentences based on a Likert scale from 1 to 5 (i.e. 5=strongly agree; 4=agree; 3=neutral; 2=disagree; 1=strongly disagree). The majority of the CPAs have attended trainings about the IFRS for SMEs to make the necessary preparations, so they are well informed about this standard and can easily make interpretations about the negative and positive sides of it. This increases the reliability of the information that is presented by them. The CPAs have more information on the various effects of this standard compared with the representatives of the SMEs. The CPAs agree with most of the statements that measure the general perception of the standard. The results of this analysis are presented in Table 5.15. The CPAs agree with the positive characteristics of this standard, such as “The IFRS for SMEs is appropriate for decision making” (mean=3.67), “The IFRS for SMEs will provide a fairer view” (mean=3.64) and “The IFRS for SMEs is better than the existing applications” (mean=3.49). On the other hand, they also agree with negative statements about this standard, such as “The IFRS for SMEs is detailed” (mean=3.63), “The IFRS for SMEs will be time-consuming for enterprises,” and “The IFRS for SMEs is complex” (mean=3.35). The CPAs also agree that “The IFRS for SMEs is significantly different from the existing applications’ (mean=3.48) and “The IFRS for SMEs is flexible” (mean=3.38). According to the CPAs, the costs of the IFRS for SMEs will exceed its benefits (mean=3.39). The CPAs are not sure about whether the IFRS for SMEs is an accessible aim (mean=3.20). They disagree that “The IFRS for SMEs is understandable” (mean=2.85). They also find this standard complex and detailed. This shows the consistency between the responses of the participants. As a result, according to the CPAs, the IFRS for SMEs will provide a fairer view and is appropriate for decision making, whereas it is detailed, complex, and not understandable. In the view of the CPAs, the costs of the IFRS for SMEs will exceed its benefits.

The effect of several characteristics of the CPAs, such as experience, education level, and preparedness, on their perception of the IFRS for SMEs was analyzed. The findings of this investigation are presented in Table 5.16. Firstly, the effect of experience on the perception of the CPAs was investigated. According to the findings, less experienced CPAs perceive the IFRS for SMEs as more complex than more experienced CPAs. This may be a result of the information level of the experienced CPAs about the accounting applications of the entities. The more experienced CPAs may have more information related to the financial reporting practices of the entities, and so they may understand complex issues more easily. Besides, experienced CPAs have tried many reforms in the financial reporting practices of the entities as a result of new regulations. Thus, they are also experienced in making preparations for new rules and regulations. The more experienced the CPAs are, the more skilled they are in solving complicated problems.

Less experienced CPAs also find this standard significantly different from the existing applications compared with more experienced ones. As the experience of a CPA increases, his capability to compare the differentiations and similarities between those two standards may also increase. As a result, the more experienced CPAs perceived this standard as similar to the existing financial reporting in Turkey. This standard is perceived as flexible by the experienced CPAs. The effect of the education level of a CPA on his perception of the IFRS for SMEs was investigated. According to the findings, the IFRS for SMEs is perceived as detailed by the CPAs who have a master's degree. Apart from that, the responses of the CPAs do not differ according to their education level. The CPA firm size does not affect the perception of the CPAs about the IFRS for SMEs. The effect of the preparedness of the CPAs on their perception was analyzed. The findings show that more prepared CPAs perceive this standard as flexible. Less prepared CPAs perceive that the costs of the IFRS for SMEs will exceed its benefits. The CPAs who have not attended the necessary trainings and have not made the necessary preparations may see only the costs related to this standard, rather than the benefits. As the preparedness level of the CPAs increases, they will become better informed about this set and may see its benefits besides its disadvantages and costs.

Table 5.15 Perceptions of the CPAs of the IFRS for SMEs

	Strongly disagree		Disagree		Neutral		Agree		Strongly agree			
	No.	**%**	**No.**	**%**	**No.**	**%**	**No.**	**%**	**No.**	**%**	**Mean**	**SD**
1. The IFRS for SMEs will provide a fairer view.	5	2.4	33	15.7	24	11.4	118	56.2	30	14.3	3.64	0.988
2. The IFRS for SMEs is appropriate for decision making.	1	0.5	34	16.2	23	11.0	127	60.4	25	11.9	3.67	0.903
3. The IFRS for SMEs is complex.	8	3.8	47	22.4	33	15.7	107	51.0	15	7.1	3.35	1.026
4. The IFRS for SMEs is detailed.	3	1.4	23	10.9	44	21.0	119	56.7	21	10.0	3.63	0.861
5. The IFRS for SMEs is understandable.	15	7.1	84	40.0	34	16.2	71	33.8	6	2.9	2.85	1.059
6. The IFRS for SMEs adoption is an inaccessible aim that cannot be achieved.	7	3.3	65	31.0	36	17.1	82	39.1	20	9.5	3.20	1.085
7. The IFRS for SMEs is flexible.	5	2.4	34	16.2	54	25.7	111	52.9	6	2.8	3.38	0.873
8. The IFRS for SMEs significantly differs from existing applications.	2	1.0	45	21.4	30	14.3	117	55.7	16	7.6	3.48	0.944
9. The cost of the IFRS for SMEs will exceed its benefits.	3	1.4	46	21.9	44	21.0	101	48.1	16	7.6	3.39	0.958
10. The IFRS for SMEs is better than the existing applications.	2	1.0	29	13.8	54	25.7	115	54.7	10	4.8	3.49	0.826
11. The IFRS for SMEs will be time-consuming for enterprises.	2	1.0	39	18.6	26	12.4	124	59.0	19	9.0	3.57	0.927

No.: frequency
SD: standard deviation

Table 5.16 CPA characteristics and perceptions of the IFRS for SMEs

	Experience				Kruskal–Wallis chi square	Education level				Kruskal–Wallis chi square
	0–15 years		More than 15 years			High school and bachelor's degree		Master's degree		
	Mean	SD	Mean	SD		Mean	SD	Mean	SD	
1. The IFRS for SMEs will provide a fairer view.	3.71	0.995	3.54	0.975	2.227	3.48	0.872	3.66	1.003	1.428
2. The IFRS for SMEs is appropriate for decision making.	3.67	0.919	3.67	0.883	0.020	3.64	0.952	3.68	0.898	0.012
3. The IFRS for SMEs is complex.	3.48	1.033	3.17	0.992	4.642**	3.24	0.970	3.37	1.035	0.393
4. The IFRS for SMEs is detailed.	3.63	0.883	3.63	0.833	0.005	3.08	0.909	3.70	0.830	11.211***
5. The IFRS for SMEs is understandable.	2.89	1.067	2.80	1.050	0.358	3.04	1.098	2.83	1.054	0.938
6. The IFRS for SMEs adoption is an inaccessible aim that cannot be achieved.	3.27	1.091	3.11	1.076	1.129	3.40	1.118	3.18	1.081	0.856
7. The IFRS for SMEs is flexible.	3.25	0.954	3.56	0.700	5.520***	3.52	0.872	3.36	0.874	0.940
8. The IFRS for SMEs significantly differs from the existing applications.	3.56	0.934	3.35	0.951	2.742*	3.24	1.128	3.51	0.916	1.134
9. The cost of the IFRS for SMEs will exceed its benefits.	3.43	0.950	3.32	0.971	0.355	3.36	1.114	3.39	0.938	0.000
10. The IFRS for SMEs is better than the existing applications.	3.51	0.837	3.45	0.813	0.313	3.40	0.866	3.50	0.822	0.283
11. The IFRS for SMEs will be time-consuming for enterprises.	3.61	0.903	3.50	0.963	0.602	3.44	0.914	3.58	0.929	0.617
	Number of clients				**Kruskal–Wallis chi square**	**Preparedness**				**Kruskal–Wallis chi square**
	0–50		**More than 50**			**Yes**		**No**		
	Mean	**SD**	**Mean**	**SD**		**Mean**	**SD**	**Mean**	**SD**	
1. The IFRS for SMEs will provide a fairer view.	3.61	1.031	3.70	0.908	0.257	3.69	0.920	3.55	1.126	0.463
2. The IFRS for SMEs is appropriate for decision making.	3.66	0.911	3.70	0.893	0.127	3.69	0.863	3.62	0.989	0.103
3. The IFRS for SMEs is complex.	3.32	1.014	3.41	1.052	0.323	3.31	1.007	3.44	1.069	0.928
4. The IFRS for SMEs is detailed.	3.67	0.832	3.55	0.913	1.108	3.66	0.799	3.56	0.994	0.174
5. The IFRS for SMEs is understandable.	2.80	1.070	2.95	1.039	0.898	2.82	1.042	2.92	1.100	0.388
6. The IFRS for SMEs adoption is an inaccessible aim that cannot be achieved.	3.18	1.093	3.25	1.077	0.163	3.15	1.079	3.32	1.098	1.095
7. The IFRS for SMEs is flexible.	3.31	0.904	3.51	0.801	1.580	3.47	0.819	3.18	0.959	3.943**
8. The IFRS for SMEs significantly differs from the existing applications.	3.49	0.940	3.45	0.985	0.052	3.47	0.953	3.48	0.932	0.002
9. The cost of the IFRS for SMEs will exceed its benefits.	3.40	0.966	3.36	0.948	0.101	3.32	0.958	3.53	0.948	2.547*
10. The IFRS for SMEs is better than the existing applications.	3.47	0.805	3.52	0.868	0.471	3.48	0.810	3.50	0.864	1.555
11. The IFRS for SMEs will be time-consuming for enterprises.	3.60	0.927	3.51	0.930	0.482	3.53	0.975	3.65	0.813	0.333

* Significant at the 0.1 level; ** significant at the 0.05 level; *** significant at the 0.01 level
SD: standard deviation

5.3.3. Perceptions of the SMEs of the relevance of the IFRS to the SMEs

The relevance of the IFRS for SMEs to the SMEs was measured with four statements based on a Likert scale from 1 to 5 (i.e. 5=strongly agree; 4=agree; 3=neutral; 2=disagree; 1=strongly disagree). As the score increases, the respondents agree with the statement more, and vice versa. The statements were determined by taking into consideration the prior literature (Maingot & Zeghal, 2006; Rezaee *et al.* 2010). The results of the analyses are presented in Table 5.17. Most of the respondents agree that their accounting staff are capable of preparing financial statements based on the IFRS for SMEs (mean=3.34). A large percentage of the participants agree that the IFRS for SMEs is costly to apply for their company (mean=3.48). The majority of the respondents are not sure whether the IFRS for SMEs is suitable or not for the sector in which they are operating (mean=3.04). Most of the respondents do not agree that their computer hardware is not adequate for the adoption of the IFRS for SMEs (mean=2.94).

The effect of several firm characteristics on the relevance of the IFRS for SMEs was investigated. The results of this analysis are presented in Table 5.18. According to the findings, the relevance of the IFRS for SMEs is affected by several characteristics, such as firm size, auditing, internationality, and preparedness level. Micro-sized entities agree that the IFRS for SMEs is not suitable for the sector that they are operating in and their computer hardware is not adequate for the adoption of the IFRS for SMEs. Small-sized entities generally have scarce resources to adopt international reporting standards or new regulations, so they may see their computer hardware system as incapable of applying these new financial reporting standards. The entities that are not audited independently find the IFRS for SMEs costly to apply. The SMEs that are audited independently generally also have the capacity to apply new regulations and financial reporting standards. Prior studies have shown that there is a correlation between firm size and auditing quality. As the firm size increases, the auditing quality of an entity increases. In conclusion, the firm size and auditing quality are a measurement of an entity's capacity and capability to adopt new rules and regulations. The effect of the internationality of an entity on the relevance of the IFRS for SMEs to the entity was analyzed. The entities were classified according to their export activities, which were used as a measurement of internationality. The entities that do not have export activities agree that their accounting staff is capable of preparing financial statements based on the IFRS for SMEs. The entities that do not have export activities also agree that the IFRS for SMEs is not suitable for the sector in which they operate. The effect of the preparedness on the relevance of the IFRS for SMEs to the entity was measured. The prepared entities agree that their accounting staff is capable of undertaking financial reporting based on the IFRS for SMEs. Preparedness has a positive significant relationship with size. It is expected that as the size of an entity increases, its capability to apply new regulations also increases. Therefore, the prepared entities find their personnel capable of applying the new financial reporting standard. The prepared entities do not agree that the IFRS for SMEs is not suitable for the sector in which they operate. Prepared entities may have more information related to the content of the standards and thus they may find the standards suitable for their sector. The relevance of the IFRS for SMEs to the entity does not differ according to the operating year and the existence of an accounting department. In conclusion, some differences have been determined related to the analysis of the effect of several firm characteristics on the relevance of the IFRS for SMEs to their entity. Those characteristics are firm size, auditing, internationality, and preparedness.

Table 5.17 Relevance of the IFRS for SMEs to the SMEs

	Strongly disagree		Disagree		Neutral		Agree		Strongly agree			
	No.	**%**	**No.**	**%**	**No.**	**%**	**No.**	**%**	**No.**	**%**	**Mean**	**SD**
1. Our accounting staff is capable of preparing financial statements based on the IFRS for SMEs.	1	0.5	41	20.7	54	27.3	94	47.5	8	4.0	3.34	0.868
2. The IFRS for SMEs is costly to apply for our company.	1	0.5	24	12.1	63	31.8	99	50.0	11	5.6	3.48	0.798
3. The IFRS for SMEs is not suitable for the sector in which we are operating.	1	0.5	51	25.8	89	44.9	54	27.3	3	1.5	3.04	0.783
4. Our computer hardware is not adequate for the adoption of the IFRS for SMEs.	1	0.5	77	38.9	52	26.3	68	34.3	0	0.0	2.94	0.868

No.: frequency
SD: standard deviation

Table 5.18 Firm characteristics and the relevance of the IFRS for SMEs

	Operating year				Kruskal–Wallis chi square	Firm size (employee number)				Kruskal–Wallis chi square
	0–15 years		More than 15 years			0–9		More than 9		
	Mean	SD	Mean	SD		Mean	SD	Mean	SD	
1. Our accounting staff is capable of preparing financial statements based on the IFRS for SMEs.	3.60	0.707	3.30	0.884	2.455	3.21	0.883	3.38	0.862	1.558
2. The IFRS for SMEs is costly to apply for our company.	3.36	0.757	3.50	0.804	1.012	3.62	0.610	3.44	0.845	1.621
3. The IFRS for SMEs is not suitable for the sector in which we are operating.	3.12	0.781	3.02	0.785	0.415	3.26	0.706	2.97	0.795	5.497***
4. Our computer hardware is not adequate for the adoption of the IFRS for SMEs.	2.84	0.850	2.96	0.872	0.427	3.15	0.834	2.88	0.871	3.425*
	Independent auditing				**Kruskal–Wallis chi square**	**Accounting department**				**Kruskal–Wallis chi square**
	Yes		**No**			**Yes**		**No**		
	Mean	**SD**	**Mean**	**SD**		**Mean**	**SD**	**Mean**	**SD**	
1. Our accounting staff is capable of preparing financial statements based on the IFRS for SMEs.	3.34	0.841	3.34	0.879	0.003	3.30	0.873	3.53	0.825	1.988
2. The IFRS for SMEs is costly to apply for our company.	3.15	0.807	3.58	0.769	9.715***	3.46	0.824	3.59	0.657	1.063
3. The IFRS for SMEs is not suitable for the sector in which we are operating.	2.98	0.794	3.05	0.781	0.270	3.02	0.775	3.09	0.830	0.259
4. Our computer hardware is not adequate for the adoption of the IFRS for SMEs.	2.91	0.880	2.95	0.867	0.087	2.93	0.862	3.03	0.904	0.360
	Export				**Kruskal–Wallis chi square**	**Preparedness**				**Kruskal–Wallis chi square**
	Yes		**No**			**Yes**		**No**		
	Mean	**SD**	**Mean**	**SD**		**Mean**	**SD**	**Mean**	**SD**	
1. Our accounting staff is capable of preparing financial statements based on the IFRS for SMEs.	3.23	0.903	3.49	0.799	3.476*	3.57	0.842	3.26	0.865	5.307**
2. The IFRS for SMEs is costly to apply for our company.	3.49	0.801	3.46	0.798	0.276	3.47	0.938	3.48	0.750	0.006
3. The IFRS for SMEs is not suitable for the sector in which we are operating.	2.91	0.815	3.20	0.708	6.348***	2.65	0.830	3.16	0.727	14.886***
4. Our computer hardware is not adequate for the adoption of the IFRS for SMEs.	2.95	0.901	2.94	0.824	0.003	2.92	0.975	2.95	0.833	0.056

* Significant at the 0.1 level; ** significant at the 0.05 level; *** significant at the 0.01 level
SD: standard deviation

5.4. Perceived advantages of the IFRS for SMEs

The list of perceived advantages of the IFRS for SMEs was prepared by taking into consideration the prior literature (Jermakowicz & Gornik-Tomaszewski, 2006; Poroy Arsoy & Sipahi, 2007; Ballas *et al.* 2010; Müllerova *et al.* 2010a; Navarro-Garcia & Bastida, 2010; Rezaee *et al.* 2010).

The answers of the respondents were measured on a five-point Likert scale from 1 to 5 (i.e. 5=strongly agree; 4=agree; 3=neutral; 2=disagree; 1=strongly disagree). As the score increases, the respondents agree with the statement more, and vice versa.

The internal consistency and reliability of the survey instrument were measured using Cronbach's alpha (Cronbach, 1951). According to Nunnaly (1978), a score of 0.70 is acceptable. The Cronbach's alpha values of advantages scale of the SME and CPA survey instruments are above the acceptable value: 0.845 and 0.815, respectively. This finding shows the reliability of the advantages scale of the survey instrument that has been used for this research.

5.4.1. Perceived advantages of the IFRS for SMEs by the SMEs

There are many expected advantages of applying international reporting standards, such as improved transparency, comparability, and quality of financial information, which will help to make efficient investment decisions and lower the cost of capital for entities (Jermakowicz & Gornik-Tomaszewski, 2006). The perceived advantages of the IFRS by the SMEs are analyzed in this section. The results of those analyses are presented in Table 5.19.

Most of the respondents agree with nearly all of the statements related to the perceived advantages of the IFRS for SMEs. One of the most important perceived advantages of applying international reporting standards is the expected comparability between the financial statements of entities at the international level. Comparability means "financial statements should be consistent from one period to the next and between different entities" (Mackenzie *et al.* 2011). There are many studies that deal with financial statement comparability (Street *et al.* 1999; Taylor & Jones, 1999). The "expected" comparability or "perceived" comparability has rarely been investigated (Cole *et al.* 2011). In this study, the expectation of the SMEs about the comparability of the financial statements was measured. According to the findings, a large percentage of the respondents expect that the financial reports of SMEs will be comparable in sectors at the international level (mean=3.57). The prior literature has indicated that the adoption of the IFRS/IFRS for SMEs will increase the comparability of financial statements at the national or international level (Jermakowicz & Gornik-Tomaszewski, 2006; Poroy Arsoy & Sipahi, 2007; Albu *et al.* 2010; Navarro-Garcia & Bastida, 2010; Rezaee *et al.* 2010; Madawaki, 2012).

There are still some doubts about whether the international reporting standards can maintain this expected comparability (Schultz & Lopez, 2001). Prior studies have shown that the comparability of financial statements is influenced by country-related factors, such as the country's law system (Aledo *et al.* 2009; Djatej *et al.* 2009), company-specific factors (Cole *et al.* 2011), and the incentives of the preparers (Cole *et al.* 2011). According to Ballas *et al.* (2010), the expected comparability will not be maintained because there will be differences in the enforcement of financial reporting standards between countries. Besides, there is a high level of expectation that the comparability of financial statements will be maintained as a result of applying international standard sets for SMEs.

The majority of the participants agree that adopting the IFRS for SMEs will improve the efficiency and effectiveness of their company's financial reporting (mean=3.62). According to the respondents, the quality of the financial information that is prepared in accordance with the IFRS for SMEs will increase. Hence, this standard will inhibit the actions of the financial statement preparers who wish to mislead or disguise (Alp & Ustundag, 2009). Furthermore, the effectiveness of financial reporting can be ensured as a result of effective communication with related parties, such as the government, banks, shareholders, and partners (Rezaee *et al.* 2010). The IFRS/IFRS for SMEs will improve this effective communication between related parties. This finding is compatible with the previous literature (Siam & Rahahleh, 2010).

Most of the respondents agree that the transparency of information will increase (mean=3.59). The prior literature has indicated that the application of the IFRS/IFRS for SMEs will increase the transparency of financial reporting of entities (Jermakowicz & Gornik-Tomaszewski, 2006; Poroy Arsoy & Sipahi, 2007; Tyrrall *et al.* 2007; Albu *et al.* 2010; Ballas *et al.* 2010; Navarro-Garcia & Bastida, 2010; Madawaki, 2012). The improved transparency of the financial information will increase its quality. There are also several studies in the prior literature that contradict this finding. According to Jeanjean and Stolowy (2008), financial reporting standards affect the observed reporting quality merely because their application necessitates considerable judgment and the use of private information. They found that the application of financial reporting standards does not improve the earnings quality. Moreover, there is still a high level of expectation that the transparency of financial information will be enhanced as a result of the application of internationally accepted financial reporting standards.

According to the respondents, the IFRS for SMEs will increase the reliability of the information (mean=3.56); the financial statements will be more understandable (mean=3.54); and the accountability of the entities will increase (mean=3.52). Those statements are generally related to the proposed financial reporting characteristics of the IFRS/IFRS for SMEs, such as reliability, understandability, and accountability. Reliability means "information that is free from material error and bias and able to be depended on to represent faithfully the transactions or events that it claims to represent" (Alfredson *et al.* 2009: 16). Understandability means "the quality of information that enables users to comprehend its meaning" (Alfredson *et al.* 2009: 19). Some prior studies have suggested that entities' financial statements will be more understandable and reliable as a result of the application of a unique set of standards (Ataman & Altuk Özden, 2009). The presentation of understandable and reliable financial information will also increase the accountability of an entity. According to Nuhoğlu (2008), an efficient accounting system based on financial reporting standards will allow the production of reliable financial statements for stakeholders. The respondents also agree with the remaining proposed advantages of the IFRS for SMEs, but not to the same level.

A significant percentage of the participants agree that the IFRS for SMEs will ease the transition to the full set of IFRS for growing SMEs (mean=3.48). This finding is compatible with the prior literature (Elena *et al.* 2009; Müllerova *et al.* 2010a). According to Elena *et al.* (2009), the IFRS for SMEs will provide an infrastructure for entities that are growing and preparing to enter public capital markets.

The respondents agree that adopting the IFRS for SMEs will improve the opportunities to obtain financial assistance from the banking sector (mean=3.44). Kim *et al.* (2011) explained the effect of IFRS adoption on the financing of entities from banks. According to them, banks charge lower borrowing rates to IFRS adopters and impose more favorable non-price terms on those entities.

The respondents agree that the IFRS for SMEs will inhibit the underground economy (mean=3.37). The underground economy is one of the most important problems in Turkey. SMEs especially have a large amount of unregistered accounts (Poroy Arsoy & Sipahi, 2007). The application of the IFRS for SMEs may solve this problem by providing more transparent financial reporting.

Most of the respondents are not sure whether SMEs will be able to reach cross-border markets by applying the IFRS for SMEs (mean=3.32). In fact, the prior literature has suggested that the application of international reporting standards will enhance cross-border financing and trade (El-Gazzar *et al.* 1999; Tyrrall *et al.* 2007; Ballas *et al.* 2010; Rezaee *et al.* 2010; Madawaki, 2012).

The effect of several characteristics on the perception of advantages of the IFRS for SMEs was analyzed. The results of this analysis are presented in Table 5.20. The effect of the age of the company on the perception of the advantages of the IFRS for SMEs by the entities was also measured. The entities that have operated for less than 15 years agree that the IFRS for SMEs will ease the transition to the full set of IFRS for growing SMEs. On the other hand, the entities that have been in operation for more than 15 years agree that the IFRS for SMEs will inhibit the underground economy and the transparency of information will increase.

The large-sized entities agree that SMEs will be able to reach cross-border markets by applying the IFRS for SMEs. Large entities may have an idea to commence cross-border activities and may be more aware of this advantage that is proposed as a result of applying the IFRS/IFRS for SMEs.

The preparedness of the entities also affects their perception of the advantages of the IFRS for SMEs. As the preparedness of the entities increases, their information level and awareness about the advantages of the IFRS/IFRS for SMEs also increase. The entities are classified into two groups based on their preparedness for the IFRS for SMEs. The effect of the preparedness of the entities on the perception of the possible advantages of the IFRS for SMEs was analyzed. The results of this analysis show that the prepared entities perceive the advantages of the IFRS for SMEs. The prepared entities agree that the IFRS for SMEs will ease the transition to the full set for growing SMEs, improve the opportunities to obtain financial assistance from the banking sector and the efficiency and effectiveness of their company's financial reporting, and increase reliability, transparency, and accountability. According to the prepared entities, the IFRS for SMEs will inhibit the underground economy, financial statements will be more understandable, and SMEs will be able to reach cross-border markets by applying this set. The unprepared entities also agree that those advantages are proposed as a result of applying the IFRS for SMEs. However, the prepared entities are more aware of those advantages of this standard.

In conclusion, as the entities make preparations for the international reporting standards, their information level about its pros and cons will increase. Prepared entities will be more aware of the advantages of the standard. An effective adoption process for the IFRS for SMEs is related to the support of the entities and the preparers of financial statements. The enterprises and financial statement preparers will support the application of the IFRS for SMEs if they can perceive its advantages. The findings of this analysis also show that prepared entities are well informed about the advantages of the IFRS for SMEs. The perception of the advantages of the IFRS for SMEs is not affected by the internationality, existence of an accounting department, and auditing activities.

Table 5.19 Perceived advantages of the IFRS for SMEs by the SMEs

	Strongly disagree		Disagree		Neutral		Agree		Strongly agree			
	No.	**%**	**No.**	**%**	**No.**	**%**	**No.**	**%**	**No.**	**%**	**Mean**	**SD**
1. The IFRS for SMEs will ease the transition to the full set of IFRS for growing SMEs.	1	0.5	14	7.1	78	39.4	99	50.0	6	3.0	3.48	0.696
2. Adopting the IFRS for SMEs will improve the opportunities to obtain financial assistance from the banking sector.	3	1.5	25	12.6	61	30.8	99	50.0	10	5.1	3.44	0.834
3. Adopting the IFRS for SMEs will improve the efficiency and effectiveness of our company's financial reporting.	1	0.5	12	6.1	58	29.3	118	59.6	9	4.5	3.62	0.694
4. The IFRS for SMEs will increase the reliability of the information.	1	0.5	14	7.1	64	32.3	112	56.6	7	3.5	3.56	0.701
5. The IFRS for SMEs will inhibit the underground economy.	4	2.0	33	16.7	56	28.3	95	48.0	10	5.0	3.37	0.891
6. The transparency of information will increase.	0	0.0	14	7.1	61	30.8	116	58.6	7	3.5	3.59	0.676
7. Financial statements will be more understandable.	1	0.5	18	9.1	59	29.8	113	57.1	7	3.5	3.54	0.731
8. The accountability of entities will increase.	2	1.0	16	8.1	63	31.8	112	56.6	5	2.5	3.52	0.725
9. SMEs will be able to reach cross-border markets by applying the IFRS for SMEs.	2	1.0	22	11.1	89	45.0	80	40.4	5	2.5	3.32	0.745
10. The financial reports of SMEs will be comparable in sectors at the international level.	1	0.5	12	6.1	66	33.3	112	56.6	7	3.5	3.57	0.686

No.: frequency
SD: standard deviation

Table 5.20 Firm characteristics and the perceived advantages of the IFRS for SMEs

	Operating year				Kruskal–Wallis chi square	Firm size (employee number)				Kruskal–Wallis chi square
	0–15 years		More than 15 years			0–9		More than 9		
	Mean	SD	Mean	SD		Mean	SD	Mean	SD	
1. The IFRS for SMEs will ease the transition to the full set of IFRS for growing SMEs.	3.76	0.597	3.44	0.701	4.023**	3.51	0.718	3.47	0.691	0.008
2. Adopting the IFRS for SMEs will improve the opportunities to obtain financial assistance from the banking sector.	3.44	0.768	3.45	0.845	0.037	3.43	0.801	3.45	0.846	0.092
3. Adopting the IFRS for SMEs will improve the efficiency and effectiveness of our company's financial reporting.	3.64	0.810	3.61	0.678	0.004	3.57	0.744	3.63	0.679	0.301
4. The IFRS for SMEs will increase the reliability of the information.	3.36	0.810	3.58	0.682	2.060	3.47	0.718	3.58	0.696	0.920
5. The IFRS for SMEs will inhibit the underground economy.	3.00	0.913	3.43	0.877	5.706**	3.38	0.898	3.37	0.892	0.026
6. The transparency of information will increase.	3.32	0.690	3.62	0.667	4.558**	3.51	0.655	3.61	0.683	0.602
7. Financial statements will be more understandable.	3.44	0.870	3.55	0.710	0.565	3.53	0.747	3.54	0.728	0.016
8. The accountability of entities will increase.	3.44	0.768	3.53	0.720	0.454	3.47	0.747	3.53	0.719	0.219
9. SMEs will be able to reach cross-border markets by applying the IFRS for SMEs.	3.40	0.764	3.31	0.744	0.269	3.17	0.789	3.37	0.727	3.401*
10. The financial reports of SMEs will be comparable in sectors at the international level.	3.56	0.768	3.57	0.676	0.026	3.53	0.747	3.58	0.688	0.259

	Independent auditing				Kruskal–Wallis chi square	Accounting department				Kruskal–Wallis chi square
	Yes		No			Yes		No		
	Mean	SD	Mean	SD		Mean	SD	Mean	SD	
1. The IFRS for SMEs will ease the transition to the full set of IFRS for growing SMEs.	3.49	0.688	3.48	0.701	0.031	3.48	0.687	3.50	0.749	0.012
2. Adopting the IFRS for SMEs will improve the opportunities to obtain financial assistance from the banking sector.	3.55	0.717	3.41	0.866	1.137	3.44	0.815	3.47	0.929	0.251
3. Adopting the IFRS for SMEs will improve the efficiency and effectiveness of our company's financial reporting.	3.66	0.668	3.60	0.703	0.623	3.63	0.693	3.56	0.705	0.619
4. The IFRS for SMEs will increase the reliability of the information.	3.66	0.562	3.52	0.738	1.580	3.52	0.705	3.71	0.676	2.042
5. The IFRS for SMEs will inhibit the underground economy.	3.34	0.815	3.38	0.916	0.063	3.40	0.870	3.24	0.987	0.861
6. The transparency of information will increase.	3.51	0.655	3.61	0.683	0.602	3.57	0.674	3.65	0.691	0.680
7. Financial statements will be more understandable.	3.64	0.640	3.51	0.756	1.127	3.55	0.712	3.50	0.826	0.066
8. The accountability of entities will increase.	3.57	0.617	3.50	0.756	0.350	3.53	0.704	3.44	0.824	0.171
9. SMEs will be able to reach cross-border markets by applying the IFRS for SMEs.	3.34	0.700	3.32	0.760	0.086	3.34	0.722	3.24	0.855	0.752
10. The financial reports of SMEs will be comparable in sectors at the international level.	3.47	0.687	3.60	0.685	0.871	3.54	0.686	3.71	0.676	1.945

* Significant at the 0.1 level; ** significant at the 0.05 level
SD: standard deviation

Table 5.20 Firm characteristics and the perceived advantages of the IFRS for SMEs (continued)

	Export				Kruskal–Wallis chi square	Preparedness				Kruskal–Wallis chi square
	Yes		No			Yes		No		
	Mean	SD	Mean	SD		Mean	SD	Mean	SD	
1. The IFRS for SMEs will ease the transition to the full set of IFRS for growing SMEs.	3.46	0.743	3.50	0.631	0.015	3.67	0.625	3.42	0.708	6.612***
2. Adopting the IFRS for SMEs will improve the opportunities to obtain financial assistance from the banking sector.	3.41	0.900	3.49	0.736	0.039	3.53	1.002	3.42	0.772	1.403
3. Adopting the IFRS for SMEs will improve the efficiency and effectiveness of our company's financial reporting.	3.63	0.707	3.60	0.679	0.735	3.76	0.596	3.57	0.719	2.927*
4. The IFRS for SMEs will increase the reliability of the information.	3.58	0.703	3.52	0.702	0.801	3.76	0.596	3.49	0.722	5.904***
5. The IFRS for SMEs will inhibit the underground economy.	3.32	0.944	3.45	0.813	0.743	3.39	0.931	3.37	0.880	0.003
6. The transparency of information will increase.	3.62	0.670	3.54	0.685	1.124	3.76	0.693	3.53	0.663	4.522**
7. Financial statements will be more understandable.	3.53	0.801	3.56	0.628	0.031	3.76	0.596	3.47	0.758	5.912***
8. The accountability of the entities will increase.	3.46	0.778	3.58	0.644	0.440	3.78	0.550	3.43	0.756	8.311***
9. SMEs will be able to reach cross-border markets by applying the IFRS for SMEs.	3.26	0.776	3.40	0.696	0.453	3.51	0.739	3.26	0.739	5.734***
10. The financial reports of SMEs will be comparable in sectors at the international level.	3.57	0.678	3.56	0.700	0.223	3.63	0.668	3.54	0.692	1.168

* Significant at the 0.1 level; ** significant at the 0.05 level; *** significant at the 0.01 level
SD: standard deviation

5.4.2. Perceived advantages of the IFRS for SMEs by the CPAs

The perception of the CPAs about the advantages of the IFRS for SMEs was analyzed based on a five-point Likert scale from 1 to 5 (i.e. 5=strongly agree; 4=agree; 3=neutral; 2=disagree; 1=strongly disagree). As the score increases, the respondents agree with the statement more, and vice versa. The results of this analysis are presented in Table 5.21.

The CPAs agree that the financial reports of SMEs will be comparable in sectors at the international level (mean=3.84), the IFRS for SMEs will increase the reliability of the information (mean=3.82), adopting the IFRS for SMEs will improve the efficiency and effectiveness of the company's financial reporting (mean=3.80), the transparency of information will increase (mean=3.80), the accountability of entities will increase (mean=3.80), and financial statements will be more understandable (mean=3.72). All of those statements are related to the proposed financial reporting characteristics that are proposed as a result of applying the IFRS/IFRS for SMEs, such as reliability, transparency, accountability, etc.

The CPAs also agree with the remaining advantages of the IFRS for SMEs but not at the same level. They agree that adopting the IFRS for SMEs will improve the opportunities to obtain financial assistance from the banking sector (mean=3.65), the IFRS for SMEs will ease the transition to the full set of IFRS for growing SMEs (mean=3.58), the SMEs will be able to reach cross-border markets by applying the IFRS for SMEs (mean=3.44), and the IFRS for SMEs will inhibit the underground economy (mean=3.37).

The effect of several characteristics on the perception of advantages of the IFRS for SMEs was analyzed, such as experience, education level, CPA firm size, and preparedness, as shown in Table 5.22. The analysis results indicate that the perception of the CPAs is not affected by their experience and education level. In fact, there is some evidence that experience affects the perception of CPAs about the advantages of the new financial reporting sets. According to Cole *et al.* (2011), more experienced CPAs are pessimistic about the advantages of the IFRS, such as comparability. The findings of this study show that CPA firm size and preparedness affect the perception of some advantages by the CPAs.

Firstly, the effect of the CPA firm size on the perception of the CPAs was measured. According to the findings, the CPAs who are personnel of CPA firms that employ fewer than 50 employees agree that the IFRS for SMEs will ease the transition to the full set of IFRS for growing SMEs. The CPAs who are personnel of CPA firms that employ more than 50 employees agree that entities' financial statements will be more understandable. The effect of the preparedness of the CPAs on the perception of the advantages of the IFRS for SMEs was analyzed. There are differences in three statements. It is expected that prepared CPAs will be more aware of the advantages of the IFRS for SMEs. One of the findings supports this expectation. The prepared CPAs agree that the IFRS for SMEs will ease the transition to the full set of IFRS for growing SMEs. Contrary to the expectations, the unprepared CPAs agree that the IFRS for SMEs will inhibit the underground economy.

Table 5.21 Perceived advantages of the IFRS for SMEs by the CPAs

	Strongly disagree		Disagree		Neutral		Agree		Strongly agree			
	No.	**%**	**No.**	**%**	**No.**	**%**	**No.**	**%**	**No.**	**%**	**Mean**	**SD**
1. The IFRS for SMEs will ease the transition to the full set of IFRS for growing SMEs.	2	1.0	31	14.8	32	15.2	133	63.3	12	5.7	3.58	0.845
2. Adopting the IFRS for SMEs will improve the opportunities to obtain financial assistance from the banking sector.	2	1.0	33	15.7	28	13.3	120	57.1	27	12.9	3.65	0.927
3. Adopting the IFRS for SMEs will improve the efficiency and effectiveness of our company's financial reporting.	1	0.5	19	9.1	20	9.5	150	71.4	20	9.5	3.80	0.748
4. The IFRS for SMEs will increase the reliability of the information.	1	0.5	20	9.5	15	7.2	153	72.8	21	10	3.82	0.753
5. The IFRS for SMEs will inhibit the underground economy.	6	2.9	45	21.4	34	16.2	115	54.8	10	4.7	3.37	0.966
6. The transparency of information will increase.	0	0.0	17	8.1	24	11.4	154	73.3	15	7.2	3.80	0.685
7. Financial statements will be more understandable.	4	1.9	20	9.5	20	9.5	153	72.9	13	6.2	3.72	0.796
8. The accountability of entities will increase.	2	1.0	15	7.1	22	10.5	155	73.8	16	7.6	3.80	0.718
9. SMEs will be able to reach cross-border markets by applying the IFRS for SMEs.	7	3.3	38	18.1	34	16.2	118	56.2	13	6.2	3.44	0.968
10. The financial reports of SMEs will be comparable in sectors at the international level.	3	1.5	13	6.2	20	9.5	153	72.8	21	10.0	3.84	0.740

No.: frequency
SD: standard deviation

Table 5.22 CPA characteristics and the perceived advantages of the IFRS for SMEs

	Experience				Kruskal–Wallis chi square	Education level				Kruskal–Wallis chi square
	0–15 years		More than 15 years			High school and bachelor's degree		Master's degree		
	Mean	SD	Mean	SD		Mean	SD	Mean	SD	
1. The IFRS for SMEs will ease the transition to the full set of IFRS for growing SMEs.	3.62	0.838	3.52	0.857	0.542	3.36	0.952	3.61	0.827	2.296
2. Adopting the IFRS for SMEs will improve the opportunities to obtain financial assistance from the banking sector.	3.58	0.933	3.76	0.913	2.435	3.84	0.688	3.63	0.953	0.880
3. Adopting the IFRS for SMEs will improve the efficiency and effectiveness of our company's financial reporting.	3.75	0.779	3.89	0.695	2.416	3.68	0.748	3.82	0.749	1.059
4. The IFRS for SMEs will increase the reliability of the information.	3.83	0.760	3.82	0.747	0.000	3.76	0.723	3.83	0.758	0.262
5. The IFRS for SMEs will inhibit the underground economy.	3.36	1.008	3.39	0.905	0.016	3.20	1.080	3.39	0.950	0.734
6. The transparency of information will increase.	3.77	0.706	3.83	0.656	0.471	3.84	0.688	3.79	0.687	0.192
7. Financial statements will be more understandable.	3.69	0.815	3.76	0.770	0.441	3.64	0.952	3.73	0.775	0.067
8. The accountability of entities will increase.	3.77	0.695	3.85	0.752	1.159	3.92	0.572	3.78	0.735	0.628
9. SMEs will be able to reach cross-border markets by applying the IFRS for SMEs.	3.40	0.981	3.49	0.952	0.344	3.68	0.802	3.41	0.985	1.512
10. The financial reports of SMEs will be comparable in sectors at the international level.	3.87	0.685	3.80	0.818	0.312	3.88	0.726	3.83	0.744	0.121

	Number of clients				Kruskal–Wallis chi square	Preparedness				Kruskal–Wallis chi square
	0–50		More than 50			Yes		No		
	Mean	SD	Mean	SD		Mean	SD	Mean	SD	
1. The IFRS for SMEs will ease the transition to the full set of IFRS for growing SMEs.	3.66	0.825	3.42	0.865	5.005**	3.67	0.783	3.38	0.941	5.411**
2. Adopting the IFRS for SMEs will improve the opportunities to obtain financial assistance from the banking sector.	3.64	0.945	3.67	0.898	0.034	3.63	0.930	3.71	0.924	0.376
3. Adopting the IFRS for SMEs will improve the efficiency and effectiveness of our company's financial reporting.	3.80	0.756	3.81	0.739	0.30	3.79	0.718	3.83	0.815	0.632
4. The IFRS for SMEs will increase the reliability of the information.	3.82	0.740	3.84	0.782	0.098	3.80	0.725	3.88	0.814	1.038
5. The IFRS for SMEs will inhibit the underground economy.	3.30	1.003	3.51	0.884	2.159	3.27	0.977	3.59	0.911	5.608**
6. The transparency of information will increase.	3.74	0.718	3.89	0.614	2.208	3.81	0.661	3.77	0.740	0.086
7. Financial statements will be more understandable.	3.64	0.839	3.88	0.686	5.080**	3.74	0.738	3.68	0.917	0.049
8. The accountability of entities will increase.	3.81	0.681	3.78	0.786	0.020	3.79	0.698	3.82	0.763	0.110
9. SMEs will be able to reach cross-border markets by applying the IFRS for SMEs.	3.45	0.954	3.42	0.999	0.026	3.43	0.936	3.45	1.040	0.197
10. The financial reports of SMEs will be comparable in sectors at the international level.	3.81	0.782	3.89	0.657	0.438	3.83	0.713	3.86	0.802	0.507

** Significant at the 0.05 level
SD: standard deviation

5.5. Perceived disadvantages and obstacles of the IFRS for SMEs

Global financial reporting convergence causes several problems and challenges for entities, CPAs, auditors, and all users of financial statements (Jermakowicz & Gornik-Tomaszewski, 2006). The statements about the perceived disadvantages of the IFRS for SMEs were determined based on the prior literature (Jermakowicz & Gornik-Tomaszewski, 2006; Poroy Arsoy & Sipahi, 2007; Ballas *et al.* 2010; Müllerova *et al.* 2010a; Navarro-Garcia & Bastida, 2010; Rezaee *et al.* 2010). The perception of the SMEs and the CPAs about the disadvantages of the IFRS for SMEs was analyzed, and the results of those analyses are presented in the following section.

The answers of the respondents were measured on a five-point Likert scale from 1 to 5 (i.e. 5=strongly agree; 4=agree; 3=neutral; 2=disagree; 1=strongly disagree). As the score increases, the respondents agree with the statement more, and vice versa.

The internal consistency and reliability of the survey instrument were measured using Cronbach's alpha (Cronbach, 1951). According to Nunnaly (1978), a score of 0.70 is acceptable. The Cronbach's alpha values of advantages scale of the SME and CPA survey instruments are above the acceptable value: 0.709 and 0.602, respectively. This finding shows the reliability of the advantages scale of the survey instrument that has been used for this research.

5.5.1. Perceived disadvantages and obstacles of the IFRS for SMEs by the SMEs

Table 5.23 presents the views of the respondents about the disadvantages of the IFRS for SMEs. A large percentage of the respondents agree with most of the statements about the disadvantages of the IFRS for SMEs. Firstly, most of the respondents agree that the training of personnel will be time-consuming (mean=3.61). A large percentage of the professionals in Turkey are not familiar with international reporting standards. They should acquire the necessary training and learn the IFRS for SMEs. Besides learning the standards, accountants should also learn the different approaches in the new financial reporting thinking (Müllerova *et al.* 2010a). Thus, the training of professionals will be a time-consuming process for entities. The training of accounting personnel will be one of the most important challenges in the adoption process of international reporting standards not only for Turkey, but also for other countries, such as Portugal (Guerreiro *et al.* 2008), Romania (Albu *et al.* 2010), the Czech Republic (Müllerova *et al.* 2010a), Croatia (Cirkveni, 2011), and Nigeria (Madawaki, 2012).

The better the professionals are trained, the greater their familiarity with the new standard will be (Chand *et al.* 2010). As the familiarity of the professionals with the new standard increases, the consistency in their applications will also increase (Chand *et al.* 2010).

The majority of the participants agree that the adoption of the IFRS for SMEs will be costly for entities (mean=3.54). According to the previous literature, adoption of the IFRS/IFRS for SMEs will be costly for entities (Jermakowicz & Gornik-Tomaszewski, 2006; Maingot & Zeghal, 2006; Guerreiro *et al.* 2008; Taylor, 2009; Ballas *et al.* 2010; Navarro-Garcia & Bastida, 2010). There are several costs related to the application of the IFRS for SMEs, including training costs, new accounting software, information system changes, reformatting of financial statements, purchasing of new accounting literature, and the need for consulting services (Tyrrall *et al.* 2007; Taylor, 2009; Winney *et al.* 2010; Bunea-Bontas *et al.* 2011). Presenting the necessary information and making the necessary disclosures that are compatible with the IFRS is perceived as costly by SMEs. SMEs will continue to prepare financial statements for tax purposes. Hence, they will endure costs relating to the application of two systems (Ballas *et al.* 2010). On the other hand, training personnel, renewing the existing accounting program, and information system changes are also costly for SMEs, especially for micro-sized entities. All in all, the cost of the implementation of international reporting standards is one of the most important obstacles to the adoption process (Winney *et al.* 2010).

A large percentage of the participants also agree that the adoption of the IFRS for SMEs will be difficult because of translation weaknesses (mean=3.53). This finding is compatible with prior studies (Poroy Arsoy & Sipahi, 2007; Tyrrall *et al.* 2007; Alp &

Ustundag, 2009; Ballas *et al.* 2010). According to Alp and Ustundag (2009: 690), there are several difficulties due to the translation of the standards, such as the use of lengthy English sentences, inconsistent use of terminology, the use of the same terms for different concepts, and the use of terminology that is difficult to translate.

The respondents also agree that the IFRS for SMEs requires too much information for disclosure (mean=3.48); the IFRS for SMEs is too subjective for application because of several alternatives in some standards (mean=3.46); and the SMEs in Turkey will not be able to employ accountants who are qualified in IFRSs (mean=3.42).

The respondents are not sure whether the IFRS for SMEs has enough sector-adapted regulation or not (mean=3.28). The respondents are also uncertain whether interpreting the IFRS for SMEs will be difficult (mean=3.28). Those disadvantages may be understood after the application period. The respondents will understand whether they can easily interpret the standard or not after they have applied it in their company. Thus, they are not sure about this advantage yet. They will also see whether the standard is applicable to their industry after using it actively.

In addition, most of the respondents have not made preparations for the IFRS for SMEs and they have a general view about this standard. It is possible that as their information level about this set increases, they will become more certain about the disadvantages of the IFRS for SMEs.

The effect of several firm characteristics on their perception of the disadvantages of the IFRS for SMEs was analyzed (Table 5.24). According to the findings, the age of the company, firm size, existence of an accounting department, and internationality affect the perception of the respondents about the disadvantages of the IFRS for SMEs.

Firstly, the effect of the age of a company on its perception about the disadvantages of the IFRS for SMEs was investigated. The entities that have operated for more than 15 years agree that the first adoption of the IFRS for SMEs will be costly for entities. As the age of the entities rises, the perception of the respondents about the cost of the IFRS for SMEs increases.

Then, the effect of size on the perception of SMEs about the IFRS for SMEs was analyzed. The analysis results show that micro-sized entities perceive that the IFRS for SMEs has insufficient sector-adapted regulation and that interpreting those standards will be difficult. According to the findings, most of the prepared entities were large-sized ones that have more information about the content of the IFRS for SMEs, so micro-sized entities may have not enough information about the content of the IFRS for SMEs and may perceive this standard as difficult.

The existence of an accounting department also affects the perception of the SMEs about the disadvantages of IFRS for SMEs. According to the findings, the SMEs that do not have an accounting department perceive that the IFRS for SMEs has insufficient sector-adapted regulation, interpreting those standards will be difficult, and the SMEs in Turkey will not be able to employ accountants who are qualified in IFRSs.

The entities that do not have a separate accounting department may have fewer qualified personnel in the field of accounting, so those personnel may have prepared less for the IFRS for SMEs. The respondents who are personnel of the SMEs that do not have a separate accounting department may perceive this standard as difficult because they have not made enough preparations. The respondents who are personnel of the entities that have no accounting department also perceive that those entities will not be able to employ qualified accountants.

Internationality also affects the perception of the entities about the disadvantages of the IFRS for SMEs. According to the entities that carry out exporting, the training of staff will be time-consuming, the adoption of the IFRS for SMEs will be difficult because of translation weaknesses, and the IFRS for SMEs requires too much information for disclosure. The findings of the study show that the preparedness of the SMEs does not affect their perception of the disadvantages of the IFRS for SMEs.

Table 5.23 Perceived disadvantages and obstacles of the IFRS for SMEs by the SMEs

	Strongly disagree		Disagree		Neutral		Agree		Strongly agree			
	No.	**%**	**No.**	**%**	**No.**	**%**	**No.**	**%**	**No.**	**%**	**Mean**	**SD**
1. The first adoption of the IFRS for SMEs will be costly for entities.	1	0.5	15	7.6	64	32.3	113	57.1	5	2.5	3.54	0.695
2. Training of staff will be time-consuming.	0	0.0	20	10.1	49	24.7	118	59.6	11	5.6	3.61	0.745
3. The IFRS for SMEs is too subjective for application because of several alternatives in some parts.	0	0.0	22	11.1	68	34.3	102	51.5	6	3.1	3.46	0.731
4. The IFRS for SMEs has insufficient sector-adapted regulation.	0	0.0	32	16.2	85	42.9	74	37.4	7	3.5	3.28	0.774
5. The adoption of the IFRS for SMEs will be difficult because of the translation weaknesses.	0	0.0	11	5.6	80	40.4	99	50.0	8	4.0	3.53	0.666
6. The IFRS for SMEs requires too much information to disclose.	1	0.5	15	7.6	77	38.9	98	49.5	7	3.5	3.48	0.710
7. Interpreting the standard will be difficult.	2	1.0	33	16.7	78	39.4	78	39.4	7	3.5	3.28	0.818
8. The SMEs in Turkey will not be able to employ accountants who are qualified in IFRSs.	2	1.0	26	13.1	62	31.3	102	51.5	6	3.1	3.42	0.795

No.: frequency
SD: standard deviation

Table 5.24 Firm characteristics and the perceived disadvantages and obstacles of the IFRS for SMEs

	Operating year				Kruskal–Wallis chi square	Firm size (employee number)				Kruskal–Wallis chi square
	0–15 years		More than 15 years			0–9		More than 9		
	Mean	SD	Mean	SD		Mean	SD	Mean	SD	
1. The first adoption of the IFRS for SMEs will be costly for entities.	3.32	0.748	3.57	0.684	3.612**	3.68	0.594	3.49	0.720	1.968
2. Training of staff will be time-consuming.	3.40	0.816	3.64	0.732	2.219	3.60	0.712	3.61	0.757	0.047
3. The IFRS for SMEs is too subjective for application because of several alternatives in some parts.	3.36	0.810	3.48	0.720	0.556	3.49	0.718	3.46	0.737	0.110
4. The IFRS for SMEs has insufficient sector-adapted regulation.	3.16	0.800	3.30	0.771	0.842	3.51	0.688	3.21	0.788	5.404**
5. The adoption of the IFRS for SMEs will be difficult because of the translation weaknesses.	3.48	0.823	3.53	0.643	0.075	3.51	0.718	3.53	0.651	0.074
6. The IFRS for SMEs requires too much information to disclose.	3.40	0.913	3.49	0.679	0.012	3.53	0.747	3.46	0.700	0.974
7. Interpreting the standard will be difficult.	3.32	0.900	3.27	0.808	0.155	3.45	0.717	3.23	0.842	2.838*
8. The SMEs in Turkey will not be able to employ accountants who are qualified in IFRSs.	3.28	0.737	3.45	0.802	1.261	3.55	0.746	3.38	0.807	1.525

	Independent auditing				Kruskal–Wallis chi square	Accounting department				Kruskal–Wallis chi square
	Yes		No			Yes		No		
	Mean	SD	Mean	SD		Mean	SD	Mean	SD	
1. The first adoption of the IFRS for SMEs will be costly for entities.	3.47	0.747	3.56	0.680	0.375	3.51	0.705	3.65	0.646	1.099
2. Training of staff will be time-consuming.	3.57	0.773	3.62	0.738	0.029	3.58	0.751	3.74	0.710	1.063
3. The IFRS for SMEs is too subjective for application because of several alternatives in some parts.	3.40	0.712	3.48	0.738	0.285	3.45	0.729	3.56	0.746	0.586
4. The IFRS for SMEs has insufficient sector-adapted regulation.	3.09	0.747	3.34	0.775	3.568	3.24	0.766	3.50	0.788	3.442*
5. The adoption of the IFRS for SMEs will be difficult because of the translation weaknesses.	3.60	0.648	3.50	0.672	0.743	3.55	0.667	3.38	0.652	1.514
6. The IFRS for SMEs requires too much information to disclose.	3.40	0.742	3.50	0.701	0.479	3.46	0.730	3.56	0.613	0.713
7. Interpreting the standard will be difficult.	3.15	0.659	3.32	0.859	2.164	3.23	0.816	3.53	0.788	4.067**
8. The SMEs in Turkey will not be able to employ accountants who are qualified in IFRSs.	3.36	0.764	3.44	0.805	0.629	3.36	0.806	3.74	0.666	6.566***

* Significant at the 0.1 level; ** significant at the 0.05 level; *** significant at the 0.01 level
SD: standard deviation

Table 5.24 Firm characteristics and the perceived disadvantages and obstacles of the IFRS for SMEs (continued)

	Export				Kruskal–Wallis chi square	Preparedness				Kruskal–Wallis chi square
	Yes		No			Yes		No		
	Mean	SD	Mean	SD		Mean	SD	Mean	SD	
1. The first adoption of the IFRS for SMEs will be costly for entities.	3.57	0.704	3.49	0.685	1.222	3.61	0.759	3.51	0.674	1.619
2. Training of staff will be time-consuming.	3.68	0.744	3.50	0.736	3.125*	3.65	0.805	3.59	0.726	0.515
3. The IFRS for SMEs is too subjective for application because of several alternatives in some parts.	3.51	0.732	3.40	0.730	1.130	3.41	0.864	3.48	0.684	0.048
4. The IFRS for SMEs has insufficient sector-adapted regulation.	3.33	0.806	3.21	0.729	1.359	3.18	0.882	3.32	0.736	0.505
5. The adoption of the IFRS for SMEs will be difficult because of the translation weaknesses.	3.66	0.592	3.35	0.720	10.270***	3.57	0.677	3.51	0.664	0.468
6. The IFRS for SMEs requires too much information to disclose.	3.55	0.680	3.38	0.743	3.064*	3.61	0.759	3.44	0.691	2.231
7. Interpreting the standard will be difficult.	3.32	0.791	3.23	0.855	0.797	3.20	0.866	3.30	0.803	0.281
8. The SMEs in Turkey will not be able to employ accountants who are qualified in IFRSs.	3.46	0.800	3.38	0.790	0.806	3.33	0.826	3.46	0.784	0.919

* Significant at the 0.1 level; *** significant at the 0.01 level
SD: standard deviation

5.5.2. Perceived disadvantages and obstacles of the IFRS for SMEs by the CPAs

The perception of the CPAs about the disadvantages of the IFRS for SMEs was analyzed based on a five-point Likert scale from 1 to 5 (i.e. 5=strongly agree; 4=agree; 3=neutral; 2=disagree; 1=strongly disagree). As the score increases, the respondents agree with the statement more, and vice versa. The results are presented in Table 5.25.

A large percentage of the CPAs agree with most of the disadvantages and obstacles of the IFRS for SMEs, including that the staff training will be time-consuming (mean=4.0), the adoption of the IFRS for SMEs will be difficult because of the translation weaknesses (mean=3.81), the IFRS for SMEs requires too much information to disclose (mean=3.79), the first adoption of the IFRS for SMEs will be costly for entities (mean=3.67), the IFRS for SMEs is too subjective for application because of several alternatives in some parts (mean=3.58), the SMEs in Turkey will not be able to employ accountants who are qualified in IFRSs (mean=3.56), the IFRS for SMEs has insufficient sector-adapted regulation (mean=3.42), and interpreting the standard will be difficult (mean=3.37). The effect of several characteristics on the perception of the CPAs about the disadvantages of the IFRS for SMEs was investigated (Table 5.26). According to the findings, the education level, number of clients, and preparedness affect the perception of the CPAs about the disadvantages of the IFRS for SMEs in several ways. The CPAs who have an education level of at least a master’s degree agree that the first adoption of the IFRS for SMEs will be costly for entities. The CPAs who are personnel of CPA firms that have more than 50 employees perceive that the training of the staff will be time-consuming. The prepared CPAs agree that the IFRS for SMEs requires too much information for disclosure.

Table 5.25 Perceived disadvantages and obstacles of the IFRS for SMEs by the CPAs

	Strongly disagree		Disagree		Neutral		Agree		Strongly agree			
	No.	%	No.	%	No.	%	No.	%	No.	%	Mean	SD
1. The first adoption of the IFRS for SMEs will be costly for entities.	2	1.0	30	14.3	24	11.4	134	63.8	20	9.5	3.67	0.871
2. Training of staff will be time-consuming.	0	0.0	7	3.3	9	4.3	171	81.4	23	11.0	4.00	0.536
3. The IFRS for SMEs is too subjective for application because of several alternatives in some parts.	0	0.0	35	16.6	31	14.8	131	62.4	13	6.2	3.58	0.839
4. The IFRS for SMEs has insufficient sector-adapted regulation.	3	1.4	43	20.5	38	18.1	114	54.3	12	5.7	3.42	0.926
5. The adoption of the IFRS for SMEs will be difficult because of the translation weaknesses.	2	1.0	13	6.2	33	15.7	137	65.2	25	11.9	3.81	0.759
6. The IFRS for SMEs requires too much information to disclose.	1	0.5	19	9.1	28	13.3	138	65.7	24	11.4	3.79	0.781
7. Interpreting the standard will be difficult.	6	2.9	52	24.8	27	12.8	109	51.9	16	7.6	3.37	1.028
8. The SMEs in Turkey will not be able to employ accountants who are qualified in IFRSs.	10	4.8	35	16.7	21	10.0	116	55.2	28	13.3	3.56	1.067

No.: frequency
SD: standard deviation

Table 5.26 CPA characteristics and the perceived disadvantages and obstacles of the IFRS for SMEs

	Experience					Education level				
	0–15 years		More than 15 years		Kruskal–Wallis chi square	High school and bachelor's degree		Master's degree		Kruskal–Wallis chi square
	Mean	SD	Mean	SD		Mean	SD	Mean	SD	
1. The first adoption of the IFRS for SMEs will be costly for entities.	3.71	0.895	3.61	0.836	1.039	3.32	1.180	3.71	0.814	2.799*
2. Training of staff will be time-consuming.	4.00	0.551	4.00	0.515	0.053	3.92	0.702	4.01	0.511	0.182
3. The IFRS for SMEs is too subjective for application because of several alternatives in some parts.	3.63	0.786	3.50	0.912	0.961	3.44	0.917	3.60	0.829	0.608
4. The IFRS for SMEs has insufficient sector-adapted regulation.	3.34	0.989	3.55	0.813	1.937	3.36	1.036	3.43	0.913	0.050
5. The adoption of the IFRS for SMEs will be difficult because of the translation weaknesses.	3.77	0.792	3.87	0.708	0.400	3.60	1.041	3.84	0.711	0.600
6. The IFRS for SMEs requires too much information to disclose.	3.79	0.733	3.79	0.851	0.073	3.76	0.831	3.79	0.776	0.011
7. Interpreting the standard will be difficult.	3.47	0.985	3.21	1.076	3.085*	3.40	1.041	3.36	1.029	0.025
8. The SMEs in Turkey will not be able to employ accountants who are qualified in IFRSs.	3.66	0.965	3.40	1.194	1.857	3.52	1.159	3.56	1.057	0.000
	Number of clients				**Kruskal–Wallis chi square**	**Preparedness**				**Kruskal–Wallis chi square**
	0–50		**More than 50**			**Yes**		**No**		
	Mean	**SD**	**Mean**	**SD**		**Mean**	**SD**	**Mean**	**SD**	
1. The first adoption of the IFRS for SMEs will be costly for entities.	3.74	0.816	3.53	0.959	2.281	3.65	0.873	3.71	0.873	0.383
2. Training of staff will be time-consuming.	3.95	0.560	4.10	0.476	3.529*	4.01	0.535	3.98	0.540	0.152
3. The IFRS for SMEs is too subjective for application because of several alternatives in some parts.	3.62	0.806	3.51	0.899	0.713	3.60	0.814	3.55	0.898	0.083
4. The IFRS for SMEs has insufficient sector-adapted regulation.	3.42	0.905	3.42	0.971	0.014	3.38	0.907	3.53	0.964	1.845
5. The adoption of the IFRS for SMEs will be difficult because of the translation weaknesses.	3.80	0.756	3.82	0.770	0.000	3.83	0.723	3.77	0.837	0.058
6. The IFRS for SMEs requires too much information to disclose.	3.84	0.740	3.68	0.848	1.647	3.87	0.722	3.61	0.875	5.182**
7. Interpreting the standard will be difficult.	3.39	1.009	3.33	1.068	0.116	3.36	1.035	3.38	1.019	0.011
8. The SMEs in Turkey will not be able to employ accountants who are qualified in IFRSs.	3.53	1.037	3.62	1.126	0.653	3.51	1.077	3.65	1.045	1.008

* Significant at the 0.1 level; ** significant at the 0.05 level
SD: standard deviation

5.6. Comments of the respondents

Comments were sought from the respondents about the IFRS for SMEs in addition to the questionnaire. There were in total 66 supplementary comments from the respondents, 21 of which were from representatives of SMEs and 45 of which were from CPAs.

The comments of the representatives of SMEs and CPAs were analyzed with QSR-NVivo version 10, which is a qualitative software program. Many prior studies have employed QSR-NVivo to conduct qualitative analysis (Marwata, 2006; Fearnley & Hines, 2007; Hellmann *et al.* 2010).

According to the analysis results, the most frequently stated problems related to the IFRS application are the lack of training, the complex nature of the standards, and the lack of infrastructure in the SMEs. Moreover, the lack of a clear SME definition and the existence of an underground economy were indicated as challenges by the respondents. The application of the IFRS for SMEs should be postponed according to some respondents. Many of them indicated that IFRS application will be troublesome for SMEs. Table 5.27 shows a frequency analysis of the comments of the SMEs and the CPAs.

Table 5.27 Frequency analysis of the supplementary comments of the respondents

	No.	%
Stated problems		
Lack of training	46	69
Complex nature of the standards	8	12
Lack of infrastructure	8	12
Lack of a clear SME definition	6	9
Existence of an underground economy	4	6
Perception		
The adoption will take a long time	18	27
The IFRS for SMEs is troublesome	14	21
The IFRS for SMEs is difficult	8	12
The adoption of the IFRS for SMEs will be successful	8	12
It is too early to apply the IFRS for SMEs	6	9
It will be advantageous to apply the IFRS for SMEs	2	3
Suggestions		
Related parties should take the necessary training	20	30
The adoption of the IFRS for SMEs should be postponed	8	12
The SME definition should be clarified	6	9
The underground economy should be inhibited	4	6
The related communiqué should be announced	2	2
Auditing of the financial reporting should be undertaken	2	2

No.: frequency

The supplementary comments of the SMEs and the CPAs are presented in the following section.

5.6.1. Comments of the SMEs

In total, 23 additional comments were received from the representatives of SMEs. Most of the respondents indicated that the related parties to the IFRS for SMEs should undergo the necessary training. One of them noticed that:

> The adoption process of the IFRS for SMEs will be troublesome for the entities. The participants should give importance to the trainings for this set.

Another one stated that:

> We should be open to new ideas. We should give importance to the trainings about the IFRS for SMEs.

A significant percentage of the respondents indicated that one of the most important challenges for the IFRS adoption process is the lack of necessary infrastructure in the SMEs. One of the respondents noticed that:

> The adoption process for the IFRS will be troublesome for the SMEs because of the lack of training and corporate infrastructure.

The respondents suggested that the necessary infrastructure for the IFRS can be maintained by training.

> The infrastructure for the IFRS for SMEs should be maintained by giving necessary training to the participants.

Most of the respondents are pessimistic about the IFRS application in SMEs. They indicated that the adoption process will take a long time. Some of them suggested postponement of the application of this standard, and some are sure that the adoption process of the IFRS will not be successful.

A large percentage of the respondents also suggested that a clear definition of SMEs should be made for an effective adoption process for the IFRS. One of them said that:

> Firstly, the definition of an SME should be done clearly. Then, the standard set should be put into practice.

Another one stated:

> The definition of an SME should be clarified for an effective adoption process in the entities.

One of the respondents indicated the importance of auditing for an effective adoption process for the IFRS in the SMEs. According to him, the IFRS can be applied properly by SMEs if their applications are audited by an authority.

In conclusion, the representatives of SMEs indicated the challenges for the IFRS adoption process to be the lack of training and the lack of necessary infrastructure in the entities. According to the respondents, the parties to the IFRS should undergo the necessary training as soon as possible. The participants also noticed that the SME definition should be made clear in Turkey for a more effective adoption process of the IFRS. Besides, the importance of auditing the IFRS applications of entities was indicated by the respondents.

5.6.2. Comments of the CPAs

In total, 45 comments were received from CPAs about the IFRS for SMEs. Most of the CPAs indicated that the related parties to the IFRS have not yet had the necessary training. According to them, the parties, including managers, owners, and accounting personnel, should take the IFRS training as soon as possible. One of the CPAs stated that:

> The managers and owners of the entities should also take trainings about the IFRS.

Many of the CPAs suggested postponement of the IFRS. One of the CPAs indicated that:

> The application date for the IFRS for SMEs must be postponed. The related parties to this set should take necessary trainings within this period.

Another CPA stated that:

> It is too early to apply the IFRS for SMEs in Turkey. If this standard is applied by the entities, most of them will be closed down.

Another CPA indicated that:

> Most of the SMEs in Turkey do not have the necessary qualifications to become an SME. If all of the current SMEs apply this standard, the adoption process will be troublesome for them.

A significant percentage of the CPAs noted that IFRS application will be troublesome for SMEs, especially for micro-sized entities. One of the CPAs stated that:

> The application of this standard will be very difficult for the micro-sized entities because they do not have the necessary corporate infrastructure.

Another one stated that:

> Micro-sized entities should be exempted from the application of IFRS.

According to a CPA, the IFRS will be advantageous for the entities that carry out exporting and importing. However, this standard proposes an unacceptable financial reporting system for micro-sized entities that do not have foreign partners or sales. Another CPA stated that the IFRS for SMEs is very detailed.

Some of the CPAs are very pessimistic about the adoption process of the IFRS in Turkey. One of them indicated that this new reporting system will only increase the workload of accounting professionals. Another one stated that the transition process to the IFRS will be burdensome because it is very difficult to explain this standard to entities. Furthermore, a CPA reported that the IFRS for SMEs will be an unnecessary application for the entities in Turkey. According to him, the IFRS for SMEs will only increase the amount of information disclosure. On the other hand, some of the CPAs favor the adoption process of the IFRS for SMEs in Turkey. According to one CPA, the application of this standard will be practical. One of the respondents indicated that:

> If the applicants obey the necessary rules, the related problems about the application of this set will be overcome.

Another respondent stated that:

> The craftsman will not be affected by the application of this standard set. Only the entities which have international activities will be affected.

CPAs also made several suggestions related to an effective adoption process for the IFRS for SMEs. Most of them indicated that the SME definition must be clarified. According to one CPA, firstly the underground economy must be inhibited. A significant percentage of the respondents stated that the related parties should have the necessary training for an effective adoption process. Some of the CPAs also suggested the announcement of the related communiqué as soon as possible.

In conclusion, the CPAs stated the challenges for the IFRS application as being the lack of training, the existence of an underground economy, and the complex nature of the standard. Most of them indicated that the application of this standard will be very difficult for SMEs, especially for micro-sized ones. Therefore, they suggested the exemption of micro-sized entities from the scope of the IFRS for SMEs application. Many of the CPAs suggested the postponement of the application of the IFRS for SMEs. They stated that the problems related to the adoption process can be overcome by training the related parties, including managers, owners, and accountants. Furthermore, the underground economy must be inhibited for a more effective transition process to the IFRS for SMEs.

CHAPTER 6

INTERVIEWS ABOUT THE ADOPTION OF THE IFRS FOR SMEs IN TURKEY

The regulatory and professional bodies that carry out the adoption process of the IFRS for SMEs make legislation, translate the sets into the local language, train the accountants and professionals, etc. Every country makes different preparations for this process because of the differences among their economic, social, accounting, legal, and political contexts. Turkey is also undertaking several activities related to the adoption of the IFRS for SMEs. Firstly, the standard was translated into Turkish by the TMSK when it was published by the IASB in 2009. Then, the TÜRMOB and several other institutions provided some training for accountants. Finally, the use of the IFRS for SMEs has been legitimized by the New Turkish Commercial Code.

In this part, the interviews that were conducted with professionals in the field of accounting about the adoption process of the IFRS for SMEs will be presented.

6.1. Methodology of the study

Many studies have employed the interview method for gathering data in the field of accounting (Xiao *et al.* 2004; Dao & Hong, 2005; Graham *et al.* 2005; Hodges & Mellett, 2005; Kwok & Sharp, 2005; Mir & Rahaman, 2005; Jermakowicz & Gornik-Tomaszewski, 2006; Marwata, 2006; Fearnley & Hines, 2007; Tyrrall *et al.* 2007; Ghazali, 2008; Hassan, 2008; Sciulli & Sims, 2008; Malthus & Fowler, 2009; Albu *et al.* 2010; Hellmann *et al.* 2010; Monteiro & Aibar-Guzman, 2010; Harun *et al.* 2012). Some of those studies are summarized below.

Dao and Hong (2005) carried out ten interviews to obtain information about the methods used by regulatory bodies to analyze financial reports. Graham *et al.* (2005) used the interview method to support the findings that they obtained from surveys. They interviewed a total of 20 participants.

Hodges and Mellett (2005) investigated the development of the public sector accounting policy for the UK's Private Finance Initiative by performing interviews. The research was based on interviews that took place with three respondents. The data gathered in the interviews were analyzed with the cross-interview method (Patton, 1990; Hodges & Mellett, 2005).

Mir and Rahaman (2005) explored the adoption process of the international accounting standards in Bangladesh by evaluating the recent decision of the Bangladeshi Government and accounting profession. They conducted a total of 27 interviews. The respondents were selected for the interviews from the people who were directly involved in making decisions concerning the adoption process. The interviews were supported by the data archives. The archives and interviews were the main sources of data for this study.

Fearnley and Hines (2007) investigated the development of attitudes toward financial reporting solutions for unlisted UK entities. One of the main sources of data was interviews. They conducted 12 interviews. The interviewees were drawn from practitioners and regulators. Content analysis was performed to analyze the interviews by using the N-Vivo software program.

Sciulli and Sims (2008) used in-depth interviews to understand the obstacles and opportunities in the public sector accounting education in Australian universities. The in-depth interviews were supported by telephone interviews.

Ghazali (2008) analyzed the qualitative factors that affect entities' voluntary disclosure level. For this purpose, she conducted 27 face-to-face interviews. Content analysis was carried out to analyze the transcripts of the interviews.

Hellmann *et al.* (2010) researched the contextual issues of the convergence process of the IFRS in Germany by performing interviews. They conducted eleven interviews for this purpose and selected the respondents from the accounting field. The interviews were analyzed using the iterative process of transcription, coding, and interpretation. All the transcripts were coded employing the N-Vivo software program, which is useful for qualitative data analysis.

Monteiro and Aibar-Guzman (2010) conducted ten interviews to gather data about the role of accounting in the process of organizational change. Harun *et al.* (2012) also followed the interview method in their study. In total 36 interviews were conducted. They prepared the questions by taking into account the roles of each respondent.

In addition to the surveys, face-to-face in-depth interviews were conducted for this thesis. One of the main sources of data for this study was the interviews. Interviews are useful for understanding “why” and “how” rather than “what” (Ryan, 1999). For this purpose, six interviews were carried out over a period of five months from February to June 2012 to provide more data to develop our understanding of the adoption process of the IFRS for SMEs in Turkey. During the interviews, notes were taken and a tape recorder was used with permission. Permission was granted for all six interviews to be recorded and later transcribed. Respondent anonymity was guaranteed. To maintain the anonymity of the interviewees, the respondents are referred to as Interviewee 1, Interviewee 2, and so on in the discussion.

The interviews were conducted in Turkish. Thus, firstly the interviews were transcribed based on the recordings and notes taken during the interviews, and then translated into English to perform the analysis. The respondents were selected from among auditors, accountants, and academicians who are quite knowledgeable with regard to the research goals. The profiles of the respondents are presented in Table 6.1.

Table 6.1 Interviewee profiles

Interviewee	Position	Firm
Interviewee 1	Academician	Public university
Interviewee 2	Auditor	Auditing firm
Interviewee 3	Academician	Private university
Interviewee 4	CPA	CPA firm
Interviewee 5	Auditor	Big-4 auditing firm
Interviewee 6	Auditor	Big-4 auditing firm

All the interview questions were open-ended and unstructured to allow the participants to provide their opinions through a "free-flowing" discussion. These unstructured questions were supported by supplementary questions during the interviews. Open-ended questions allow the respondents to expand on their opinions about the subjects covered in the interview. Also, the open-ended and unstructured format encourages the interviewees to speak broadly and deeply about the issues (Marwata, 2006). The interviews were based on research questions that were developed as a result of the literature review. The order in which the questions were presented was altered during the interviews to keep the underlying aim of the interviews. The length of the interviews was between 30 and 90 minutes.

The interviews aimed to point out the expectations and perceptions of the respondents about the application of the IFRS for SMEs in Turkey. The research questions are presented in Table 6.2.

Table 6.2 List of questions the interviewees were asked

Interview questions
1. What do you think about the financial reporting characteristics of SMEs in Turkey?
2. Why is there a need for a separate standard set for SMEs?
3. Has the IFRS for SMEs been simplified enough for the use of SMEs?
4. Is the IFRS for SMEs also applicable to micro-sized entities, which have fewer than ten employees?
5. What are the advantages of the IFRS for SMEs in the Turkish context?
6. Are there any disadvantages that will be caused by the IFRS for SMEs?
7. Will the competitive position of the entities be affected by the use of the IFRS for SMEs?
8. What will be the challenges that may be faced by entities during the adoption process of the IFRS for SMEs?
9. What do you think about the effects of the IFRS for SMEs on other stakeholders, such as banks, credit institutions, etc.?
10. Is the calendar that is determined for the IFRS for SMEs appropriate? Should there be any postponement?
11. How are the related parties preparing for the IFRS for SMEs in Turkey?
12. What should be done to make the adoption process of the IFRS for SMEs easier and quicker?
13. Which institutions are responsible for the adoption process of this standard set? What are their responsibilities?
14. Are the published sources enough to understand and apply the IFRS for SMEs?

The data gathered in the interviews were analyzed following the cross-interview approach. The relevant key comments of the interviewees and a discussion of the findings are presented next.

6.2. Discussion of the interviews

The discussion will be performed according to the sequence of questions on the question sheet. The first issue that will be handled is the financial reporting characteristics of SMEs.

6.2.1. The financial reporting characteristics of SMEs in Turkey

The first issue that will be discussed in this section is the financial reporting characteristics of SMEs in the Turkish context. SMEs have some separate characteristics that differentiate them from listed and publicly accountable entities. All the interviewees pointed out that SMEs undertake financial reporting only for tax purposes in Turkey. According to Interviewee 1:

> The SMEs make financial reporting for tax purposes not only in Turkey, but also all over the world because of the nature of their work. The Tax Authority wants financial statements from those entities, so they prepare the financial statements only in accordance with the Tax Law.

Interviewee 2 supported Interviewee 1’s answer:

> The SMEs in Turkey do not make financial reporting as directed by the New Turkish Commercial Code. The SMEs are also not audited as mentioned in the New Turkish Commercial Code.

Interviewee 5 also stated that the financial reporting system of unlisted entities is not organized and SMEs are not audited as directed by the New Turkish Commercial Code.

Interviewee 4 indicated as a CPA:

> We keep the accounts of the SMEs only for tax purposes.

This type of reporting affects the quality of the financial information presented. Interviewee 4 specified the financial reporting quality problem, as shown below.

> Current financial statements of the SMEs do not present their actual position because they are created only for tax purposes.

Interviewee 5 explained the financial information quality problem of SMEs as follows:

> The SMEs prepare their financial statements to present to the Ministry of Finance. The aim of the Ministry of Finance is to collect tax. So, the financial reporting information which is presented by the SMEs does not show their actual position. Banks do not use the financial statements of the entities. They take the owners' or partners' property as collateral to give them credit. So, this situation affects the usability of the financial statements of the entities. Nobody trusts the financial statements of those entities because they do not show the reality. On the other hand, the financial reporting of the companies is not audited by anybody. The accuracy of the financial information which is submitted to the Tax Authority is also open to question.

All of the interviewees explained the financial reporting characteristics of SMEs. Interviewee 3 also briefly gave general information about the financial reporting in Turkey.

> Turkey is ahead of many countries in terms of the accounting practices. Financial statements have already been prepared in a common format due to the uniform accounting system. Consequently, similar accounts and similar applications have been used by the SMEs under a uniform accounting system. There has been a common accounting culture in Turkey since 1994.

Almost all the interviewees pointed out that the financial reporting in SMEs is performed for tax purposes and to present financial statements to the Tax Authority. Thus, other decision makers cannot use the financial statements of the entities for decision making because those financial statements do not show their real financial position.

In fact, there has been a structured financial reporting system in Turkey, which is called the Uniform Accounting System, since 1994. All entities prepare their financial statements in accordance with this system. However, the current system is based only on tax reporting. Therefore, entities' financial statements cannot be used by other parties. This necessitates another reporting system that will increase the reliability of the financial statements of the entities and will enhance the effective communication between entities' stakeholders.

6.2.2. The need for a separate standard for SMEs

Two standards have been developed by the IASB: the full set of IFRS and the IFRS for SMEs, for listed entities and SMEs, respectively. Researchers are debating the issue of why there is a need for a separate standard set for SMEs. The views of the respondents about this matter were ascertained.

Interviewee 2 indicated that:

> This issue is discussed not only in Turkey, but also all over the world. The full set of IFRS is difficult to apply for the SMEs. The capacity and the sources of the SMEs are not enough to apply the full set of IFRS. So, the full set of IFRS is summarized, restricted, and simplified for this purpose.

Interviewee 1 signified that the IFRS for SMEs was created because of cost considerations. He stated that:

> The full set of IFRS will increase the adoption cost of the small entities. The IFRS for SMEs will decrease the expected cost related to this type of reporting, such as the cost of time, sources, and human resources. Because of this purpose, some of the sections of the full set of IFRS are removed and some changes have been made in existing ones.

According to Interviewees 4 and 5, the full set of IFRS will be onerous and difficult to apply for SMEs. The IFRS for SMEs meets the purpose of presenting information to third parties. Interviewee 3 stated that:

> The financial reporting needs of the SMEs are different from large businesses. The full set of IFRS is more detailed and comprehensive than the IFRS for SMEs. So, the IFRS for SMEs has been simplified according to the financial reporting needs of those entities.

Interviewee 6 associated the need for another standard set for SMEs with the current problems in the financial reporting system. According to him:

> There are many deficiencies in the current financial reporting systems of the SMEs. It is not definite if they are using accrual or cash basis reporting. One of the accounting principles is "prudence." According to this principle, the entities should make provisions for doubtful accounts. Many of the entities do not make such a provision because those expenses are non-taxable. Allowance for retirement pay also is not presented by the entities in their financial statements. There is a need for revisions in the current financial reporting system of the entities. It is very difficult to prepare a standard set for Turkey. So, to apply an existing standard set which is developed by an international institution is more advantageous. There are many differentiations between Turkey's current financial reporting system and the system proposed by the IASB. The entities in Turkey should apply the IFRS for SMEs to overcome the current problems in their financial reporting system.

According to Interviewee 3, the financial reporting needs of listed and unlisted entities differ in several ways. Thus, a common set for those two groups will not be an effective way to solve the financial reporting issue for small entities.

Interviewees 1 and 2 indicated that small and non-publicly accountable entities have restricted sources compared with listed and large entities. In fact, both interviewees pointed out the restricted resources of SMEs. The full set of IFRS necessitates more disclosure and financial information and this increases the cost for entities. The IFRS for SMEs has been developed because of the cost concerns of small businesses.

Interviewee 6 emphasized another point, that to create such a standard is also a difficult and time-consuming process for a developing country. According to him, the jurisdictions that have problems in their current financial reporting systems, such as Turkey, should adopt this set by taking into consideration a cost and benefit analysis.

6.2.3. Simplification of the full set of IFRS

One of the critical questions is whether the IFRS for SMEs has been simplified enough for the use of SMEs. There are contradictory views in the literature. Many of the interviewees indicated that the IFRS for SMEs has been simplified enough. Interviewees 1 and 6 indicated that it is still difficult for accountants to apply it. Interviewee 5 did not present a definite opinion about this issue. Interviewee 1 declared that:

> The first simplification of the IFRS for SMEs was not at the expected level. The companies should cover the full set of IFRS to apply this set. The IASB has made some changes in the full set of IFRS for more simplification and published the existing set for SMEs. Companies can make financial reporting without looking at the full set of IFRS with this new set. This was the main advantage of the IFRS for SMEs which is proposed by the IASB. The existing set is more simplified than the first draft, but applicants still must know the main terminology, arguments, and discussions in the full set of IFRS to practice the IFRS for SMEs.

Interviewee 6 clarified this issue as follows:

> This set will be easy to apply for the entities in Europe because their current reporting system is similar to the system which is proposed by the IASB. In my opinion, the IFRS for SMEs is very different from the current financial reporting system in Turkey. To put into practice such a different standard set and to say "put the current rules away and use this new one" to the accountants who have applied

the current financial reporting rules for nearly forty years will not be an easy job. Despite all this, the IFRS for SMEs should not be simplified yet more.

Interviewee 5 emphasized that it is too early to talk about this issue and has explained the reasons as follows:

It is difficult to answer this question now because the necessary disclosures that must be made by the SMEs have not been declared by the regulatory bodies in Turkey yet. The charts of accounts that will be used by the entities have also not been developed yet. The current IFRS for SMEs is a typical example of the full set of IFRS.

Interviewee 2 opposed such simplification exactly and stated that:

The standard set for the SMEs should not be simplified any more. More simplification will not maintain the expected comparability of the financial statements of the entities. The measurement principles will also be affected by such a simplification. To make accounts as measurable as possible, the existing IFRS for SMEs set should be applied. The type of reporting should not differ between small and large entities. The independent audit can be done more effectively with a common set of standards. If this set is made more flexible for small entities, the measurement will be a problem. The reduction of the number of the pages is not an important issue; the important thing is the way of thinking. For example, if the valuation of the stocks has been done according to a company's own rules, the entity cannot take credit from the international institutions again. The purpose of both the full set of IFRS and the IFRS for SMEs is to make measurement more comparable between entities all over the world. The measurement principle should be the same in both the full set of IFRS and the IFRS for SMEs. Instead of more simplification, the "Unified Accounting System" should be continued.

Interviewee 3 also opposed more simplification, and stated that the application of the existing IFRS for SMEs will not be difficult for professionals who know accounting and have experience. Therefore, there is no need for more simplification. Interviewee 4 also stated that there should not be more simplification. He explained the reasons as follows:

> The existing set should be applied in its current format. The items which are difficult to apply are exempted from the set. The current items in the IFRS for SMEs are applicable to those entities. The financial statements of the companies should present their actual position to prevent an underground economy in Turkey. Transparency will be maintained with the application of the IFRS for SMEs. For this purpose, the IFRS for SMEs should not be simplified any more.

Most of the interviewees denoted that the IFRS for SMEs should not be simplified any more to achieve the expected goals of the adoption process. Most of them also emphasized that more simplification of the standards and measurement principles will hinder the expected comparability of the financial statements of entities at the international level.

Interviewees 1 and 6 stated that the current standard set for SMEs is still difficult for them to apply. However, they also are not in favor of any simplification. Interviewee 5 found it too early to comment on this issue, differing from the other interviewees.

6.2.4. The IFRS for SMEs for micro entities

SMEs are not a homogenous group. Some entities have fewer than ten employees, and it is arguable whether the IFRS for SMEs is suitable for these entities. Many of the interviewees agreed that all micro entities should not be exempted from the IFRS for SMEs. There may be some exemptions according to criteria than other being a micro entity. Only Interviewee 1 asserted that all micro entities may be exempted from this set because they will not gain the benefits from applying it at the expected level. He explained the reasons as below:

> The SMEs are not homogenous. This issue is also discussed by the EU and the USA. Maybe the micro entities can be exempted from this extent. The micro entities may not gain benefits at the expected level by applying this set. There are

some mechanisms that make this exemption possible in both the new Commercial Code and the Decree Law of 660. The 1st temporary article and 88th article in the new Commercial Code and the 25th and 26th articles in the Decree Law of 660 give the authority to the Commission to make this exemption. Most probably micro entities will be exempted in Turkey.

Interviewee 3 suggested that all micro entities should not be exempted. According to Interviewee 3:

We have argued this issue for a long time. Maybe micro entities such as grocers or barber shops should be exempted from this extent. But the accountants will want to apply a common accounting program for all of the entities. Such an exemption may affect the cost of the CPA firms. On the other hand, nearly 90% of companies are micro-sized entities in Turkey. If all of those entities are exempted from this standard set, there will be few companies that can apply the IFRS for SMEs. In that case, we should not make any changes in the current accounting system and go on with it.

According to the Tax Law, there are two types of companies that keep their accounts according to the balance sheet basis and the operation account method. The companies which keep their accounts according to the operation account method have been already exempted from this standard set. In my opinion, the micro-sized entities that keep their accounts compatible with the balance sheet basis should not be exempted from this standard set. If a company keeps its accounts according to the balance sheet basis, it will have the capacity to apply the IFRS for SMEs.

Interviewee 2 asserted as an auditor that there may be some exemptions according to the capacity of entities to cope with auditing costs. He explained his argument as follows:

There will also be some standards for independent auditing and auditing costs related to the application of the New Turkish Commercial Code, rather than the

> financial reporting costs. The cost of auditing will be high for micro-sized entities. The companies that cannot cope with the related independent audit costs should be exempted from this extent. If a company cannot overcome the independent audit costs, it should not be classified as an SME. The definition of the SME concept should be changed for this purpose. The entities that cannot overcome independent audit costs should not take advantage of being an SME.

Interviewee 4 supported Interviewees 2 and 3 and suggested a change in the SME concept. According to him:

> The definition of the SME concept should be changed. The entities which have a knowledge-based income and employ one or two people can be exempted from the IFRS for SMEs.

Interviewee 6 considered this matter from a different point of view. He explained that:

> In my opinion, the IFRS for SMEs is also suitable for micro entities. The entities which employ fewer than ten people will not use the many accounts that are difficult to apply, such as financial instruments, consolidated financial statements, etc. Other standards are related to principles of accounting. All of the entities should make financial reporting compatible with principles of accounting, including micro entities. On the other hand, many of the micro entities have consultancy services. So, those standards will not be difficult to apply for the professionals.

In conclusion, if all of the micro entities are exempted from the IFRS for SMEs, many of the expected goals will not be achieved because nearly 90% of entities are micro-sized in Turkey. Most of the interviewees declared that there may be some exemptions for entities that earn income based on knowledge and employ one or two people.

According to some of the interviewees, the definition of the SME concept should be determined definitely. The SME definition does not include any quantitative measurements in the IFRS for SMEs. The IASB has given the responsibility to the jurisdictions to determine which entities will apply this set. The determination of the SME definition will solve some related problems about this issue.

6.2.5. The advantages of the IFRS for SMEs

There are many proposed advantages of applying the IFRS for SMEs for entities, such as enhanced transparency and comparability, increased financing opportunities, maintaining international mergers and acquisitions, etc. The views of the interviewees were also sought in relation to the advantages of the IFRS for SMEs.

Interviewee 3 listed the advantages of the IFRS for SMEs as follows:

> SMEs are developing. The IFRS for SMEs will help entities to globalize their activities by maintaining transparent financial reporting. SMEs can make advertisements and take orders online in today's world. So, the entities want to evaluate the financial statements of other entities from different countries. A common language of accounting will ease all of this process. If every country applies its own rules and principles, the companies cannot evaluate the financial statements of the entities from other countries. Valuation of stocks, long-run assets, liabilities, and recognition of expenses cannot be understood truly by the companies under different accounting regulations. So, the reliability will be destroyed. The main purpose of the IFRS for SMEs is to create a common language of accounting. This will be very advantageous for SMEs, especially for their international activities.

According to Interviewee 1, the most important advantage of the IFRS for SMEs is the creation of high-quality information. He explained his argument as below:

> The companies will produce qualified and comparable information by applying the IFRS for SMEs. The main advantage of this set is the presentation of high-

quality financial information. If an SME does not have any international activity, the main advantage that is offered by the IFRS for SMEs to the entities is more qualified financial information. The external decision makers will gain true and fair information about the activities of the SMEs.

According to Interviewee 4, the most important advantage of the IFRS for SMEs is the creation of true and fair information. He stated that:

Entities will present true and fair financial information with the application of the IFRS for SMEs. This will be the most important advantage. Owners of the entities were not getting any information about the activities of the entities because the information was created only for tax purposes. Owners of the entities will also get true and fair information about the financial position of their entity. This will be another important advantage of this set for the companies.

Interviewee 2 stated another advantage of the IFRS for SMEs:

The first advantage of the IFRS for SMEs is the decrease in time costs for auditors and also for companies. Independent auditors will make audits with fewer personnel and in less time. The auditing costs of the entities will also decrease. An independent audit can be finished in seven or ten days with the application of those standards.

Interviewee 6 declared the advantages of the IFRS for SMEs as follows:

The economy of Turkey was regulated by the State in the 1950s. Most of the entities were state-owned in those years. The problems of the entities were handled by the Government in those years. In today’s world, the role of the corporations has been enhanced. The problems of the entities cannot be solved by the Government. To achieve Turkey’s economic goals for the years 2040 and 2050, the sustainability of the entities must be enabled. The IFRS for SMEs will maintain more transparent and true financial reporting. The high-quality financial reporting will enhance the sustainability of the entities.

The interviewees listed some of the perceived advantages of the IFRS for SMEs. According to them, one of the most important advantages of this set is the creation of high-quality financial information. Interviewee 1 stated that high-quality financial information means more transparent and fair financial reporting. Interviewees 1, 3, and 4 emphasized the importance of the IFRS for SMEs for the creation of more transparent, reliable, true, and fair financial information about entities' activities.

According to Interviewees 1 and 3, another advantage of this standard will be comparable financial statements. Entities can easily evaluate the financial performance of entities that operate in different countries. A common language of accounting will be created. Interviewee 3 stated that entities that perform international activities will be among the parties that will benefit most from the application of the IFRS for SMEs.

Interviewee 6 stated another advantage that will be enabled by the IFRS for SMEs: the increased sustainability of entities to achieve the goals of the Turkish economy for the year 2050. According to him, external and internal decision makers will obtain more true information about the activities of entities and they will make more true decisions. As a result of that, the sustainability of the entities will be enabled.

Interviewee 4 considered another advantage of the adoption of the IFRS for SMEs as the decrease in the time costs of both entities and auditors. According to him, the auditing costs of entities will decrease because independent auditing activities will be performed in a shorter span of time with the application of this standard.

In conclusion, the IFRS for SMEs offers entities many advantages. The interviewees confirmed that this standard will be advantageous for the decision makers and other stakeholders of entities.

6.2.6. The disadvantages of the IFRS for SMEs

There are some perceived disadvantages of the IFRS for SMEs. Most of the interviewees agreed that there will be some problems in the first application of the IFRS for SMEs, but most of those problems and perceived disadvantages will be overcome in the long run. Interviewee 1 declared the cost considerations of entities as follows:

> The financial reporting and auditing costs of the entities will increase with the application of this set in the short run. In the long run, most of the related costs will disappear.

Interviewee 6 also pointed out the cost disadvantage of the IFRS for SMEs. According to him, those cost problems will only exist in the short run.

> Some costs will be incurred in the first application of IFRS for SMEs, but the related costs will be removed in the long run. Those costs should be endured to gain the benefits of high-quality financial reporting. The disadvantages of not applying the IFRS for SMEs will be higher than applying it.

According to Interviewee 4, one of the perceived disadvantages of applying this set for entities will be its effect on their competitive position.

> If the underground economy is not prevented effectively, the IFRS for SMEs will cause unfair competition. The companies that hide their accounts will gain a perceived competitive advantage compared with the entities that make financial reporting in conformance with the IFRS for SMEs.

Most of the interviewees agreed that one of the perceived disadvantages of the application of the IFRS for SMEs will be its possible effect on entities' financial reporting costs. According to Interviewees 1 and 6, some costs will be incurred in the first application of the IFRS for SMEs. However, those costs will be effective in the short run; in the long run, most of the costs will disappear.

According to Interviewee 6, the advantages of the IFRS for SMEs will be greater than its perceived disadvantages.

Interviewee 4 stated another disadvantage of the IFRS for SMEs as its effect on entities' competitive position. According to him, if the problem of the underground economy cannot be solved effectively, entities' competitive position will be hindered.

In conclusion, entities will perceive some cost disadvantages of the IFRS for SMEs, especially in the short run. In the long run, most of those related costs will be overcome. Furthermore, the advantages that are proposed by the application of the IFRS for SMEs will be greater than its perceived disadvantages in any case.

6.2.7. The effect of the IFRS for SMEs on the competitive position of entities

One of the most important perceived disadvantages of the IFRS for SMEs is its expected effect on the competitive position of entities. The views of the interviewees were sought about the possible effect of applying this standard on entities' competitive position. Many of the interviewees indicated that the competitive position of entities will not be affected by the application of this standard. Interviewee 2 explained his argument about this issue as follows:

> If the competitive position of the companies is a result of their business secret, this position will be affected by the IFRS for SMEs. The concept of competition will change by this standard set. Cost-effective entities will gain a good competitive position. Companies will compete against each other by producing with less cost in a timely manner rather than hiding their accounts.

Interviewee 1 explained this issue by associating it with asymmetric information theory.

> The expectation of the effect of the IFRS for SMEs on the competitive position of entities is not compatible with asymmetric information theory. According to this theory, anyone who wholly owns a company does not have a whole control and property right. An owner of the entity should protect the rights of the stakeholders and present the true financial information. This problem occurs as a result of illegal applications and thus the informal economy. There are many illegal applications in SMEs, such as expropriation of the minority interests, unannounced general assembly. The IFRS for SMEs will inhibit those illegal applications rather than affecting the competitive position of the entities.

According to Interviewee 4, this problem is related to the underground economy problem in Turkey.

> The unfair competition issue will not be solved unless the underground economy problem is prevented. The Ministry of Finance has significant projects about the underground economy. The Ministry of Finance should be decisive in the solution of this problem to overcome the possible effect of the IFRS for SMEs on the competitive position of the entities.

Interviewee 5 stated that entities cannot hide anything about their activities with the application of the IFRS for SMEs, so the competition can no longer be directed by numbers.

Interviewee 3 was also opposed to the decision about the possible effect of IFRS for SMEs on the competitive position of the entities and clarified the issue as below.

> Transparency will increase in Turkey with the application of this standard. Transparency will be an advantage rather than a disadvantage for the SMEs in Turkey. As the transparency of the financial statements of entities increases, the decision makers will take the right decisions and make more true interpretations. The entities which are quoted on the ISE have applied those standards since 2005. Has their competitive position been affected by applying those standards?

Interviewee 6 stated that the IFRS for SMEs will affect the competitive position of entities positively. Entities' value can be determined properly in the mergers and acquisitions. On the other hand, entities will gain credit from international financial institutions at low loan rates. All of these issues will affect competition positively.

According to most of the interviewees, the competitive position of entities will not be affected by the application of the IFRS for SMEs. The interviewees stated that entities' competitive position can no longer be maintained as a result of hidden reserves, business secret, and illegal applications. The type and the way of the competition will change. Entities will compete to obtain credit at low rates, produce at a low cost and in a timely manner, present more true and fair information, etc. Competition will be directed by factors other than manipulating financial information and hiding accounts. According to Interviewee 6, the competition will be affected positively by the application of this standard instead of negatively.

Interviewee 4 only stated that if the underground economy problem cannot be solved, the entities that will adopt the IFRS for SMEs properly will be affected negatively in the competition.

In conclusion, the interviewees concluded that there will be no negative effect of the IFRS for SMEs on entities' competitive position.

6.2.8. The challenges that may be faced by entities during the adoption process of the IFRS for SMEs

Some challenges and obstacles may be encountered by entities in the first application of the IFRS for SMEs and during the adoption process. The views of the interviewees were asked regarding this issue. According to Interviewee 2, the most important obstacle in the adoption process will be the lack of trained personnel. Interviewee 3 stated that there will be some difficulties in the application of some standards and this will be the most important challenge in the adoption process. She explained her argument as follows:

> There will be some difficulties in the measurement of "fair value." There will also be some difficulties in the measurement of severance payment by discounting into the present value. Another difficult thing is to determine the effective interest rate. Some criteria should be developed about the effective interest rate according to the nature of sales and the type of industry. Such problems will emerge while applying the IFRS for SMEs in the early years of the adoption process.

Interviewee 5 indicated that SMEs lack institutional governance. They do not have enough and experienced human resources. Many SMEs do not even know what the abbreviation "IFRS" stands for. Therefore, untrained personnel and non-institutional governance of those entities will be very important challenges in the IFRS for SMEs adoption process.

As a consequence, there are some possible obstacles and challenges that may be faced by entities during the adoption process of the IFRS for SMEs. Most of the interviewees agreed that the lack of trained personnel regarding the IFRS for SMEs seems to be an important challenge for entities. Another problem related to the adoption process is stated by Interviewee 3 as misapplications that may be caused by misunderstandings of some standards and concepts. In fact, the problem of misunderstandings is also related to the lack of trained personnel.

According to Interviewee 5, the lack of institutional governance will also be an important challenge for entities during this process.

6.2.9. The effects of the IFRS for SMEs on stakeholders

There will be some possible effects of the IFRS for SMEs on several stakeholders, such as banks, credit institutions, shareholders, etc. All of the interviewees indicated that the application of this standard will be advantageous for all stakeholders. Interviewee 2 declared the possible advantages of the IFRS for SMEs for stakeholders as below:

> The credit institutions will gain an important benefit from the application of this set. They will receive comparable, consistent, true, and fair information about the activities of the companies. The minority shareholders will also obtain true information about the activities of the entities and gain benefit from the application of the IFRS for SMEs. The public sector will be the most advantaged party to the IFRS for SMEs. Instead of obtaining information about the activities of the entities separately, they will gain true information from all of them with a common standard set. Taxation rating will be performed easily. Every party to the IFRS for SMEs will be advantaged and benefit from this adoption process.

According to Interviewee 1, the parties to the IFRS for SMEs that will benefit the most will be credit institutions, auditors, and small investors.

Interviewees 4 and 5 stated that the IFRS for SMEs will minimize the risk of credit institutions because they can obtain true and fair information about entities' activities.

Most of the interviewees indicated that credit institutions in particular will be among the most advantaged stakeholders that will benefit from the application of the IFRS for SMEs. According to Interviewee 2, the most advantaged stakeholders will be the public sector and minority shareholders.

In conclusion, many stakeholders will benefit from the adoption process of the IFRS for SMEs in Turkey, such as auditors, creditors, banks, the public sector, small investors, minority shareholders, etc.

6.2.10. The calendar for the IFRS for SMEs

Entities must prepare their financial statements in accordance with the IFRS for SMEs beginning from 2013 in Turkey. The views of the interviewees were determined about the calendar for the adoption of the IFRS for SMEs. All of the interviewees agreed that there should not be any postponement in the application of the IFRS for SMEs. Interviewee 2 clarified this issue:

> The IFRS for SMEs should not be postponed because of expected additional regulations. The New Turkish Commercial Code and its implications have been on the agenda of the related parties in recent years. Every party to the New Commercial Code has enough information about it. Of course, some of the companies will adopt new regulations before others. This is the rule of the competition. High-performance entities have prepared their budget for 2012 and trained their personnel. The IFRS for SMEs should be adopted as soon as possible.

According to Interviewee 1, there should not be any postponement because the important thing is the preparedness of the professionals rather than the SMEs. Postponing the application of this standard will postpone the related problems. Interviewee 5 stated:

> The calendar is appropriate. The IFRS for SMEs has been on the agenda of the related parties since 2011. There were three years, 2011, 2012, and 2013, to complete the preparations for this set. All of the entities should start financial reporting compatible with the IFRS for SMEs at the same time. The application of this set should not be postponed. The postponement of the application of this set will not bring any benefit to the parties.

Interviewees 3, 5, and 6 also declared that there should not be any postponement in the adoption process of the IFRS for SMEs.

As a result, all of the interviewees concurred in their opinion that there should not be any postponement in the adoption process. According to the interviewees, the postponement of the application of the IFRS for SMEs will only postpone the related problems. Therefore, this set must be applied as soon as possible.

6.2.11. Preparedness of the parties for the IFRS for SMEs

The preparedness of the parties to the IFRS for SMEs will play a significant role in an effective adoption process. Governmental institutions, universities, auditing firms, professional bodies, CPA firms, etc. are making several preparations for this adoption process. Most of the interviewees stated that the most prepared parties for the IFRS for SMEs are accountants and auditing firms. According to them, SMEs are not generally aware of the importance of this issue.

Interviewee 4 stated that the TÜRMOB has been very well prepared for the adoption process. All of the accountants have taken the necessary training. The CPAs are prepared for the IFRS for SMEs and have informed the entities. Interviewee 1 declared that the most prepared party to the IFRS for SMEs is the CPAs. He explained his argument as follows:

> The most prepared party to the IFRS for SMEs is the CPAs, in other words the Chamber of Unions. TÜRMOB has given trainings and has organized seminars for nearly fifteen years when nobody knew anything about the standards. The

second party that is making preparations for the TRFS for SMEs is the universities. Several courses have been added to the academic program of the universities and several studies of theses have been made in this area. Apart from that nobody is making preparations about the IFRS for SMEs. The least prepared parties to the IFRS for SMEs are the public and the business sector.

According to Interviewee 2, the most prepared party to the IFRS for SMEs is CPAs. CPAs are attending seminars and undergoing training to learn this new standard.

Interviewee 5 stated that the most prepared party to the IFRS for SMEs is auditors. Auditors are attending seminars and trainings, and presenting various printed documents about the IFRS for SMEs. Interviewee 3 clarified this issue as below:

> The adoption process is related to CPAs, not to SME owners. CPAs are informed about this issue. Chambers of unions are organizing trainings about the IFRS for SMEs.
>
> The entities that do not receive consultancy services from a professional body will accelerate their preparations when an official announcement is made by the commission. The new Turkish Commercial Code has been promulgated so those SMEs are also informed about the IFRS for SMEs. If an accountant has not made any preparations for the new standard set until now, this is the fault of this accountant. Trade bodies give trainings and send messages about the IFRS for SMEs to all of the accountants. As a result, it is not possible to be uninformed about the IFRS for SMEs until now.

Interviewee 6 also stated that the most prepared party to the IFRS for SMEs is the CPAs.

In conclusion, every party to the IFRS for SMEs has made several preparations for the adaptation process of this standard. According to the interviewees, the CPAs and auditors are the most prepared parties to the IFRS for SMEs because of the nature of their work. Many SMEs are not informed enough and are not aware about the IFRS for SMEs.

6.2.12. The acceleration of the adoption process for the IFRS for SMEs

There may be several activities that can be carried out for the acceleration of the adoption process for the IFRS for SMEs. The views of the interviewees were sought about this issue. Most of the interviewees indicated that the most important factor for the acceleration of the adoption process is training. Interviewee 2 stated that:

> The adoption process can be accelerated by more trainings, seminars, and symposiums about the IFRS for SMEs. There is also another standard set for auditing. Both auditing standards and the IFRS for SMEs should be learned by the accounting professionals.

According to Interviewee 1, the most important issue for the adoption process is training. The public sector in particular should accelerate the adoption process. He explained:

> The public sector has the most qualified human resources and can accelerate the adoption process with trainings. The public sector tries to manage what it knows and creates panic about the IFRS for SMEs. The SPK, BDDK, and also the Ministry of Finance should accelerate their preparations for the IFRS for SMEs adoption.

Interviewee 5 noted that the awareness of entities should be raised for the acceleration of the adoption process for the IFRS for SMEs. She explained her argument as follows:

> The awareness of the entities should be raised as a result of the trainings. The benefits of this set should be explained without frightening the entities. The advantages of the set should be clarified extensively. The message of troublesome structure of the first adoption should be given clearly. Besides, necessary convenience should be enabled by the related parties and this message should also be given to the entities. Every party should know the expected benefits of this set.

According to Interviewee 3, the official announcement should be made as soon as possible and the argument about the postponement should not be stopped for the acceleration of the IFRS for SMEs adoption process.

In conclusion, most of the interviewees indicated that the acceleration of the adoption process of the IFRS for SMEs can become possible with more training. According to Interviewee 5, as SMEs, CPAs, and auditors take more training, they will be more aware of the importance of this standard. Increased awareness of the parties to the IFRS for SMEs will enable the acceleration of the adoption process.

6.2.13. The institutions responsible for the adoption process of the IFRS for SMEs

The adoption process for the IFRS for SMEs is the responsibility of several institutions. An effective adoption process of the IFRS for SMEs can be enabled by those responsible institutions. The interviewees stated their views about the institutions responsible for the adoption process. Interviewee 2 indicated that:

> The most responsible party to the IFRS for SMEs is the business entities. Every party should evaluate its competencies and deficiencies and prepare its plan for this process. The public sector should make the necessary regulations as soon as possible. Academicians also have an important role in the adoption process of the IFRS for SMEs. They should guide all the other parties.

According to Interviewee 1, universities and trade bodies are responsible for the adoption process of the IFRS for SMEs. Universities should update their academic programs and materials. Trade bodies also must attend trainings.

Interviewee 5 stated that every party to this standard, such as entities, CPA firms, auditors, etc., will have legal obligations as a result of the legitimization of the IFRS for SMEs. She clarified the issue as follows:

> The auditors should develop different business models for the SMEs because the auditing process of an SME and a listed entity will differentiate in several ways.

The CPAs and SMEs should keep on training. The Chambers of Industry also have several responsibilities.

Interviewee 6 declared that universities play a significant role in the adoption process. Courses about auditing and financial reporting standards should be added to their academic programs. The KGK also has some responsibilities in this adoption process.

In summary, there are several parties to the IFRS for SMEs adoption process, such as CPA firms, auditing firms, governmental institutions, SMEs, accountants, etc. All of those parties have several responsibilities for carrying out an effective adoption process.

According to Interviewee 5, some of those parties have legal obligations as a result of the publication of the New Turkish Commercial Code, such as CPAs, universities, and auditors. Most of the interviewees emphasized the significant role of universities in the IFRS for SMEs adoption process. Interviewees 1 and 6 stated that if universities update their academic program and add related courses for this purpose, the problem of a lack of trained personnel will be handled in a short time.

6.2.14. The sources of the IFRS for SMEs

The sources play a very important role in the correct application of the standard. As the number of written documents increases, the understandability of the concepts and arguments will also increase.

According to Interviewee 4, the sources of the IFRS for SMEs are enough but should be improved. The current sources are enough to understand the IFRS for SMEs in general.

Interviewee 1 indicated that there is important literature related to the IFRS for SMEs in Turkey. Academic books should be adapted to the IFRS for SMEs. Interviewee 2 stated that:

> The current sources are enough to get a general idea about the IFRS for SMEs. The need for extra sources about the IFRS for SMEs will become definite during the adoption process.

In conclusion, the sources of the IFRS for SMEs are sufficient to gain a general idea about the set, standards, concepts, etc. The need for extra sources will be confirmed during the adoption process.

6.3. Summary of the interviews

The IFRS for SMEs has been on Turkey's agenda for many years. Every party to the IFRS for SMEs is making various preparations for this standard. The interview method was used to ascertain the views of professionals on several topics regarding the adoption process of the IFRS for SMEs. The interviewees provided insights into the adoption process.

First of all, SMEs' financial reporting system is a very important phenomenon for both the adoption and the preparation of entities. Most of the interviewees indicated that the financial reporting in SMEs has been carried out only for tax purposes in Turkey. Entities' financial statements do not present information to external and internal decision makers. Thus, some revisions have been needed to allow more effective communication between entities and their stakeholders. The IFRS for SMEs has been developed to respond to those needs.

Two standards are published by the IASB, the full set of IFRS and the IFRS for SMEs. The full set of IFRS is published for listed entities, whereas the IFRS for SMEs is published for unlisted and small businesses. Most of the interviewees reported that there is a need for a separate financial reporting standard set for SMEs. One of the reasons is the cost considerations of SMEs. The full set will increase entities' costs and the cost of the application of this set will exceed its benefits for them. On the other hand, the full set of IFRS will be difficult for those small companies to apply. To take into account the cost and benefit considerations of the entities, the IFRS for SMEs has been published.

The full set of IFRS has been simplified to respond to the financial reporting needs of SMEs. Most of the interviewees declared that the IFRS for SMEs has been simplified enough, and should not be simplified any more.

The IFRS for SMEs will be used by all of the SMEs. Some of those SMEs are micro-sized and employ less than ten employees. Most of the interviewees stated that micro-sized entities should not be exempted from this set. There may be some exemptions but all of the micro entities should not be exempted from the adoption to achieve the expected goals.

The IFRS for SMEs will offer several advantages to entities. One of the most important advantages of this set will be the creation of high-quality information. Entities will be able to present true and fair financial information. The presentation of more transparent financial information will inhibit the underground economy in Turkey.

Besides those advantages, there may be some possible disadvantages of this standard for entities. Some of the interviewees stated that entities' costs will increase in the short run. Most of those costs will be avoided in the long run. On the other hand, other interviewees stated that there will not be any perceived disadvantages of this standard.

One of the perceived disadvantages of this standard will be its possible effect on entities' competitive position. Most of the interviewees said that this set will not affect entities' competitive position, but one of the interviewees pointed out that if the underground economy problem cannot be solved, the unfair competition problem will occur.

Besides those disadvantages, there will be some challenges that may be faced by entities during the adoption process. Some of the interviewees stated that the most important challenges will be several related costs and a lack of trained personnel. Most of those challenges will be overcome in time as a result of an effective adoption process.

There are several advantages of this standard for stakeholders. The views of the interviewees were established on this issue. They indicated that all of the stakeholders will be advantaged in any case. Some of the stakeholders that will benefit from this adoption process are listed by the interviewees as credit institutions, banks, the public sector, etc.

The calendar for the IFRS for SMEs has become another questionable issue. The arguments concerned whether the set should be postponed or not. All of the interviewees agreed that there should not be any postponement in Turkey and that the IFRS for SMEs should be applied as soon as possible to achieve the expected goals immediately.

The level of preparedness of the related parties has a significant role in applying this set without postponement. For this purpose, those related parties should complete their preparations in a timely manner. According to the interviewees, the most prepared party to the IFRS for SMEs is the CPAs. To accelerate the adoption process for the IFRS for SMEs, entities' preparations should be accelerated. The interviewees stated that training is the most important tool for the acceleration of the adoption process. As the parties gain more training about this set, their awareness will increase. As their awareness increases, the adoption process will be accelerated. If the responsible parties carry out their job properly, the adoption process for the IFRS for SMEs will be completed in an effective and timely manner.

The trade bodies should attend trainings. CPAs and auditing firms should also continue to attend trainings. As the parties become more informed about the IFRS for SMEs, their awareness about this standard will increase. The awareness of all of the parties involved should be increased for the adoption process. The sources relating to the IFRS for SMEs should be increased and updated. The most important challenge that entities will face is a lack of trained personnel. Universities can play a significant role in solving this problem. They should update their academic program by adding courses related to auditing and financial reporting standards.

The KGK should make official announcements as soon as possible. The IFRS for SMEs should not be postponed to maintain high-quality financial reporting in Turkey. A summary of the interviews is presented in Table 6.3 below.

Table 6.3 Summary of the interviews

	Interviewee 1	Interviewee 2	Interviewee 3	Interviewee 4	Interviewee 5	Interviewee 6
1. Financial reporting in the SMEs is	For tax purposes.	For tax purposes.	Under a uniform accounting system.	For tax purposes.	For tax purposes.	Not organized.
2. Need for different standard set for SMEs	Full set will increase the costs of SMEs.	Full set is difficult to apply for SMEs.	Financial reporting needs of SMEs are different from those of large businesses.	Full set is difficult to apply for SMEs.	SMEs do not have enough capacity to use the full set of IFRS.	The IFRS for SMEs should be applied by SMEs to overcome the current problems in their current financial reporting systems.
3. Simplification of the full set of IFRS	The applicant should know the mindset of the full set of IFRS to apply the IFRS for SMEs.	The IFRS for SMEs should not be simplified any more.	The IFRS for SMEs will not be difficult to apply for professionals who know accounting.	The current items in the IFRS for SMEs are applicable to those entities.	Not sure yet.	Still difficult for SMEs in Turkey.
4. The IFRS for SMEs for micro entities	Most probably micro entities will be exempted in Turkey.	Entities that cannot cope with auditing costs could be exempted.	Micro entities such as grocers or barbers should be exempted from this extent.	Entities that earn knowledge-based income should be exempted.	Not sure yet.	There should not be any exemption.
5. The most important advantage of the IFRS for SMEs	High-quality information will be produced.	Auditing costs will decrease.	Transparency will increase and an unrecorded economy will be prevented.	True and fair financial information will be presented.	Transparency will increase and an underground economy will be inhibited.	Sustainability of entities will be enabled.
6. The disadvantage of the IFRS for SMEs	Financial reporting and auditing costs of entities will increase in the short run.	There will be no disadvantage of this set.	There will be no disadvantage of this set.	If the underground economy cannot be prevented, the IFRS for SMEs will cause unfair competition.	There will be no disadvantage of this set.	Financial reporting costs of entities will increase in the short run.

Table 6.3 Summary of the interviews (continued)

	Interviewee 1	Interviewee 2	Interviewee 3	Interviewee 4	Interviewee 5	Interviewee 6
7. The effect of the IFRS for SMEs on the competitive position of entities	It will not affect the competitive position of entities.	It will not affect the competitive position of entities.	It will not affect the competitive position of entities.	If an underground economy exists, the unfair competition problem will occur.	The competition cannot be directed by numbers and amounts.	The competition will be affected positively.
8. The most important challenge is	The costs may be a challenge in the short run.	Lack of trained personnel.	Some measurement problems.	Incorrect use of several accounts such as payable to shareholders.	Lack of experienced personnel.	The costs may be a challenge in the short run.
9. The most advantaged stakeholder is	Credit institutions, auditors, and small investors.	The public sector.	Accountants.	Credit institutions.	All of the third parties will be advantaged.	All of the stakeholders will be advantaged.
10. The calendar for the IFRS for SMEs is	Should not be postponed.	Should not be postponed.	Should not be postponed.	Should not be postponed.	Should not be postponed.	Should not be postponed.
11. The most prepared party for the IFRS for SMEs is	CPAs.	CPAs.	CPAs.	CPAs.	Auditors.	CPAs.
12. The acceleration of the adoption process	Training should be continued for the acceleration of the adoption process.	Training should be continued for the acceleration of the adoption process.	The official announcement should be made as soon as possible.	Training should be continued for the acceleration of the adoption process.	Entities' awareness should be raised as a result of training.	The New Commercial Code should be understood deeply.
13. The most responsible party to the IFRS for SMEs is	Chamber of Unions.	Business entities.			Every party to this set has legal obligations.	
14. The sources about the IFRS for SMEs	Academic books should be adapted to the IFRS for SMEs.	Current sources are enough to gain a general idea about the IFRS for SMEs.	There are many sources; some of them are true, some of them are wrong.	The sources are enough but should be improved.		

CONCLUSION

The international activities of entities have increased as a result of globalization in recent years. Entities can make international investments, merge with foreign entities, or take credit from foreign banks. All of those activities necessitate comparable financial statements. For instance, if an entity wants to merge with a foreign entity or make an acquisition in a foreign country, it will analyze the financial statements of the target company. Understanding the target company's financial statements, which are compatible with its national regulations, will not be an easy task. Hence, the number of international mergers and acquisitions or global capital movements will be affected adversely because of the complications involved in understanding the financial situation of the target companies. Banks will also give credit to foreign entities after they have analyzed their financial statements. A financial statement set that is compatible with internationally accepted financial reporting standards will ease the business of banks and decrease the cost and risk of credit.

As a result, regulatory bodies and standard authorities have accepted the need for internationally comparable financial statements. Firstly, the IASC published the IAS for the use of listed entities. Then, the IASC was changed into the IASB. The main job of the IASB was to create international reporting standards. The IASB published the IFRS in addition to the IAS, again for the use of listed entities. On the other hand, there are only 7,000 listed entities in Europe, whereas there are 7,000,000 unlisted companies that are primarily SMEs, which do not apply IFRS (Jermakowicz & Gornik-Tomaszewski, 2006). SMEs also have international activities, and they also need comparable financial statements. Furthermore, SMEs are the main engines of their countries' economies and play a significant role in the employment and value added of their jurisdictions. The IASB recognized this need and commenced studies with the aim of creating a standard set for the use of SMEs.

The existing standard set was not applicable to SMEs because their financial reporting needs and aspects differ significantly from those of listed entities. The IASB has studied to design a simplified standard for SMEs with the support of related parties, including national standard authorities, accountants, auditors, entities, etc. Subsequently, the IFRS for SMEs, which is a simplified version of the full set of IFRS, was published. Now the use of the IFRS for SMEs is on the agenda of many countries, including developed and developing ones, all over the world.

Turkish regulatory bodies and the Standard Authority have also pursued the developments related to the harmonization of financial reporting. Both the IFRS and the IFRS for SMEs have been translated into Turkish. The IFRS have been used by companies listed on the ISE since 2005. The use of the IFRS and the IFRS for SMEs was legitimized within the New Commercial Code in 2012. The IFRS for SMEs will be used by entities after the announcement of the related communiqué by the KGK. The parties, such as accountants, entities, managers, auditors, etc., have started to make preparations for this new application. Accountants and representatives of SMEs have attended training related to the IFRS for SMEs for this purpose. The preparedness of the parties will play a very significant role in the effective adoption process of the IFRS for SMEs.

This thesis aimed to analyze the preparedness of SMEs and CPAs for the IFRS for SMEs; to measure their perception about the advantages, disadvantages, and obstacles of the IFRS for SMEs; to determine the effect of several firm characteristics on the SMEs' perception of the advantages, disadvantages, and obstacles of the IFRS for SMEs; to analyze the effect of the CPAs' characteristics on their perception of the advantages, disadvantages, and obstacles of the IFRS for SMEs; to designate the financial reporting aspects of the SMEs; to determine the applicability of the IFRS for SMEs for the entities; to ascertain the views of the parties about the suitability of the agenda for the IFRS for SMEs; and to analyze the opinions of the professionals and academicians about the IFRS for SMEs.

For those purposes, two sets of questionnaires were designed. The preparedness of the SMEs and the CPAs was determined. Their perception about the advantages, disadvantages, and obstacles regarding the IFRS for SMEs was measured. The effect of several firm characteristics (i.e. size, internationality, independent auditing, age, and existence of an accounting department) on the preparedness for and perception of the IFRS for SMEs was analyzed. Furthermore, the effect of several characteristics of CPAs (i.e. experience, education level, number of clients) on their preparedness for and perception of this set was analyzed. Supplementary comments of SMEs' representatives and CPAs were sought and analyzed with a qualitative software program called QSR-NVivo. The views of professionals and academicians were determined in relation to the issues regarding the IFRS for SMEs by employing in-depth interviews.

According to the analysis results, most entities have not made any preparation for the IFRS for SMEs yet. The majority of the prepared entities' accounting personnel have only attended training. A large percentage of the SMEs' management has not taken any training regarding the IFRS for SMEs. Only one of the entities has adopted its current accounting program for the IFRS for SMEs. Moreover, most of the entities have not held any meetings to inform their accounting personnel. The findings of this study have also shown that the information level of the SMEs about the IFRS is very low. Only one of the respondents indicated his information level about the IFRS for SMEs to be very good. According to the results, most of the SMEs perform financial reporting only for tax purposes. On the other hand, the majority of them prepare the main financial statements, such as a balance sheet, income statement, and cash flow statement. There is some evidence that several firm characteristics (i.e. size, internationality, using consultancy services, and independent auditing) affect the preparedness of SMEs. Larger entities have made more preparations for the IFRS than micro-sized ones. The entities that are involved in international activities are also more prepared for the IFRS. Using consultancy services and independent auditing also has a positive effect on the preparedness of the entities. Furthermore, their preparedness has a positive effect on their perception of the advantages of the IFRS for SMEs. Most of the respondents agree that the financial statements will be reliable, understandable, transparent, and comparable as a result of the use of the IFRS for SMEs. The respondents also agree with some disadvantages of this set, but not to the same degree. They found the IFRS for SMEs to be costly, time-consuming, and too subjective.

On the other hand, most of the CPAs have prepared for the IFRS for SMEs according to the findings of this study. A large percentage of the CPAs have attended training about the IFRS for SMEs. TÜRMOB has organized those trainings for the accountants. Experienced accountants are more prepared for the IFRS for SMEs. The majority of the CPAs perceive that the IFRS for SMEs will provide a fairer view; will be appropriate for decision making; will be time-consuming; and is significantly different from the existing applications. Moreover, most of the CPAs agree that the IFRS for SMEs will provide reliable, understandable, and comparable financial information. The CPAs also agree with some possible disadvantages of the IFRS for SMEs in that the first adoption of this set will be costly for entities and the training of the accounting personnel will be time-consuming.

According to the supplementary comments of the SMEs and the CPAs, the most important obstacles to the effective adoption of the IFRS for SMEs are the lack of training, the complex nature of the standard, the lack of infrastructure, the lack of an SME definition, and the existence of an underground economy. They made several suggestions to achieve a more effective adoption process: the related parties should take the necessary training; the application date of the IFRS for SMEs should be postponed; the SME definition should be clarified; the underground economy should be inhibited; the related communiqué should be announced; and auditing of the financial statements should be mandatory.

The interviews with professionals and academicians presented important evidence about the adoption process of the IFRS for SMEs in Turkey. According to the findings, the financial reporting in SMEs is undertaken generally for tax purposes. In the view of the interviewees, the full set of IFRS will be very difficult for SMEs, so the IFRS for

SMEs has been published. The majority of the interviewees indicated that the IFRS for SMEs should not be simplified further; the calendar for the application should not be postponed; and the CPAs are the most prepared party for the new application. According to the interviewees, the most important advantage of the IFRS for SMEs will be the creation of high-quality, fair, and transparent financial information. The interviews showed that the most important perceived disadvantage of the IFRS for SMEs will be the increase in the financial reporting costs in the short run.

The findings of this study suggest important implications for several parties, including national and international standard authorities, regulatory bodies, managers, entities, accountants, auditors, and academicians in the field of accounting.

Standard authorities are making plans to promote the application of financial reporting standard sets in entities. The findings about entities' perception of the advantages and disadvantages of the IFRS for SMEs will be useful for them. Standard authorities may increase entities' perception of the advantages of the IFRS for SMEs in the light of the findings of this research. This study presents a profile of entities that are more willing to apply the IFRS for SMEs. According to the findings of this study, large and international SMEs are more disposed to apply the IFRS for SMEs, so national and international standard authorities may suggest a step-by-step adoption process for the IFRS for SMEs. Firstly, large and international SMEs may use the IFRS for SMEs. After a while, micro-sized entities may also use this standard. SMEs generally perceive that the costs of this standard will exceed its benefits. Standard authorities may highlight the benefits of the IFRS for SMEs. In fact, most of the costs will increase in the short run. The standard authorities should explain this fact via several channels. The findings also indicate that the related communiqué should be announced as soon as possible by the KGK. The postponement of the application of the IFRS for SMEs will not be beneficial for the parties according to the interviewees. The perception of the adoption period, which is indicated by the SMEs and the CPAs as a result of the questionnaires, was also optimistic. So, the KGK should not postpone the application of the IFRS for SMEs. Furthermore, the KGK and TÜRMOB should continue the parties' training. The accountants, managers, and owners of SMEs should take training about the IFRS for SMEs for a more effective adoption process. Auditing of the financial statements of the SMEs should also be made mandatory at the same time. The KGK should also make the necessary arrangements about the application of the auditing standards in Turkey.

The findings of this study may be beneficial for the standard authorities of other emerging countries. Turkey is one of the most important emerging countries globally. The Turkish Standard Authority is following all of the developments in international financial reporting for several reasons, and especially for the EU candidate process. So, other countries' standard authorities will face similar problems in the adoption process. They can take into consideration the findings of academic studies in similar countries to achieve a more effective adoption process.

Regulatory bodies are also one of the parties that may benefit from the findings of this study. There are several issues related to the application of the IFRS for SMEs that should be solved by the regulatory bodies, such as the publication of the New Commercial Code, the legitimization of the use of the IFRS for SMEs, the determination of a definition of SMEs, and the inhibition of the underground economy. The New Commercial Code has been published and the application of the IFRS/IFRS for SMEs has been legitimized within the scope of this regulation. The definition of SMEs has been also revised within this period. The upper limits of sales or assets of the SME definition have been increased. According to the findings of the study, the underground economy should be inhibited for a more effective adoption process of the IFRS for SMEs. There are some doubts about whether the application of the IFRS for SMEs will create unfair competition. If the underground economy and illegal applications can be inhibited, the application of the IFRS for SMEs will not cause such an unfair competition problem according to some interviewees and respondents. Furthermore, regulatory bodies should be decisive about the application of the IFRS for SMEs.

The findings show that the percentage of entities that have made preparations for the IFRS for SMEs is particularly low. Entities' accounting personnel should atttend training about the IFRS for SMEs. They should hold meetings to inform their customers and personnel. Entities should also revise their current accounting program. In addition, managers and owners should take the necessary training about the IFRS for SMEs. If the information level of entities about the IFRS for SMEs increases, their perception about the advantages of this standard set will also increase. According to the findings of this study, SMEs carry out financial reporting mostly for tax purposes. The financial reporting practices of SMEs will change after the application of the IFRS for SMEs. Entities also expect that financial statements that are compatible with the IFRS for SMEs will be more transparent, understandable, and comparable. Entities may increase their number of trained accounting personnel to overcome the problems that may be faced during the adoption process of the IFRS for SMEs.

The results of this study show that most accountants have attended training about the IFRS for SMEs. On the other hand, there is still a significant percentage of accountants who have not taken the necessary training yet. They should remedy this as soon as possible. Furthermore, CPAs should inform their customers (entities) and explain the benefits of the application of the IFRS for SMEs to them.

The interviewees highlighted the important role of universities and thus academicians in the trainings of the parties. Universities should update their academic programs by adding the necessary courses about international reporting according to the interviewees. Moreover, academicians in the field of accounting should use the findings of this research in further studies.

This thesis has some limitations. Firstly, the SMEs did not present any information about their financial position, such as sales, net profit, total debt, etc. Thus, the effect of those financial aspects on their preparedness for the IFRS for SMEs cannot be measured. Secondly, this research was conducted before the application of the IFRS for SMEs, so only the preparedness for and perception of the entities about the IFRS for SMEs can be determined. After the application date, SMEs' compliance with the IFRS for SMEs can also be measured. Finally, this research was carried out only in Turkey. The study can be extended to other emerging countries and their adoption processes can be compared.

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APPENDICES

Appendix A. Survey form of the SMEs

The information that you have presented to us will not be shared with any other party and will only used for statistical analysis in a PHD thesis.
Name of the company:

A. Demographics

1. Your experience (years): ○ 0-5 ○ 6-15 ○ More than 15

2. Education level:

○ Elementary or secondary school ○ High school ○ Bachelor's degree ○ Master degree

3. Your position:

○ Owner ○ Partner ○ Accounting or finance manager ○ Accountant

4. Operating year of your company:

○ 0-5 ○ 6-15 ○ 16-20 ○ More than 20 years

5. What is the status of your company?

○ Limited ○ Corporation ○ Sole proprietorship ○ Non-limited liability company ○ Limited partnership

6. What is the type of your business?

○ Manufacturing ○ Merchandising ○ Service

7. Number of employees in your company:

○ Less than 10 ○ 10-49 ○ 50-250

8. Amount of sales of 2010:

9. Net profit of 2010:

10. Amount of assets of 2010:

11. Amount of equity of 2010:

12. Which of the financial statements do you prepare for your company?

☐ Balance sheet
☐ Income statement
☐ Cash flow statement
☐ Statement of retained earnings
☐ Statement of changes in equity

13. Are your financial statements audited by an independent auditing firm?

○ Yes ○ No

14. Why you are preparing the financial statements?

☐ For pricing decisions
☐ For budgeting
☐ To determine the business strategy
☐ For new product decisions
☐ Performance evaluation
☐ Investment decision
☐ Evaluation of financial position
☐ For tax purposes
☐ To control the costs

15. Does your company have a web site?

○ Yes ○ No

16. Does your company take professional accounting and consulting services?

○ Yes ○ No

17. Is there any accounting department in your company?

○ Yes ○ No

18. Do you have import activities?

○ Yes ○ No

19. Do you have export activities?

○ Yes ○ No

20. What is the percentage of your foreign activities to your total activities?

○ 0-10% ○ 36-50%

○ 11-25% ○ 51% and over

○ 26-35%

21. What is your information level about IFRS for SMEs?

○ Zero ○ Less ○ Moderate ○ Good ○ Very good

22. Do you know the adoption of IFRS for SMEs will be mandatory starting from January 1, 2013 ?

○ Yes ○ No

23. If the IFRS for SMEs was elective rather than mandatory, would you intend to apply the standard?

○ Yes ○ No

24. The adoption of the IFRS for SMEs will be complemented in Turkey:

○ Immediately ○ 1-2 years ○ 3-4 years ○ 5-6 years ○ Never

25. The adoption of the IFRS for SMEs will be complemented in our company:

○ Immediately ○ 1-2 years ○ 3-4 years ○ 5-6 years ○ Never

26. Have you made any preparation for the IFRS for SMEs adoption in your company?

○ Yes ○ No

27. (If you have done preparation for the IFRS for SMEs adoption) What have you done to prepare your company for the IFRS for SMEs adoption?

☐ Our accounting personnel have taken the IFRS for SMEs training.

☐ Our management has taken the IFRS for SMEs training.

☐ We have adopted our current accounting program for the IFRS for SMEs.

☐ We have arranged meetings within the company to inform our accounting personnel.

B. Perception on the IFRS for SMEs.
(1=Strongly disagree, 2=Disagree, 3=Neutral, 4=Agree, 5=Strongly agree)

1.	The IFRS for SMEs will provide a fairer view.	**1**	**2**	**3**	**4**	**5**
2.	The IFRS for SMEs is appropriate for decision making.	**1**	**2**	**3**	**4**	**5**
3.	The IFRS for SMEs is complex.	**1**	**2**	**3**	**4**	**5**
4.	The IFRS for SMEs is detailed.	**1**	**2**	**3**	**4**	**5**
5.	The IFRS for SMEs is understandable.	**1**	**2**	**3**	**4**	**5**
6.	The IFRS for SMEs adoption is an inaccessible aim that cannot be achieved.	**1**	**2**	**3**	**4**	**5**
7.	The IFRS for SMEs is flexible.	**1**	**2**	**3**	**4**	**5**
8.	The IFRS for SMEs significantly differs from existing applications.	**1**	**2**	**3**	**4**	**5**
9.	The cost of the IFRS for SMEs adoption will exceed its benefits.	**1**	**2**	**3**	**4**	**5**
10.	The IFRS for SMEs is better than the existing applications.	**1**	**2**	**3**	**4**	**5**
11.	The IFRS for SMEs adoption will be time consuming for enterprises.	**1**	**2**	**3**	**4**	**5**

	C. Relevance of the IFRS for SMEs to your company. (1=Strongly disagree, 2=Disagree, 3=Neutral, 4=Agree, 5=Strongly agree)					
12.	Our accounting staff is capable to prepare financial statements based on the IFRS for SMEs.	**1**	**2**	**3**	**4**	**5**
13.	The IFRS for SMEs is costly to apply for our company.	**1**	**2**	**3**	**4**	**5**
14.	The IFRS for SMEs is not suitable for the sector that we are operating.	**1**	**2**	**3**	**4**	**5**
15.	Our computer hardware is not adequate for the adoption of the IFRS for SMEs.	**1**	**2**	**3**	**4**	**5**
	D. Advantages of the IFRS for SMEs (1=Strongly disagree, 2=Disagree, 3=Neutral, 4=Agree, 5=Strongly agree)					
16.	The IFRS for SMEs will ease the transition to the full set of IFRS for growing SMEs	**1**	**2**	**3**	**4**	**5**
17.	Adopting the IFRS for SMEs will improve the opportunities to obtain financial assistance from the banking sector.	**1**	**2**	**3**	**4**	**5**
18.	Adopting the IFRS for SMEs will improve the efficiency and effectiveness of our company's financial reporting.	**1**	**2**	**3**	**4**	**5**
19.	The IFRS for SMEs will increase the reliability of the information.	**1**	**2**	**3**	**4**	**5**
20.	The IFRS for SMEs will inhibit the underground economy.	**1**	**2**	**3**	**4**	**5**
21.	The transparency of information will increase.	**1**	**2**	**3**	**4**	**5**
22.	Financial statements will be more understandable.	**1**	**2**	**3**	**4**	**5**
23.	The accountability of the entities will increase.	**1**	**2**	**3**	**4**	**5**
24.	SMEs will be able to reach cross-border markets by applying the IFRS for SMEs.	**1**	**2**	**3**	**4**	**5**
25.	The financial reports of SMEs will be comparable in sectors at the international level.	**1**	**2**	**3**	**4**	**5**
	E. Obstacles and disadvantages of the IFRS for SMEs (1=Strongly disagree, 2=Disagree, 3=Neutral, 4=Agree, 5=Strongly agree)					
26.	The first adoption of the IFRS for SMEs will be costly for entities.	**1**	**2**	**3**	**4**	**5**
27.	Training of the staff will be time-consuming.	**1**	**2**	**3**	**4**	**5**
28.	The IFRS for SMEs is too subjective for application because of several alternatives in some parts.	**1**	**2**	**3**	**4**	**5**
29.	The IFRS for SMEs has insufficient sector-adapted regulation.	**1**	**2**	**3**	**4**	**5**
30.	The adoption of the IFRS for SMEs will be difficult because of the translation weaknesses.	**1**	**2**	**3**	**4**	**5**
31.	The IFRS for SMEs requires too much information to disclose.	**1**	**2**	**3**	**4**	**5**
32.	Interpreting the standard will be difficult.	**1**	**2**	**3**	**4**	**5**
33.	The SMEs in Turkey will not be able to employ accountants who are qualified in IFRS.	**1**	**2**	**3**	**4**	**5**

Appendix B. Survey form of the CPAs

The information that you have presented to us will not be shared with any other party and will only used for statistical analysis in a PHD thesis.

A. Demographics

1. Your experience (years): ○ 0-5 ○ 6-15 ○ 16-20 ○ More than 20

2. Education level:

○ Elementary or secondary school ○ High school ○ Bachelor's degree ○ Master degree

3. Your position (if available):

○ Public accountant ○ Certified public accountant ○ Sworn-in certified public accountant

○ Intern ○ Other

4. Number of clients:

○ Less than 10 ○ 10-50 ○ 51-100 ○ More than 100

5. What is your information level about the IFRS for SMEs?

○ Zero ○ Less ○ Moderate ○ Good ○ Very good

6. Do you know the adoption of the IFRS for SMEs will be mandatory starting from January 1, 2013?

○ Yes ○ No

7. The adoption of the IFRS for SMEs will be complemented in Turkey:

○ Immediately ○ 1-2 years ○ 3-4 years ○ 5-6 years ○ Never

8. Have you made any preparation for the IFRS for SMEs adoption?

○ Yes ○ No

9. (If your answer is "Yes" for the 8th question) What have you done for preparation?

☐ Training about the IFRS for SMEs has been taken.
☐ We have arranged meetings about the IFRS for SMEs adoption.
☐ Sources about the IFRS for SMEs have been acquired.
☐ We have organized meetings for our clients about the IFRS for SMEs.
☐ We have given trainings to our clients.
☐ Accounting programs have been sought.
☐ We have adopted our current program for the IFRS for SMEs.

B. Perception on the IFRS for SMEs.
(1=Strongly disagree, 2=Disagree, 3=Neutral, 4=Agree, 5=Strongly agree)

1.	The IFRS for SMEs will provide fairer view.	**1**	**2**	**3**	**4**	**5**
2.	The IFRS for SMEs is appropriate for decision making.	**1**	**2**	**3**	**4**	**5**
3.	The IFRS for SMEs is complex.	**1**	**2**	**3**	**4**	**5**
4.	The IFRS for SMEs is detailed.	**1**	**2**	**3**	**4**	**5**
5.	The IFRS for SMEs is understandable.	**1**	**2**	**3**	**4**	**5**
6.	The IFRS for SMEs adoption is an inaccessible aim that cannot be achieved.	**1**	**2**	**3**	**4**	**5**
7.	The IFRS for SMEs is flexible.	**1**	**2**	**3**	**4**	**5**
8.	The IFRS for SMEs significantly differs from existing applications.	**1**	**2**	**3**	**4**	**5**
9.	The cost of the IFRS for SMEs adoption will exceed its benefits.	**1**	**2**	**3**	**4**	**5**
10.	The IFRS for SMEs is better than the existing applications.	**1**	**2**	**3**	**4**	**5**
11.	The IFRS for SMEs adoption will be time consuming for enterprises.	**1**	**2**	**3**	**4**	**5**

C. Advantages of the IFRS for SMEs (1=Strongly disagree, 2=Disagree, 3=Neutral, 4=Agree, 5=Strongly agree)						
12.	The IFRS for SMEs will ease the transition to full set of IFRS for growing SMEs	**1**	**2**	**3**	**4**	**5**
13.	Adopting the IFRS for SMEs will improve the opportunities to obtain financial assistance from the banking sector.	**1**	**2**	**3**	**4**	**5**
14.	Adopting the IFRS for SMEs will improve the efficiency and effectiveness of our company's financial reporting.	**1**	**2**	**3**	**4**	**5**
15.	IFRS for SMEs will increase the reliability of the information.	**1**	**2**	**3**	**4**	**5**
16.	IFRS for SMEs will inhibit the underground economy.	**1**	**2**	**3**	**4**	**5**
17.	Transparency of information will increase.	**1**	**2**	**3**	**4**	**5**
18.	Financial statements will be more understandable.	**1**	**2**	**3**	**4**	**5**
19.	The accountability of the entities will increase.	**1**	**2**	**3**	**4**	**5**
20.	SMEs will be able to reach cross-border markets by applying the IFRS for SMEs.	**1**	**2**	**3**	**4**	**5**
21.	The financial reports of SMEs will be comparable in sectors at the international level.	**1**	**2**	**3**	**4**	**5**
D. Obstacles and disadvantages of the IFRS for SMEs (1=Strongly disagree, 2=Disagree, 3=Neutral, 4=Agree, 5=Strongly agree)						
22.	The first adoption of the IFRS for SMEs will be costly for entities.	**1**	**2**	**3**	**4**	**5**
23.	Training of staff will be time-consuming.	**1**	**2**	**3**	**4**	**5**
24.	The IFRS for SMEs is too subjective for application because of several alternatives in some parts.	**1**	**2**	**3**	**4**	**5**
25.	The IFRS for SMEs has insufficient sector-adapted regulation.	**1**	**2**	**3**	**4**	**5**
26.	The adoption of the IFRS for SMEs will be difficult because of the translation weaknesses.	**1**	**2**	**3**	**4**	**5**
27.	The IFRS for SMEs requires too much information to disclose.	**1**	**2**	**3**	**4**	**5**
28.	Interpreting the standard will be difficult.	**1**	**2**	**3**	**4**	**5**
29.	The SMEs in Turkey will not be able to employ accountants who are qualified in IFRSs.	**1**	**2**	**3**	**4**	**5**

Appendix C. Survey of the SMEs (Turkish version)

Bize sunduğunuz bilgiler gizli tutulacaktır ve sadece doktora tezinde analiz amaçlı kullanılacaktır.
İşletmenizin Adı:

A. Demografik Bilgiler

1. Mesleki Tecrübeniz (yıl olarak): O 0-5 O 6-15 O 15'den fazla

2. Eğitim dereceniz:

O İlköğretim O Lise O Lisans O Yüksek lisans

3. İşletmedeki pozisyonunuz:

O İşletme sahibi O İşletme ortağı O Muhasebe-finans müdürü O Muhasebe elemanı

4. İşletmenizin faaliyet yılı:

O 0-5 O 6-15 O 16-20 O 20'den fazla

5. İşletmenizin statüsü:

O Limited O Anonim O Şahıs O Kollektif O Komandit

6. İşletmenizin faaliyet alanı:

O İmalat O Ticaret O Hizmet

7. İşletmenizde çalışan sayısı:

O 10'dan az O 10-49 O 50-250

8. 2010 yılı cirosu:

9. 2010 yılı net kârı:

10. 2010 yılı aktif toplamı:

11. 2010 yılı öz sermayesi:

12. Aşağıdaki finansal tablolardan hangisi/hangileri işletmeniz tarafından hazırlanmaktadır?

☐ Bilanço
☐ Dağıtılmamış Kârlar Tablosu
☐ Gelir Tablosu
☐ Öz Kaynak Değişim Tablosu
☐ Nakit Akış Tablosu

13. İşletmenizin finansal tabloları bağımsız bir denetim firması tarafından denetlenmekte midir?

O Evet O Hayır

14. İşletmeniz finansal tabloları hangi amaç/amaçlar için hazırlamaktadır?

☐ Ürün fiyatlama kararları için
☐ Yatırım kararları vermek için
☐ Bütçe oluşturmak için
☐ Finansal durumu değerlendirmek için
☐ İşletme stratejisini belirlemek için
☐ Mali kârı belirlemek için
☐ Yeni ürün kararı almak için
☐ Maliyetleri kontrol etmek için
☐ Performans değerlendirmesi yapmak için

15. İşletmenizin web sitesi bulunmakta mıdır?

O Evet O Hayır

16. İşletmeniz muhasebe ve vergi danışmanlığı hizmeti almakta mıdır?

O Evet O Hayır

17. İşletmenizde ayrı bir muhasebe departmanı bulunmakta mıdır?

O Evet O Hayır

18. İşletmeniz ithalat yapmakta mıdır?

- ○ Evet ○ Hayır

19. İşletmeniz ihracat yapmakta mıdır?

- ○ Evet ○ Hayır

20. İşletmenizin yurt dışı cirosunun toplam cirosuna oranı ortalama olarak kaçtır?

- ○ %0-10 ○ %36-50
- ○ %11-25 ○ %51'den fazla
- ○ %26-35

21. KOBİ'ler için UFRS içeriği hakkındaki bilgi düzeyiniz nedir?

- ○ Hiç bilmiyorum ○ Az biliyorum ○ Orta derecede bilgiye sahibim ○ İyi biliyorum ○ Çok iyi biliyorum

22. KOBİ'ler için UFRS kullanımının 1 Ocak 2013'ten itibaren yasal olarak zorunlu hale geleceğinden haberdar mısınız?

- ○ Evet ○ Hayır

23. Eğer KOBİ'ler için UFRS setine göre raporlama zorunlu olmasaydı, bu seti kullanır mıydınız?

- ○ Evet ○ Hayır

24. KOBİ'ler için UFRS setine uyum Türkiye'de sizce ne kadar sürede tamamlanır?

- ○ Hemen ○ 1-2 yıl ○ 3-4 yıl ○ 5-6 yıl ○ Hiçbir zaman

25. KOBİ'ler için UFRS setine uyum işletmenizde ne kadar süre içinde tamamlanır?

- ○ Hemen ○ 1-2 yıl ○ 3-4 yıl ○ 5-6 yıl ○ Hiçbir zaman

26. İşletmenizde KOBİ'ler için UFRS uyumu adına herhangi bir hazırlık yapıldı mı?

- ○ Evet ○ Hayır

Eğer 26. Soruya cevabınız "Evet" ise 27. Soruyu cevaplayınız. "Hayır" ise "B" bölümüne geçiniz.

27. KOBİ'ler için UFRS hazırlığınız hangisi/hangilerini kapsamaktadır?

- ☐ Muhasebe personelimiz KOBİ'ler için UFRS eğitimi aldı.
- ☐ Yönetimimiz KOBİ'ler için UFRS eğitimi aldı.
- ☐ Kullanmakta olduğumuz mevcut muhasebe programını UFRS uyumlu hale getirdik.
- ☐ Personelimizi bilgilendirmek için şirket içinde KOBİ'ler için UFRS ile ilgili toplantılar düzenledik.

B. KOBİ'ler için UFRS algısı
(1=Kesinlikle katılmıyorum, 2=Katılmıyorum, 3=Kararsızım, 4=Katılıyorum, 5= Kesinlikle katılıyorum)

1.	KOBİ'ler için UFRS seti işletmelerin finansal tablolarının daha gerçeğe uygun sunulmasını sağlayacaktır.	**1**	**2**	**3**	**4**	**5**
2.	KOBİ'ler için UFRS seti işletmelerin karar alma mekanizmalarına daha uygun bilgi sunacaktır.	**1**	**2**	**3**	**4**	**5**
3.	KOBİ'ler için UFRS seti karmaşıktır.	**1**	**2**	**3**	**4**	**5**
4.	KOBİ'ler için UFRS seti detaylıdır.	**1**	**2**	**3**	**4**	**5**
5.	KOBİ'ler için UFRS setinin anlaşılması kolaydır.	**1**	**2**	**3**	**4**	**5**
6.	KOBİ'ler için UFRS setinin işletmelerce tam olarak uygulanması ulaşılması güç bir amaçtır.	**1**	**2**	**3**	**4**	**5**
7.	KOBİ'ler için TFRS seti bazı uygulamalarda farklı alternatifler sunarak kullanımda esneklik sağlayacaktır.	**1**	**2**	**3**	**4**	**5**
8.	KOBİ'ler için UFRS seti mevcut uygulamalardan çok farklıdır.	**1**	**2**	**3**	**4**	**5**
9.	KOBİ'ler için UFRS setinin uygulanması maliyeti sağlayacağı faydadan daha fazla olacaktır.	**1**	**2**	**3**	**4**	**5**
10.	KOBİ'ler için UFRS seti mevcut uygulamalardan daha iyidir.	**1**	**2**	**3**	**4**	**5**
11.	KOBİ'ler için UFRS setinin uygulanması işletmeler için zaman alıcı olacaktır.	**1**	**2**	**3**	**4**	**5**

C. KOBİ'ler için UFRS'nin işletmenize uygunluğu (1=Kesinlikle katılmıyorum, 2=Katılmıyorum, 3=Kararsızım, 4=Katılıyorum, 5= Kesinlikle katılıyorum)					
12. İşletmemiz muhasebe personeli KOBİ'ler için UFRS setini uygulayabilecek yetkinliktedir.	**1**	**2**	**3**	**4**	**5**
13. KOBİ'ler için UFRS setinin uygulanması işletmemiz için maliyetledir.	**1**	**2**	**3**	**4**	**5**
14. KOBİ'ler için UFRS seti faaliyette bulunduğumuz sektöre uygun değildir.	**1**	**2**	**3**	**4**	**5**
15. Bilgisayar donanımımız KOBİ'ler için UFRS setine uyum sağlayacak yeterlilikte değildir.	**1**	**2**	**3**	**4**	**5**
D. KOBİ'ler için UFRS'nin avantajları (1=Kesinlikle katılmıyorum, 2=Katılmıyorum, 3=Kararsızım, 4=Katılıyorum, 5= Kesinlikle katılıyorum)					
16. KOBİ'ler için UFRS setinin kullanımı büyümekte olan KOBİ'lerin tam set UFRS'ye geçişini kolaylaştıracaktır.	**1**	**2**	**3**	**4**	**5**
17. KOBİ'ler için UFRS setine uyum KOBİ'lerin bankalardan kredi almasını kolaylaştıracaktır.	**1**	**2**	**3**	**4**	**5**
18. KOBİ'ler için UFRS setine uyum işletmelerin finansal raporlamasının etkinliğini artıracaktır.	**1**	**2**	**3**	**4**	**5**
19. KOBİ'ler için UFRS setinin kullanımı finansal tablolar ile daha güvenilir bilgi sunumunu sağlayacaktır.	**1**	**2**	**3**	**4**	**5**
20. KOBİ'ler için UFRS setinin kullanımı kayıt dışı ekonomiyi engelleyecektir.	**1**	**2**	**3**	**4**	**5**
21. KOBİ'ler için UFRS seti uygulanınca işletmeler tarafından sunulan bilginin şeffaflığı artacaktır.	**1**	**2**	**3**	**4**	**5**
22. KOBİ'ler için UFRS seti uygulanınca işletmelerin finansal tabloları daha anlaşılır olacaktır.	**1**	**2**	**3**	**4**	**5**
23. KOBİ'ler için UFRS seti uygulanınca işletmelerin hesap verebilirliği artacaktır.	**1**	**2**	**3**	**4**	**5**
24. KOBİ'ler için UFRS setini uygulayarak KOBİ'ler sınır ötesi pazarlara ulaşabilecektir.	**1**	**2**	**3**	**4**	**5**
25. KOBİ'ler için UFRS setinin uygulanması sonucunda, KOBİ'lerin finansal tabloları uluslararası düzeyde karşılaştırılabilir olacaktır.	**1**	**2**	**3**	**4**	**5**
E. KOBİ'ler için UFRS'nin dezavantajları ve bu süreçteki engeller (1=Kesinlikle katılmıyorum, 2=Katılmıyorum, 3=Kararsızım, 4=Katılıyorum, 5= Kesinlikle katılıyorum)					
26. KOBİ'ler için UFRS setine ilk geçiş maliyetli olacaktır.	**1**	**2**	**3**	**4**	**5**
27. KOBİ'ler için UFRS setinin uygulanabilmesi için personelin eğitimi zaman alacaktır.	**1**	**2**	**3**	**4**	**5**
28. KOBİ'ler için UFRS'de yoruma açık ifadeler, uygulamada farklılıklara neden olacaktır.	**1**	**2**	**3**	**4**	**5**
29. KOBİ'ler için UFRS seti tüm sektördeki işletmelerin uygulayabileceği kapsamda değildir.	**1**	**2**	**3**	**4**	**5**
30. KOBİ'ler için UFRS seti çeviri olduğu için bazı eksiklikleri vardır.	**1**	**2**	**3**	**4**	**5**
31. KOBİ'ler için UFRS seti çok fazla dip not bilgisi gerektirmektedir.	**1**	**2**	**3**	**4**	**5**
32. Bu standartların KOBİ'ler tarafından yorumlanması çok zor olacaktır.	**1**	**2**	**3**	**4**	**5**
33. Türkiye'deki KOBİ'lerin bu seti uygulayacak yetkinlikte muhasebe elemanı bulunmamaktadır.	**1**	**2**	**3**	**4**	**5**

Appendix D. Survey form of the CPAs (Turkish version)

Bize sunduğunuz bilgiler gizli tutulacaktır ve sadece doktora tezinde analiz amaçlı kullanılacaktır.

A. Demografik Bilgiler

1. Mesleki tecrübeniz (yıl olarak): ○ 0-5 ○ 6-15 ○ 16-20 ○ 20'den fazla

2. Eğitim dereceniz:

○ İlköğretim ○ Lise ○ Lisans ○ Yüksek lisans

3. Mesleki unvanınız (varsa):

○ Serbest mali müşavir ○ Serbest muhasebeci mali müşavir ○ Yeminli mali müşavir ○ Stajyer ○ Diğer

4. Mükellef sayınız:

○ 10'dan az ○ 10-50 ○ 51-100 ○ 100'den fazla

5. KOBİ'ler için UFRS içeriği hakkındaki bilgi düzeyiniz nedir?

○ Hiç bilmiyorum ○ Az biliyorum ○ Orta derecede bilgiye sahibim ○ İyi biliyorum ○ Çok iyi biliyorum

6. KOBİ'ler için UFRS kullanımının 1 Ocak 2013'ten itibaren yasal olarak zorunlu hale geleceğinden haberdar mısınız?

○ Evet ○ Hayır

7. KOBİ'ler için UFRS setine uyum Türkiye'de sizce ne kadar sürede tamamlanır?

○ Hemen tamamlanır ○ 1-2 yıl ○ 3-4 yıl ○ 5-6 yıl ○ Hiçbir zaman

8. Büronuzda KOBİ'ler için UFRS uyumu adına herhangi bir hazırlık yapıldı mı?

○ Evet ○ Hayır

Eğer 8. Soruya cevabınız "Evet" ise 9. Soruyu cevaplayınız. "Hayır" ise "B" bölümüne geçiniz.

9. KOBİ'ler için UFRS hazırlığınız hangisini/hangilerini kapsamaktadır?

- ☐ KOBİ'ler için UFRS eğitimi alındı.
- ☐ KOBİ'ler için UFRS ile ilgili toplantılar düzenlendi.
- ☐ KOBİ'ler için UFRS uygulamasıyla ilgili yazılı kaynaklar edinildi.
- ☐ KOBİ'ler için UFRS ile ilgili mükelleflerle görüşüldü.
- ☐ KOBİ'ler için UFRS hakkında mükelleflere eğitim verildi.
- ☐ KOBİ'ler için UFRS'ye uyumlu muhasebe programları araştırıldı.
- ☐ KOBİ'ler için UFRS'ye uyumlu muhasebe programı satın alındı.

B. KOBİ'ler için UFRS algısı
(1=Kesinlikle katılmıyorum, 2=Katılmıyorum, 3=Kararsızım, 4=Katılıyorum, 5= Kesinlikle katılıyorum)

1.	KOBİ'ler için UFRS seti işletmelerin finansal tablolarının daha gerçeğe uygun sunulmasını sağlayacaktır.	**1**	**2**	**3**	**4**	**5**
2.	KOBİ'ler için UFRS seti işletmelerin karar alma mekanizmalarına daha uygun bilgi sunacaktır.	**1**	**2**	**3**	**4**	**5**
3.	KOBİ'ler için UFRS seti karmaşıktır.	**1**	**2**	**3**	**4**	**5**
4.	KOBİ'ler için UFRS seti detaylıdır.	**1**	**2**	**3**	**4**	**5**
5.	KOBİ'ler için UFRS setinin anlaşılması kolaydır.	**1**	**2**	**3**	**4**	**5**
6.	KOBİ'ler için UFRS setinin işletmelerce tam olarak uygulanması ulaşılması güç bir amaçtır.	**1**	**2**	**3**	**4**	**5**
7.	KOBİ'ler için TFRS seti bazı uygulamalarda farklı alternatifler sunarak kullanımda esneklik sağlayacaktır.	**1**	**2**	**3**	**4**	**5**
8.	KOBİ'ler için UFRS seti mevcut uygulamalardan çok farklıdır.	**1**	**2**	**3**	**4**	**5**
9.	KOBİ'ler için UFRS setinin uygulanması maliyeti sağlayacağı faydadan daha fazla olacaktır.	**1**	**2**	**3**	**4**	**5**
10.	KOBİ'ler için UFRS seti mevcut uygulamalardan daha iyidir.	**1**	**2**	**3**	**4**	**5**
11.	KOBİ'ler için UFRS setinin uygulanması işletmeler için zaman alıcı olacaktır.	**1**	**2**	**3**	**4**	**5**

C. KOBİ'ler için UFRS'nin sunduğu avantajlar (1=Kesinlikle katılmıyorum, 2=Katılmıyorum, 3=Kararsızım, 4=Katılıyorum, 5= Kesinlikle katılıyorum)					
12. KOBİ'ler için UFRS setinin kullanımı büyümekte olan KOBİ'lerin tam set UFRS'ye geçişini kolaylaştıracaktır.	**1**	**2**	**3**	**4**	**5**
13. KOBİ'ler için UFRS setine uyum KOBİ'lerin bankalardan kredi almasını kolaylaştıracaktır.	**1**	**2**	**3**	**4**	**5**
14. KOBİ'ler için UFRS setine uyum işletmelerin finansal raporlamasının etkinliğini artıracaktır.	**1**	**2**	**3**	**4**	**5**
15. KOBİ'ler için UFRS setinin kullanımı finansal tablolar ile daha güvenilir bilgi sunumunu sağlayacaktır.	**1**	**2**	**3**	**4**	**5**
16. KOBİ'ler için UFRS setinin kullanımı kayıt dışı ekonomiyi engelleyecektir.	**1**	**2**	**3**	**4**	**5**
17. KOBİ'ler için UFRS seti uygulanınca işletmeler tarafından sunulan bilginin şeffaflığı artacaktır.	**1**	**2**	**3**	**4**	**5**
18. KOBİ'ler için UFRS seti uygulanınca işletmelerin finansal tabloları daha anlaşılır olacaktır.	**1**	**2**	**3**	**4**	**5**
19. KOBİ'ler için UFRS seti uygulanınca işletmelerin hesap verebilirliği artacaktır.	**1**	**2**	**3**	**4**	**5**
20. KOBİ'ler için UFRS setini uygulayarak KOBİ'ler sınır ötesi pazarlara ulaşabilecektir.	**1**	**2**	**3**	**4**	**5**
21. KOBİ'ler için UFRS setinin uygulanması sonucunda, KOBİ'lerin finansal tabloları uluslararası düzeyde karşılaştırılabilir olacaktır.	**1**	**2**	**3**	**4**	**5**
22. KOBİ'ler için UFRS setinin kullanımı büyümekte olan KOBİ'lerin tam set UFRS'ye geçişini kolaylaştıracaktır.	**1**	**2**	**3**	**4**	**5**
D. KOBİ'ler için UFRS'nin dezavantajları ve bu süreçteki engeller (1=Kesinlikle katılmıyorum, 2=Katılmıyorum, 3=Kararsızım, 4=Katılıyorum, 5= Kesinlikle katılıyorum)					
23. KOBİ'ler için UFRS setine ilk geçiş maliyetli olacaktır.	**1**	**2**	**3**	**4**	**5**
24. KOBİ'ler için UFRS setinin uygulanabilmesi için personelin eğitimi zaman alacaktır.	**1**	**2**	**3**	**4**	**5**
25. KOBİ'ler için UFRS'de yoruma açık ifadeler, uygulamada farklılıklara neden olacaktır.	**1**	**2**	**3**	**4**	**5**
26. KOBİ'ler için UFRS seti tüm sektördeki işletmelerin uygulayabileceği kapsamda değildir.	**1**	**2**	**3**	**4**	**5**
27. KOBİ'ler için UFRS seti çeviri olduğu için bazı eksiklikleri vardır.	**1**	**2**	**3**	**4**	**5**
28. KOBİ'ler için UFRS seti çok fazla dip not bilgisi gerektirmektedir.	**1**	**2**	**3**	**4**	**5**
29. Bu standartların KOBİ'ler tarafından yorumlanması çok zor olacaktır.	**1**	**2**	**3**	**4**	**5**
30. Türkiye'deki KOBİ'lerin bu seti uygulayacak yetkinlikte muhasebe elemanı bulunmamaktadır.	**1**	**2**	**3**	**4**	**5**

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