ABSTRACT

The general objective of this research workis to investigate the likely challenges that SMEs will encounter in adoptingIFRs for SMEs within the Nigerian environment and those factors that couldhamper the adoption of the standard by SMEs. Understanding the vital role ofSMEs in every economy, ranging from positive developments to creation ofemployments and their very key impact within the various sectors where they areoperational, it therefore becomes so operational to critically analyze, usingextant literature, the benefits and likely challenges of implementing IFRs forSMEs in Nigeria. The study examines the issues and challenges faced by SMEs inthe adoption of IFRS for SMEs in Nigeria. To obtain answers to the researchquestions, questionnaires were distributed seeking the opinion of respondents.A total of 400 questionnaires was distributed to Accountants, Accounts clerks,Analysts, Executives/Business owners, etc. out of which 318 was returned. The datacollected was analyzed using descriptive statistics and Multiple Regressionanalysis. The results show the various relationships existing between thefactors that affect the adoption of IFRS for SMES and the standard itself. Thefinding also reveals that despite the challenges bedeviling the SMEs, SMEs arewilling and ready to adopt the standard however, training and re-training hasto be enhanced. The study encourages the government to ensure a level playingground by drawing out a timetable, which the SMEs are to abide to whileadopting the standard and to also provide the necessary funding where the needarises considering the cost involvement in adoption.
Keywords: IFRS, IFRS for SMEs, SMEs,Financial Reporting, the Standard.

CHAPTER ONE
INTRODUCTION

BACKGROUNDOF THE STUDY

The process of businesses presentingfinancial reports in a unified worldwide acceptable manner started witnessing asporadic revolution within the European Union in 2002 when it was mademandatory that all publicly quoted companies or rather, companies with publicaccountability must prepare their financial statements in accordance with therequirement of the International Financial Reporting Standards (IFRS) witheffect from 2005 (Ball, 2006). Such revolution encompasses the adoption andadaptation of local accounting practices and harmonizing it with that of theInternational Financial Reporting Standards (IFRS) which formally was theInternational Accounting Standards (IAS).

It is in recognition of the need to havingquality financial reports and other benefits such as ability to improve thecomparability among entities, having access to global capital markets andreduced cost of capital, access to cross border acquisitions, that the adoptionof IFRS is becoming a trend among nations. Nigeria as a country therefore, setout its roadmap to harmonization and accepting of the IFRS in 2010 with areporting date of 2012 (Ayuba, 2012). Although, there are significant benefitsof adopting IFRS, it is not without problems. Among such problems, include theconversion challenges such as increased volatility of earning, high cost ofimplementation, complex nature of IFRS and issues of implementation.

To cater for the needs of the Small andMedium Enterprises (SMEs) and understanding their impact in the sustenance anddevelopment of a nation and the need to make them present a quality financialstatement, the International Accounting Standard Board (IASB) in 2009 developedthe International Financial Reporting Standards for Small and MediumEnterprises – IFRS for SMEs (Mazhindu and Mafuba, 2013), and also as a responseto a 'strong international demand from both developed and emerging economiesfor a rigorous and common set of accounting standard for smaller companies'(Albu, 2013). With its stated benefits, Albu (2013) noticed that the adoptionof IFRS for SMEs is laden with various challenges such as high level ofexpectation, the associated cost of implementation, lack of competencies oflocal professions among others. According to Ayuba (2012), proper criteria for thedefinition of SMEs may constitute a challenge as Nigeria adopts its roadmap ofthe SMEs reporting date of 2014.

Understanding the vital role of SMEs in everyeconomy, ranging from positive developments

to creation of employments andtheir very key impact within the various sectors where they are operational, ittherefore becomes so operational to critically analyze, using extantliterature, the benefits and likely challenges of implementing IFRs for SMEs inNigeria.Various studies have been conducted to assess the adoption of IFRS forSMEs in different countries of the world. A set of studies have been conductedin relations to the importance or benefits (Neag, Masca and Pascan, 2009;Mazhindu and Mafuba, 2013; Schutte and Buys, 2011a) and the challenges ofadopting IFRS from SMEs (Stainbank, 2008; Albu, 2013; Kordecki and Bullen,2012). Most of these studies were conducted using member European Union fordata analysis. Comparatively, few researches have been conducted or carried outon emerging economies. Therefore, with respect to the researcher's knowledge,few empirical research exits on the issues and challenges of adopting IFRS forSMEs in Nigeria. This study therefore, will attempt to bridge the gap andequally adopt the Nigerian data with particular reference to the adoption ofIFRS for SMEs, issues with IFRS for SMEs in Nigeria, challenges likely to befaced by stakeholders in the adoption process and the factors affecting theadoption.

By utilizing an analytical framework from theextant literature, empirical evidence from other countries context, theresearch elaborated in detail the benefits, challenges and factors/issues thatcould affect the adoption of IFRS for SMEs in Nigeria. Through questionnairesthat were distributed to finance officers, CEOs and accountants of selectedcompanies, and review of some related documents, inferences were drawnregarding the adoption of IFRS for SMEs in Nigeria.

Statement of the Problem

The development of IFRS for SMEs and itssubsequent adoption by industrialized and developed countries such as Britain,Turkey, Sweden, Germany and other EU Members have been a major concern amongaccounting professionals. In spite of existing studies on the adoption of IFRSfor SMEs by the developed and industrialized countries of the world, lessattention has been given to the developing countries. Little educationalpublication exists on the adoption of IFRS for SMEs in Nigeria. Those existingfew focuses mainly on the likely benefits to the government and are viewed froma general African perspective (Mazhindu and Mafuba, 2013; Stainbank, 2008;Kopperschaar, 2012).

This study is therefore motivated because ofabsence of studies in the area of IFRS for SMEs adoption in Nigeria, itsbenefits, challenges and factors likely to explain the reasons for itsadoption. Considering the differences in environment between the developed andthe emerging economies, it is imperative to see the problem in the developingcountries context to enrich and extend the understanding of IFRS for SMEs andthe issues relating to its first time adoption within the Nigerian environment.

Purpose of the Study

The adoption of International FinancialReporting Standards for Small and Medium Enterprises (IFRS for SMEs) hasreceived widespread acceptability by various nations of the world as thebenchmark for the financial reporting of SMEs. However, many countries andresearchers suggest that the adoption of IFRS for SMEs may not improve thefinancial reporting of SMEs across board because every economy have peculiarand unique factors surrounding their financial reporting activities.

This research work therefore intends to carryout an empirical investigation on those issues and challenges that SMEs withinthe Nigerian environment may encounter in the processes of adopting IFRS forSMEs and how these issues could be solved so as to making sure that theirreports is in line with international best practices.

Aims and Objectives of the Study

The general aim of this research work is toinvestigate the likely challenges that SMEs will encounter in adopting IFRs forSMEs within the Nigerian environment and those factors that could hamper theadoption of the standard by SMEs. To achieve the intended aim of this study,the researcher will try to:

i. establish the various challenges that willbe faced by SMEs while adopting the standard

(IFRS for SMEs);

ii. Ascertain the benefits that SMEs coudderive from adopting the standard (IFRS for SMEs);

iii. Identify some issues that are likely toprevent SMEs from adopting the standard (IFRS for SMEs) and

iv. Ascertain the underlying factors (i.e.government policy, professional bodies, company size, and capital market andeducation/qualification level) that could affect the level of adoption of IFRSfor SMEs.

Significance of the Study

The study would have many advantages to allpractitioners and academicians by providing useful information about IFRS forSMEs and issues related to its adoption in Nigeria. It would also be useful toorganizations' management by providing information about the theoretical andactual benefits, issues and challenges of adopting IFRS for SMEs. For academicpurposes, it will provide useful information concerning the statement ofproblems.

To those who may be interested in conductinga detailed research/study regarding the adoption of IFRS for SMEs, this studycould be used as an initiation. Why perceiving the actual benefits of IFRS forSMEs, this research could act as a guide to the management of companies to beaware of the challenges they could encounter in adopting IFRS for SMEs andprovide insight on the efficient and effective adoption of IFRS for SMEs.

Relevant Research Question

To achieve its aim, the study practicallyprovided answers to the following research questions:

RQ1: What are the likelihood of GovernmentPolicies hampering the adoption of IFRS for SMEs?

RQ2: What practical benefits could thepolicies present towards the adoption of the standard?

RQ3: What practical issues from CapitalMarket view could prevent an organization from successfully adopting IFRS forSMEs?

RQ4: What benefits/roles does ProfessionalBodies provide in the adoption process of IFRS for SMEs?

RQ5: What significant role does company sizeplay in the adoption of the standard?

RQ6: How can Educational Qualification/Levelaid the adoption of IFRS for SMEs?

Research Hypothesis

According to Frank (1979 as cited in Mazhinduand Mafuba 2013), a hypothesis is a tentative statement of fact that is yet tobe verified by the researcher. Therefore, in this study in order to address thevarious research questions that could explain the adoption of IFRS for SMEs,one dependent variable against five independent variables will be developed andinvestigated. The dependent variable is the adoption of IFRS for SMEs, whilethe independent variables are government policy, professional bodies, companysize, capital market and educational qualification/level.

The dependent variable is the variable thatis the effect or is the result of other variables while the independentvariable are those forces or conditions that aids or acts on something else.IFRS for SMEs being the dependent variable is a standard for reportingfinancial results and activities of non-public accountable organizations andapplicable to organization that are not quoted on the stock exchange but areinvolved in profit oriented activities. The adoption of IFRS for SMEs thereforeis referred to as the harmonization of international accounting standard and inthis case in Nigeria. These, therefore, form the subject of discussion for theresearch. Considering the impact of the independent variables of governmentpolicy, professional bodies, company size, capital market and educationalqualification/level on the dependent variable, the following researchhypothesis will therefore be investigated.

Hypothesis 1:

H0: There is no significant relationshipbetween Government Policies and the adoption of IFRS for SMEs.

H1: There is a significant relationshipbetween Government Policies and the adoption of

IFRS for SMEs.

Hypothesis 2:

H0: There is no significant relationshipbetween Capital Market and the adoption of IFRS for SMEs.

H1: There is a significant relationshipbetween Capital Market and the adoption of IFRS for SMEs.

Hypothesis 3:

H0: There is no significant relationshipbetween Educational Qualifications/Level and the adoption of IFRS for SMEs.

H1: There is a significant relationshipbetween Educational Qualifications/Level and the adoption of IFRS for SMEs.

Hypothesis 4:

H0: There is no significant relationshipbetween Professional Bodies and the adoption of IFRS for SMEs.

H1: There is a significant relationshipbetween Professional Bodies and the adoption of IFRS for SMEs.

Hypothesis 5:

H0: There is no significant relationshipbetween Company Size and the adoption of IFRS for SMEs.

H1: There is no significant relationship betweenCompany Size and the adoption of IFRS for SMEs.

Scope of the Study

The general aim of the study is to access theissues and challenges in the adoption of IFRs for SMEs. Due to its broad andcomplex nature, this study focused on those factors that could explain theadoption of IFRS for SMEs by Nigerian companies (SMEs), the economic benefitsof adopting the standard in Nigeria as well as the challenges that could beencountered in the adoption of the standard.

However, due to limited research existing inNigeria in the area of IFRs for SMEs, this study is developed on currentliteratures and studies conducted in other countries (developed and developing)but mostly within the African context.

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Issues and Challenges in the Adoption of IFRS for SMEs in Nigeria