

## **The impact of applying international financial reporting standards to SMEs on optimizing of financial reports for India and Iraq**

**Dr. B Ramesh, Humam Abdulateef Shoman**

*Professor, former Head & Dean, Department of Commerce, Goa University, Taleigao Plateau, Panaji, Goa, India*

*Research Scholar, Department of Commerce, Goa University, Taleigao Plateau, Panaji, Goa, India*

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### **Abstract**

*The main aim of the International Financial Reporting Standards [IFRS] is to provide the global framework to prepare and present the financial statements by the companies. The objective of IFRS is also to inculcate the general guidance in generating the financial statements. The small and medium scale enterprises are need to be guided with global standards in preparation of financial reports rather than industry specific reporting. It is inevitable for every SME to follow the country's own accounting standards and the IFRS standards issued by the International Accounting Standards Board. The present research work is presenting the most appropriate generally accepted account principles to optimize the financial report presented by the SMEs in India and Iraq. By following these IFRS standards the SMEs of developing countries like Indian and Iraq can improve the clarity, consistency and comparability of communication of financial information.*

**Key words:** *International Financial Reporting Standards, Generally Accepted Accounting Principles, Financial Information.*

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### **I. Introduction**

India and Iraq are developing countries. The SMEs of these countries should follow the standard financial accounting principles rather than cooking the financial reports specific to the industry is essentially required to grow as the international business organisations. The good accounting principles and practices should start from the organisations when they are small. The practices should be adopted and executed when they are small and it will be automatically become a practice even, they become large scale enterprises. The financial Accounting Standards Board has introduced the Generally accepted accounting principles [GAAP] to implement authoritative standards for recording and reporting accounting information. By following these GAAP, the SMEs can learn to present the accounting reports with improved clarity, consistency and comparability. GAAP ensures the SMEs to present the financial statements to understand the exact useful information and trending data over a period of time. The adoption of International Financial Reporting Standards can enable the SMEs to understand the external environments and transformational processes of the organisation existing data. By adopting the IFRS by SMEs of developing countries can give rise to the Capital Market, Economic Development, Legal system and external environment [6].

The SMEs of developing countries like Indian and Iraq should adopt the single set of IFRS will simplify the accounting procedures by allowing a company to use one common reporting language throughout. This single world wide standard can facilitate the investors and auditors with a cohesive view of finances. IFRS is widely useful to implement in SMEs of developing countries to develop a single set of high quality understandable and enforceable global accounting standards. The implementation of IFRS can generate the high quality, transparent and comparable information in financial statements and financial reporting to participate in the world's capital markets and to make economic decisions [9].

The research paper is developed to present the essential accounting principles and the importance of GAAP in implementing IFRS in SMEs of Indian and Iraq. The research work is also demonstrating the special needs of small and medium sized enterprises to participate in the national emerging economies and convergence of national accounting standards and International accounting standards with high quality solutions.

## **II. Literature Review**

Hichem Khelif et.al.,(2020) has presented the importance of the IFRS for the small and medium sized enterprises in developing countries. If the standards are adopted and implemented, the financial statements, accounting reports on the equity markets, economic environment and fair value measurement will be properly understood by the foreign investors and make them as large sized organisations with their convergence. The value measurement and cost of convergence for companies can be better presented by adopting the IFRS standards [2].

Perera, Dinuja (2016) has clearly presented the pros and cons in implementing the IFRS standards in the upcoming SMEs of developing countries. In this research study the traditional and good old accounting systems should be upgraded with the most contemporary accounting framework with the implementation of IFRS can enable the SMEs to capture the better opportunities in the global market to present their market value and business environment with external stakeholders participation in association with the internal stakeholders dedication and achievement. This study also presented the optimizing the utility of financial reports in presenting the business environment [4].

**Fatma Zehria 2013** has presented the challenges encountered by the SMEs in implementing the IFRS. The major setback is identified by the habitual activities to present a reporting system to suite or to match with the industry needs. This habituation of reporting system could not be removed with ease. This requires a constant practice and greater efforts of confidence to present the actual situation to the targeted industry specific presentation. To implement a fair reporting system to demonstrate every pin point specification that seems to be unfavourable for the investor. That gives exact picture to the investor and made him to prepare for facing the worst situations. So that he can come with a good and better solutions while investing in the company [8].

### **Objectives:**

The Objectives of the article are

- ✓ To demonstrate the standards of International Financial Report Standards.
- ✓ To apply the IFRS in preparing the financial statements of SMEs in India and Iraq.
- ✓ To demonstrate the exemplifications of IFRS implementation in SMEs in Literature review.
- ✓ To illustrate the optimized benefits obtained by applying the IFRS in the SMEs of developing countries in financial status & reporting
- ✓ To provide the data analysis with real-time evidence by applying IFRS in SMEs in India and Iraq.

### **The Research Hypothesis:**

The Research Hypothesis is to demonstrate the impact of applying international financial reporting standards to SMEs on optimizing the utility of financial reports for India and Iraq.

### **Research Design**

The research design is basically developed with the data which is essential for the accomplishment of the research article. The location of the research work is limited to India and Iraq. The research work is carried on SMEs of India and Iraq. The variables and hypothesis is related to the heist standards of financial reporting i.e., International Financial Reporting Standards. The methods for collecting the data from international journals, International Accounting and Economical Magazines, Books by most popular economists of the world. The data analysis is done according to the international financial standards and methodologies.

### **Research Methodology**

The research methodology is initiated from the data collection. The data has been collected from different international journals and official websites of IFRS, International Journals of Economics and Accounting and the books published by the International Accounting standards. The research methodology is done using qualitative research methodology. The international accounting and reporting standards defined by the Institute of IFRS have been taken into account and depicted in the article. The research methodology is basically analysed data of SMEs collected from official websites of Indian and Iraqi government websites where IFRS standards are made mandatory for financial statements and reporting.

### **Analysis Methodology**

The primary data collected and segregated the most useful data collected from International Accounting Standard Board (IASB) published in the year 2019 and 2020. for this article is considered to the secondary data and used in the article. The set of accounting rules useful for streamline the transactions and other accounting events essentially required in financial statements have been analysed and implied in this article. The analysis is done from the facts and figures which have been taken from different sources and

presented the number of MSMEs from Indian and Iraq. The analysis is basically to present the feasibility of IFRS standards which are viable for SMEs in India and Iraq.

The information related to IFRS implementation has been collected from the Government official sites and presented. The GAAP standards have been used for IFRS implementations collected from the official site of IFRS.

IFRS No.	IFRS Standard	Acceptable for SMEs of India and Iraq.
1	First-Time Implementation of IFRS standards	Acceptable
2.	Share based payment through IFRS	Acceptable
3.	Business Combinations in the Accounting	Acceptable
4.	Non-Current Assets calculations for Sale and Defunct operations	Acceptable
5.	Disclosures of Financial Instruments	Acceptable
6.	Accounting standards for Operating Segments	Acceptable
7.	Accounting and Reporting of Insurance Contracts	Acceptable
8.	Mineral Resources Calculations	Acceptable
9.	Declaration of Financial Instruments	Acceptable
10.	Submission of Consolidated Financial Statements	Acceptable
11.	Declaration and Disclosure of Interests	Acceptable
12.	Declaration of Joint agreements	Acceptable
13.	Submission of Fair Value Calculations	Acceptable
14.	Declaration of revenue	Acceptable
15.	Declaration of Deferral Accounts	Acceptable
16.	Declaration of Leases and Agreements	Acceptable
17.	Declaration of Insurances with its values	Acceptable

IFRS implementation can be possible by adopting the General Accepted Accounting Principles [GAAP] by the SMEs of developing countries. It is inevitable to adopt 10 principles of GAAP to achieve greater competency in preparing the reporting system. The SMEs should adopt the principle of Regularity, Principle of Consistency, Principle of Sincerity, Principle of performance of method, principle of non-compensation, Principle of Continuity, principle of periodicity, principle of full disclosure and principle of utmost good faith. These are the mandatory principles which should be used while reporting any financial information. These 10 principles are replicating the mission of the GAAP standards and rules. SMEs of developing countries should adopt these standards and rules while presenting the financial information to any investor [8].

Definition of an MSME in India: Classification Criteria (Updated as of May 13, 2020)			
Revised MSME classification			
Composite criteria: Investment and annual turnover			
Classification	Micro unit	Small unit	Medium-sized unit
Manufacturing and services	Investment up to 10 million (US\$132,521)	Investment up to INR 100 million (US\$1.3 million)	Investment up to INR 200 million (US\$2.6 million)
	Turnover up to INR 50 million (US\$662,715)	Turnover up to INR 500 million (US\$6.62 million)	Turnover up to INR 1 billion (US\$13.24 million)
Previous MSME classification			
Classification	Micro unit	Small unit	Medium-sized unit
Manufacturing enterprises	Investment up to INR 2.5 million (US\$33,129)	Investment up to INR 50 million (US\$662,715)	Investment up to INR 100 million (US\$1.3 million)
Service Enterprise	Investment up to INR 1 million (US\$13,252)	Investment up to INR 20 million (US\$265,041)	Investment up to INR 50 million (US\$662,715)

Graphic © Asia Briefina Ltd.

Name of the Sector	No of SMEs in Iraq	Percentage of Total
Agriculture	184	4.6
Manufacturing	388	9.7
Construction	720	18.0
Trade and Retail	2240	56.0
Other Services	468	11.7

SOURCE: CCC (2018, 2019) MSME Survey Analysis by Govt of Iraq.

**IFRS to SMEs**

IFRS is essential to SMEs of developing countries. The essential upgraded accounting principles are need to be implemented and adopted by the SMEs. These are Economic Entity Principle, Monetary unit principles, Time period principle, Cost principle, Full disclosure principle, going concern principle, matching principle, Revenue recognition principle, Materiality Principle, Conservatism principle. These principles are essential to adopt the IFRS in their financial reporting and Financial statements. These principles can guide the SMEs of developing countries to implement the GAAP in their accounting practices. GAAP principles are widely used in the large companies to present their financial statements and reports. It is advised that the SMEs should also adopt the principles and rules presented in GAAP to make the investor to understand the business environment of SMEs. SMEs are struggling to capture the opportunities with their limitations. To overcome the market failures and to capture the opportunities in the global market it is essential to have additional funding to the SMEs of developing countries. Though the capabilities and energetic actions of SMEs are considerably good but the market distortion is demanding the potential investors to sustain in the market place with extra power. To add extra power from external investors it is essential to present their synergy in the form of financial statements and reporting. The reporting and financial statements are presented within the framework of IFRS then the aim and objective of SMEs can be fulfilled [10].



*Figure 1 IFRS for Small Scale Enterprises the data flow which are mandatory from 2017-18*

Accounting Standard	IFRS – SMEs	IFRS - Entirety
Financial Instruments	I. Financial Instruments for trading	I. Financial instruments accounting for trading
	II. Financial Instruments for retention until maturity	II. Other financial instruments for securing instruments
	III. Financial Instruments available for sale and not held for trading	

	IV. Loans and Advances and Account receivables	
<b>Cost of Lending</b>	The lending costs can be capitalized as a part of the asset cost.	Lending costs are identified as an expense in the financial statements
<b>Revaluation Indicators</b>	Revaluation indicators are distinguished by experience and efficiency	Revaluation indicators are determined obviously
<b>Expenses of R &amp; D</b>	R & D expenses can be capitalized as costs in terms.	These will be considered as an expense during the period of financial statements.
<b>Subsidies</b>	Subsidies can be addressed in the capital Method and Revenue method.	Subsidies can be combined with the net results of the cycle in which the subsidy was paid as a non-shareholder resource. This can't be added to the shareholders equity but considered in the financial income statements for the said periods.
<b>Revaluation of reduced assets.</b>	These can be treated as the test of impairment every year.	Impairment test can be conducted for the asset if there is an indication of impairment.

Source: The International Financial Reporting Standards India. Copy right @ 2018

### Indian Context

In government of India has made it mandatory to present the reports and statement of accounts in the form of IFRS by 2017 – 2018 onwards. Every SMEs are directed to follow the IFRS standards and present the reports and financial statements. India is a highly sophisticated and fast-growing developing country in the race of global business. The SMEs of India have been playing a significant role in the economy of India. The SMEs are slowly adopting the best principles of accounting to understand the GAAP requirements. The SMEs of India are interested to participate in the Global marketing with global accounting standards to present their synergy before the foreign investors. Indian SMEs are well versed in proving their capabilities and capacities in different fields like electronics, communications, Information Technology and digital marketing of various products. The government of Indian is providing the help through skill development and energy to establish their own SMEs by providing the aid to seed capital and also subsidies. But to become successful entity it is essential to pump additional money to capture the opportunities in the global business. To attract the foreign investors the SMEs should present their financial statements with greater clarity and obviousness. When the reporting and financial statements are presenting the economic entity, monetary unit within the specified time period with cost principles it will be attracting the foreign investors [11].

The accounting standards are need to be implement with global standards to increase the significant growth in global economy. The Indian standards are also considered to be good. A light difference is observed in the accounting standards. The following concept can reveal the need of IFRS in India. The differences between IFRS standards and Indian Accounting Standards.

IFRS	Indian Financial Account Standards
<b>It is accepted by more than 110 countries account the world.</b>	Accepted and truly presented in India and accepted by all Indian Banks.
<b>Auditing Standards are globally approved and updated from ASU No.2014-09 (606)</b>	Auditing standards are approved by Indian Accounting Standards 1964.
<b>The rules and principles are Transparent and simple</b>	The rules and principles are traditional and complex.
<b>This is developed on the basis of common principles-based approach. IFRS 15</b>	This is developed from Indian Standard of Accounting principles 1964.
<b>First in, First Out, Weighted-average cost and Specific identification methods are used in valuing inventories.</b>	In Indian standards follow Last In First Out methods to create artificially low netincome.
<b>Inventory Write – down reversal to be written down to market value. IFRS allows the earlier write-down to be reversed.</b>	Indian standards are using Inventory Write – Down reversal with greater valuation with more volatile.
<b>Fair Value Revaluations can be done revaluation of assets to fair value of inventories, property, plant &amp; Equipment and marketable securities.</b>	Fair Value revaluation is prohibited except for marketable securities.

Source from International Accounting Standards Board (IASB)

### Iraq Context

The SMEs of Iraq is also presenting the existence in the global market with their versatile performance. The performance of the organisation should be reflected with most suitable presentable international financial representation standards. The role played by the SMEs of Iraq is significant in supporting the economy with the robust employers. The significance of the SMEs of republic of Iraq are proceeding with new approach to overcome the economic crises. The SMEs of Iraq are providing comparatively more employment than the large firms. But the SMEs are still struggling to find the foreign investors to support their agripreneurship and

agripreneurs. It is inevitably needed to upgrade their standards in presenting their financial accounting and reporting before the foreign investor [12].

### III. Findings

The IFRS impact is evidently seen in the SMEs of several countries. The impact of IFRS has been revealed greatly in the European Federation of Accounts and auditors 2017. It is evidently seen the victorious representations of Palestinian and Libyan SMEs in capturing the attention of investors by adopting the IFRS [4].

*Table 1 demonstrates the opinion collected from SMES from developing countries to implement IFRS*

<b>IFRS Implementation by SMEs in developing countries</b>	<b>Acceptance level</b>
<b>IFRS implementation in SMEs of developing countries can show the significant effect on limiting the profit management practices, gives rise the market liquidity and lesser transaction cost to the investors of SMEs.</b>	In India it is accepted In Iraq it is accepted
<b>IFRS Implementation in SMEs can lead to sufficiency of one accounting treatment. It compels to do the standard accounting treatment and alternative treatment in accounting. For the purpose of manging profits, it could not be used.</b>	Most of the SMEs agreed to accept this fact and ready to implement.
<b>IFRS can facilitate consolidated financial reports to remove the international barriers between countries which respect these standards. This encourages the foreign investment as an incentive to this implementation of standards.</b>	SMEs have agreed and accepted these facts and agreed to implement IFRS
<b>The IFRS standards can establish consistency in the financial statements to generate confidence in investor to analyse the transactions with obviousness</b>	Most of the SMEs have agreed and willing to Implement IFRS.
<b>IFRS facilitates conservative financial reports and explain the accounting information with increased transparency. This leads to countenance on investment and trade, increased capital and greater market liquidity.</b>	Quite agreed by the SMES of Indian and Iraq.
<b>IFRS implementation in SMEs can generate the confidence in the investors to gain profits from the increased market liquidity.</b>	SMEs Agreed with the evidence's exhibition.
<b>Implementation of IFRS by SMEs resembles the high quality standards in the reports and financial statements at the same it can be maintained with lowest possible cost.</b>	Agreed by all SMEs
<b>IFRS implementation leads to application of principle of specialization and division of labour.</b>	Agreed by Indian SMEs Agreed by Iraq SMEs.
<b>IFRS implementations can leads to transparent accounting system with financial reports to reflect the facts related to the economic reality of the company with lesser cost of accounting.</b>	SMEs of India and Iraq have agreed.

Source: Transition Resource Group for IFRS 17 Insurance Contracts

### IV. Conclusion

The research report has presented the significance of IFRS in the reporting and financial statements of the SMEs on optimization and capture the attention of the investors. The research paper has effectively presented the previous research literature related to the IFRS impact on SMEs of developing nations. The research paper has presented the significance of implementation of IFRS in the financial statements and reporting of SMEs of developing countries. The paper has presented the SMEs of India and their capabilities and need to adopt the IFRS. Similarly, the paper has presented the need of IFRS to SMEs of Iraq. The paper has presented the previous research findings to implement the IFRS to SMEs. The paper has collected the data from different SMEs in implementing the IFRS in the financial statements and reporting with their opinion. It is understood implementing the IFRS in the financial accounting statements and reporting would be transparent and encourage the foreign investor to invest in the SMEs of India and Iraq.

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