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REVIEW ON INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) FOR SMALL AND MEDIUM ENTITIES IN NIGERIA

[1]Aruwaji, Akinola Michael and [2]Olorunnisola Abiola Olubukola

[1,2]Department of Management and Accounting,
Ladoke Akintola University of Technology, Ogbomosho, Oyo State, Nigeria.

[3]Oyeleye, Olufunke Adebisi
Department of Accounting, Adeleke University, Ede, Osun State, Nigeria

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ABSTRACT: *The Nigerian Accounting Standard Board (NASB) provides guidelines on the implementation of national policy on preparation and presentation, recognition and measurement, and disclosure of corporate reporting on financial statement of an entities in Nigeria. International Accounting Standard Board (IASB) provides the framework for IFRS and IAS application on corporate financial reporting. The emerging of IFRS convergences by NASB on SMEs in Nigeria attract urgent attention. This study aims to measure the level of awareness of IFRS guidelines for SMEs operators in Nigeria and preview on the challenges facing the adoption and implementation of the IFRS for small and medium scale entities in Nigeria. This study adopted review approach to address the procedure of adoption of IFRS by SMEs in Nigeria. The study concluded that the awareness, policy and regulation on IFRS for SMEs in Nigeria were very low and the policies for the implementation process were not completely complied*

KEYWORDS: IFRS, SMEs, IAS and Globalization

INTRODUCTION

The economies scale of the world today focused majorly on Small and medium scale enterprises which has become foundation for the huge economy. Small and Medium Entities (SMEs) play a vital role in the upgrading of economy toward Advancement, development and growth. Certainly, SMEs activities have contributed immensely to the gross domestic product in the several economy as they participate in primary sector of each economy including manufacturing, importation, exportation, employment respectively. According to the Organization for Economic Co-operation and Development (OECD) reports on SMEs, stated that the level to which globalization affect small firms is a function of their engagement in disseminating activities (OECD, 1997). In Africa SMEs is a route to developing economy, Nigeria economy experienced best economy in Africa in 2012 due to drastic augmentation in SMEs growth index. Globalization has introduced corporate reporting standards with an intention to overlay the national standards of reporting most especially on IFRS for SMEs, with the current status of the globalized market, SMEs in Nigeria needs to adopt International Financial Reporting Standards (IFRS) for the purposes of providing a framework that generates relevant, reliable, and useful information which should provide a high quality and understandable set of accounting standards suitable for SMEs and comparability. As a result of convergence of IFRS, the Financial Reporting Council of Nigeria (FRCN) announced the mandatory transition date for adopting IFRS for SMEs in Nigeria to begin from January 1,

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2012. (Report of the Committee on Road Map to the Adoption of International Financial Reporting Standards in Nigeria, 2010).

Objective to the Study

The main aim of the study is to explore the focus of IFRS for SMEs entities in Nigeria. Other specific objectives of the study are to:

i. Increase the level of awareness of IFRS guidelines for SMEs operators in Nigeria.

ii. Preview on the challenges facing the adoption and implementation of the IFRS for small and medium scale entities in Nigeria

LITERATURE REVIEW

There is no universally agreed definition of an SME. No single definition can capture all the dimensions of a small or medium-sized business, or cannot be expected to reflect the differences between firms, sectors, or countries at different levels of development.There is no consensus on the real definition of Small and Medium scale enterprises (SMEs) as the terms, 'Small' and 'Medium' are relative and they differ from industry to industry and country to country. Besides, no single definition can reflect the difference between firms, sectors and countries due to the varying level of development (PricewaterhouseCoopers, 2009). In Nigeria, definition of SMEs differs with different organizations. The Federal Ministry of Industry's guidelines to NBCI defined a small - scale enterprise as one with a total cost of not exceeding N5m (excluding cost of land but including working capital). The Nigerian Bank for commerce and Industrial (NBCI) defined small scale business as one with total capital not exceeding N750, 000 (excluding cost of land but including working capital). (Adetula, 2014). The central recommendation for commercial banks in 1979, stated that, Small and Medium Scale enterprises were entity with annual turnover not surpass N5m, while the merchants banks were to regard Small scale enterprise as those with capital investment not beyond N2m (excluding cost of non-current asset - land) or with maximum turnover, of not more than N5m. The Nigerian Industrial Development Bank (NIDB) also defined Small and Medium Scale enterprise as an enterprise that has investment and working capital not exceeding N750, 000, while it defined Medium Scale enterprises as those operating within the range of N750, 000 to N3m. Most definitions based on size use measures such as number of employees, net assets total, or annual turnover. However, none of these measures apply well across national borders. The IFRS for SMEs is intended for use by entities that have no public accountability (i.e. its debt or equity instruments are not publicly traded). The decision regarding which entities should use the IFRS for SMEs stays with national regulatory authorities and standard setters. These bodies will often specify more detailed eligibility criteria. If an entity opts to use the IFRS for SMEs, it must follow the standard in its entirety - it cannot point pick between the requirements of the IFRS for SMEs and those of full IFRSs

Conceptual review

Adoption of IFRS in Nigeria

The Nigerian Federal Executive Council adjusted to the convergence of accounting standards in Nigeria with International Financial Reporting Standards (IFRS) in early 2012. The Central Bank of Nigeria (CBN) and the Nigerian Securities and Exchange Commission (SEC) support the migration to IFRS. The Council has directed the Nigerian Accounting Standards Board (NASB), under the supervision of the Nigerian Federal Ministry of Commerce and Industry, to take further necessary actions to give effect to Councils' approval. The intensification of

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globalization and the consequential loss of national identity in financial reporting standards in Nigeria encourages Nigerian Accounting Standards Board (NASB) to key into the International Financial Reporting Standards. Therefore, Financial Reporting Council was formed and backed by law to issue standards, regulate accounting, actuarial, valuation and auditing standards of the country Consequently, the adoption of IFRS was launched in September 2010.The adoption was structured in such a way that all stakeholders will use the IFRS by January 2014. The adoption was scheduled to start with Public Listed Entities and Significant Public Interest Entities who were expected to adopt the IFRS by January 2012. Also, it was mandatory for all other Public Interest Entities to adopt the IFRS for statutory purposes by January 2013. Besides, Small and Medium-sized Entities (SMEs) were also mandated to adopt IFRS by January 2014. (www.iasplus.com/en/jurisdictions/africa/nigeria).

IFRS for SMEs

In July 2009, the International Accounting Standards Board (IASB) issue the IFRS for Small and Medium-sized Entities (IFRS for SMEs), this standard provides an alternative framework that can be applied by eligible entities in place of the full set of International Financial Reporting Standards (IFRSs).The International Accounting Standards Board (IASB) makes it clear that the prime users of IFRSs are the capital markets. This means that IFRSs are primarily designed for quoted companies and not SMEs. The vast majority of the world's companies are small and privately owned, and it could be argued that IFRSs are not relevant to their needs or to their users. It is often thought that small business managers perceive the cost of compliance with accounting standards to be greater than their benefit. To this end, the IFRS for SMEs makes numerous simplifications to the recognition, measurement and disclosure requirements in full IFRSs. Examples of these simplifications are:

- goodwill and other indefinite-life intangibles are amortized over their useful lives, but if useful life cannot be reliably estimated, then 10 years
- a simplified calculation is allowed if measurement of defined benefit pension plan obligations (under the projected unit credit method) involves undue cost or effort

The IFRS for SMEs is a self-contained standard, incorporating accounting principles based on extant IFRSs which have been simplified to suit the entities that fall within its scope. There are a number of accounting standards and disclosures that may not be relevant for the users of SMEs financial statements. As a result the standard does not address the following topics:

- Earnings per share - IAS 33
- Interim financial reporting- 1AS 34
- Segment reporting- IFRS 8
- Insurance (because entities that issue insurance contracts are not eligible to use the standard) IFRS 11
- Assets held for sale. IFRS 5

In addition there are certain accounting treatments that are not allowable under the standard. Examples of these disallowable treatments are the revaluation model for property, plant and equipment and intangible assets, and proportionate consolidation for investments in jointly controlled entities. Generally, there are simpler methods of accounting available to SMEs than those accounting practices, which have been disallowed. Additionally the standard eliminates the 'available-for-sale' and 'held-to maturity' classifications of IAS 39, *financial instruments: recognition and measurement*. All financial instruments are measured at amortized cost using the effective interest method except that investments in non-convertible and non-puttable

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ordinary and preference shares that are publicly traded or whose fair value can otherwise be measured reliably are measured at fair value through profit or loss. All amortized cost instruments must be tested for impairment. At the same time the standard simplifies the hedge accounting and derecognition requirements. However, SMEs can choose to apply IAS 39 in full if they so wish. The standard also contains a section on transition, which allows all of the exemptions in IFRS 1, *First-time Adoption of International Financial Reporting Standards*. It also contains 'impracticability' exemptions for comparative information and the restatement of the opening statement of financial position. As a result of the above, the IFRS requires SMEs to comply with less than 10% of the volume of accounting requirements applicable to listed companies complying with the full set of IFRSs. (ACCA 2009).

The IFRS for SMEs is a response to international demand from developed and emerging economies for a rigorous and common set of accounting standards for smaller and medium-sized businesses that is much simpler than full IFRSs. The IFRS for SMEs should provide improved comparability for users of accounts while enhancing the overall confidence in the accounts of SMEs, and reducing the significant costs involved of maintaining standards on a national basis. The main argument for separate SME accounting standards is the undue cost burden of reporting, which is proportionately heavier for smaller firms. The cost burden of applying the full set of IFRSs may not be justified on the basis of user needs. Further, much of the current reporting framework is based on the needs of large business, so SMEs perceive that the full statutory financial statements are less relevant to the users of SME accounts. SMEs also use financial statements for a narrower range of decisions, as they have less complex transactions and therefore less need for a sophisticated analysis of financial statements. Thus, the disclosure requirements in the IFRS for SMEs are also substantially reduced when compared with those in full IFRSs partly because they are not considered appropriate for users' needs and for cost-benefit considerations. Many disclosures in full IFRSs are more relevant to investment decisions in capital markets than to the transactions undertaken by SMEs. One course of action could have been for GAAP for SMEs to be developed on a national basis, with IFRSs focusing on accounting for listed company activities. The main issue here would be that the practices developed for SMEs may not have been consistent and may have lacked comparability across national boundaries. Also, if a SME wished to list its shares on a capital market, the transition to IFRSs may be more difficult. There were a number of approaches that could have been taken to developing standards for SMEs. Under one approach, the exemptions given to smaller entities would be prescribed in the mainstream accounting standard. For example, an appendix could have been included within the standard detailing those exemptions given to smaller enterprises. Another approach would have been to introduce a separate standard comprising all the issues addressed in IFRSs, which are relevant to SMEs. (www.accaglabal.com/p2/articles.com)

Benefits and challenges of SMEs in Nigeria

IFRS has regenerated more global exposure- attract foreign investment through greater transparency of financial reporting. The cost of doing business across boards’ decrease- no additional translation information needed. Encourages multinational companies to come in- only follow one set of standards Increases employment, Enhances ability to raise finance- cheaper outside Nigeria -gain benefits of this.The Challenges facing International Financial Reporting Standards (IFRS) for Small and Medium scale (SMEs) in Nigeria is due to the fact that the standard for SMEs is naturally a modified version of the full standard, and not an independently developed set of standards. They are based on recognised concepts and pervasive

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principles and they will allow easier transition to full IFRS if the SME decides to become a public listed entity. In deciding on the modifications to make to IFRS, the needs of the users have been taken into account, as well as the costs and other burdens imposed upon SMEs by the IFRS. Relaxation of some of the measurement and recognition criteria in IFRS had to be made in order to achieve the reduction in these costs and burdens. Some disclosure requirements are intended to meet the needs of listed entities, or to assist users in making forecasts of the future. Users of financial statements of SMEs often do not make such kinds of forecasts. Small companies pursue different strategies, and their goals are more likely to be survival and stability rather than growth and profit maximisation. Other challenges of SMEs could include: Cost of training -Time, money and effort to educate, future fees for auditors increase, High costs associated with the switch- e.g new skilled accountants trained in IFRS. 2010. (Bruce, 2011)

Empirical Review

In the work of Karthik (2009), why do countries adopt International Financial Reporting Standards? They investigate why there is heterogeneity in countries' decisions to adopt IFRS; in other words, why some countries adopt IFRS while others do not. The analysis on a sample of 102 non-EU countries, excluding the EU because of it closeness to the IASB. They also examine IFRS adoption over the period 2002 (the first full year of the IASB's existence) through 2007 and the economic theory of networks was used to develop their hypotheses since a standard like IFRS is likely to be more appealing to a country if other countries adopt it as well. In other words, network theory explain the inter-temporal increase in the adoption of IFRS across countries. The finding evidence show consistent with the likelihood of IFRS adoption for a given country increasing with the number of IFRS adopters in its geographical region and with IFRS adoption among its trade partners. The result is significant for at least two reasons: (1) it suggests countries internalize the network effects of IFRS in their adoption decisions; and (2) it suggests that as the network benefits from IFRS get large, countries may adopt the international standards even if the direct economic benefits from such standards are inferior to those from locally developed standards. Ikpefan and Akande (2012): International Financial Reporting Standard (IFRS): Benefits, Obstacles and Intrigues for Implementation in Nigeria. Concluded that harmonization of international auditing report standard should be clear, concise and unambiguous expression of opinion (or disclaimer of opinion) on the financial statement that will also facilitate the interpretation of financial reports by users globally. The Institute of Chartered Accountant of Nigeria (ICAN) has expressed its opinion of adopting IFRS which was considered and supported by the Nigerian Accounting Standard Board. With a view to set up a road map for convergence and provide the necessary approach for convergence, NASB need to set up an IFRS task Force.

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Author's name	Year	Title	Methodology	Findings
Karthik and Ewa	2009	Why do countries adopt International Financial Reporting Standards?	Econometrics analysis was adapted for this study	The findings revealed that) it suggests that as the network benefits from IFRS get large, countries may adopt the international standards even if the direct economic benefits from such standards are inferior to those from locally developed standards
Ikpefan and Akande	2012	International Financial Reporting Standard (IFRS): Benefits, Obstacles And Intrigues For Implementation In Nigeria.	Using content analysis method	The finding shows that their need for continuous research in order to harmonize and converge with the international standards through mutual international understanding of corporate objectives and the building of human capacity that will support the preparation of financial statements in organisation
Adetula, Owolabi and Onyinye	2014	International Financial Reporting Standards (IFRS) For SMES Adoption Process In Nigeria	The work employed a descriptive survey design	Findings show that a major factor why IFRSs would be adopted by Nigeria is because other countries have adopted them. Again results show that the IFRS for SMEs adoption process is currently confronted with diverse challenges that may prevent the effective adoption and implementation of IFRS for SMEs in Nigeria in 2014 if they are not addressed with promptness.

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International Financial Reporting Standards (IFRS) For SMEs Adoption Process in Nigeria by Adetula, Owolabi and Onyinye (2014) examined the IFRS for SMEs adoption process in Nigeria from the perceptive of the accountants of small businesses. From the survey carried out, it was discovered that IFRS for SMEs is relevant to SMEs in Nigeria as small businesses in Nigeria stand to enjoy easy access to international investments and investors, bank loans, high rating by international credit rating agencies. However, there are a number of challenges that could distort the effective implementation of IFRS for SMEs in Nigeria if there are not quick interventions by major stakeholders in the accounting profession such as the Financial Reporting Council of Nigeria (FRCN), the Institute of Chartered Accountants of Nigeria (ICAN), and Association of National Accountants of Nigeria (ANAN).

METHODOLOGY

This study adopted review approach to address the procedure of adoption of IFRS by SMEs in the Nigeria context towards the preparation and presentation of financial reporting, this paper review several publications and material proceedings from the professional accounting bodies and academic research carried out in the past

CONCLUSION

The IASB has not set an effective date for the standard because the decision as to whether to adopt the IFRS for SMEs is a matter for each jurisdiction. In the absence of specific guidance on a particular subject. An SMEs may, but is not required to, consider the requirements and guidance in full IFRSs dealing with similar issues. The IASB has produced full implementation guidance for SMEs. The Nigeria Accounting Standards Board (NASB) started the implementation of the new accounting framework for SMEs in 1 January 2014 respectively, businesses will also need to evaluate carefully the tax impact of transitioning to IFRS for SMEs. There will be some important tax issues arising from the change. Tax has been one of the reasons why some SMEs have not switched to IFRS.

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