

## Factors of Adoption of the International Financial Reporting Standard for Small and Medium Sized Entities

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**Abstract :** Globalisation of the world economy has necessitated the development and implementation of a comparable and understandable reporting language suitable for use by all reporting entities. The International Accounting Standard Board (IASB) provides an international reporting language that lets all users understand the financial information of their business and potentially allows them to have access to finance at an international level. The study is based on logistic regression analysis to investigate the factors for the adoption of the International Financial Reporting Standard for Small and Medium sized Entities (IFRS for SMEs). The study started with a list of 217 countries from World Bank data. Due to the lack of availability of data, the final sample consisted of 136 countries, including 60 countries that have adopted the IFRS for SMEs and 76 countries that have not adopted it yet. As a result, the study included a period from 2010 to 2020 and obtained 1360 observations. The findings confirm that the adoption of the IFRS for SMEs is significantly related to the existence of national reporting standards, law enforcement quality, common law (legal system), and extent of disclosure. It means that the likelihood of adoption of the IFRS for SMEs decreases if the country already has a national reporting standard for SMEs, which suggests that implementation and transitional costs are relatively high in order to change the reporting standards. The result further suggests that the new standard adoption is easier in countries with constructive law enforcement and effective application of laws. The finding also shows that the adoption increases if countries have a common law system which suggests that efficient reporting regulations are more widespread in these countries. Countries with a high extent of disclosing their financial information are more likely to adopt the standard than others. The findings lastly show that the audit quality and primary education level have no significant impact on the adoption. One possible explanation for this could be that accounting professionals from in developing countries lacked complete knowledge of the international reporting standards even though there was a requirement to comply with them. The study contributes to the literature by providing factors that impact the adoption of the IFRS for SMEs. It helps policymakers to better understand and apply the standard to improve the transparency of financial statements. The benefit of adopting the IFRS for SMEs is significant due to the relaxed and tailored reporting requirements for SMEs, reduced burden on professionals to comply with the standard, and provided transparent financial information to gain access to finance. The results of the study are useful to emerging economies where SMEs are dominant in the economy in informing its evaluation of the adoption of the IFRS for SMEs.

**Keywords :** IFRS for SMEs, international financial reporting standard, adoption, institutional factors

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