

ADOPTION OF IFRS AND ITS IMPACT ON SMALL AND MEDIUM ENTERPRISES

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International accounting standard board after five years of research and study has developed international financial reporting standard for small and medium enterprises to fill the deficiencies and in order to compile and bring out financial statement which carry credibility and comparability. International financial reporting standard for small and medium enterprises provide a platform for growing business that are preparing to enter capital markets where application of full international financial reporting standard are required

The term Small and medium enterprises has different meaning in different countries. The definition in the context of international financial reporting standard for small and medium enterprise is entities that do not have public accountability and publish general purpose of financial statements for external users. Every entity has some form of accountability, if only to its owners and the local tax authorities.

There were about 26.1 millions of small and medium enterprises in India as per 2006-2007 census which grows at 4 to 5 % per annum and now a day's Small and medium scale enterprises playing prominent role in India as supporting industries for big industries and also major contributor for our GDP. Presently small and medium enterprises contributing 17% to GDP and it's expected to increase 22% by 2012. Further small and medium enterprises in India contribute to 45% of industrial output, 40% of exports, employs over 42 million workers and its estimated to create one million job every year Small and medium scale enterprises includes all forms of business i.e., sole proprietorship HUF, AOP, Co-operative societies, Partnership firm, Company or Undertakings by, whatever name called.

On 9th July 2009, IASB has issued the International Financial Reporting Standard for Small and medium scale enterprises, due to this now even Small and medium scale enterprises, in India also ride on the same road towards International financial reporting standard convergence. However the position of Small and medium scale enterprises is not clear. The

adoption of International financial reporting standard for Small and medium scale enterprises is in beginning stage in India and need to be develop more.

International financial reporting standard for Small and medium scale enterprises is a modification and simplification of full International financial reporting standard aimed at meeting the needs of small and medium scale enterprises financial reporting needs and easier the financial reporting through a cost – Benefit approach. International financial reporting standard for Small and medium scale enterprises is a self contained global accounting and financial reporting standard applicable to the general purpose financial statement of, and other financial reporting by, entities that in many countries are known as small and medium scale enterprises.

International financial reporting standard for Small and medium scale enterprises is based on the fundamental principal of full International financial reporting standard, but in many cases. It has been simplified to make accounting requirements less complex and to reduce the cost and effort required to produce the financial statements.

Objective of Small and medium scale enterprises financial statements is to provide information about financial position, performance, cash flows and also shows results of stewardship of management over resources. International financial reporting standard for Small and medium scale enterprises will provide improved comparability for user's of accounting to enhance the overall confidence in the accounting for Small and medium scale enterprises.

The study is primarily qualitative in nature and do not use any quantitative tool to analyze the data. It has been conducted mainly on the basis of literature survey and secondary information. Various journals, newspaper and magazines articles have been referred to in writing in this paper

The objective of this study can be listed as follows

- To discuss need for adoption International financial reporting standard for small and medium enterprises.
- To discuss the benefits for small and medium enterprises through adoption of international financial reporting standard.

- To discuss the challenges and problems while adopting international financial reporting standard for small and medium enterprises.
- To compare framework of international financial reporting standard for small and medium enterprise with Indian GAAP

Need for adoption International financial reporting standard for small and medium enterprises.

- To provide high quality global financial reporting standard to enhance the comparability of financial statement
- To provide a simplified and self-contained set of standard to make financial reporting user friendly one
- To remove choices for accounting treatment and to simplify recognition and measurement
- To enable investors, lender and others to compare small and medium enterprises financial performance, financial condition and cash flow.
- To ensure small and medium enterprises financial statement true and fair in all the angle and to facilitate auditing practice over its reporting
- To provide platform for small and medium enterprises to access capital market through enhancing credibility and comparability of financial reporting standard by facilitating resource for economic decision.

Benefits for small and medium enterprises through adoption of international financial reporting standard

The International financial reporting standard for small and medium enterprises was developed to provide an accounting framework for deliver quality financial statement and to meet the needs of financial statement users: international financial reporting standard for small and medium enterprises consist of following benefits

- International financial reporting standard for small and medium enterprises facilitates good financial reporting. Hence it facilitates better decision making and results in more efficient functioning of capital markets and lowers the cost of capital for the economy as a whole. So entities can enjoy improved access of capital at a lower cost.
- The international financial reporting standard for small and medium enterprises will provide good flat form for entities that which is interested in entering public capital market, where application of full international financial reporting standard is required. The underlying benefit will be helpful to small and medium enterprises to get grow in larger size and while meeting its capital requirements
- Adoption of international financial reporting standard for small and medium enterprises is expected to result in a better quality of financial reporting due to consistent application of accounting principles. Since the international accounting standard board is preparing international financial reporting standard for small and medium enterprises, so its very consistent, reliable and easy to adopt
- International financial reporting standard for small and medium enterprises since provide better quality of financial reporting and ensures creditability and comparability of financial statements. Hence it can fulfill mandatory lending requirement of financial institution and banks so it can access adequate financial support for its requirement
- International financial reporting standard for small and medium enterprises is based on the fundamental principle of full international financial reporting standard, but in many cases, it has been simplified to make accounting requirements less complex and to reduce the cost and effort required to produce the financial statement. So it is easier for SMEs reporting.

Comparison of Framework of International financial reporting standard for small and medium enterprise with Indian GAAP

A number of significant differences and minor differences between international financial reporting standard for small and medium enterprise and Indian GAAP exist with regard to reorganization, presentation and measurement as well as disclosure. The adoption of international financial reporting standard for small

and medium enterprise would require understanding how this standard differs from Indian GAAP. Some important difference discussed as below

- Frame work of international financial reporting standard for small and medium enterprise is very simplified ,structured and make accounting requirement less complex and reduces the cost and effort required while producing financial statements whereas as Indian GAAP is too complex and producing financial statement is very difficult and expensive
- Section 3 of IFRS for SMEs Financial Statement Presentations presumes that fair presentation of financial statements with some additional disclosure where as Indian GAAP frame work speaks about true and fair presentation and Indian AS 1 directly supports true and fair presentation
- International financial reporting standard for small and medium enterprise adopt both historical cost basis and fair value basis. Further, under IFRS initially cost is recognized under historical and than fair value whereas according to Indian GAAP Historical cost basis is the Most commonly adopted measurement basis in preparing their financial statements. It is usually combined with other measurement basis like current cost, replacement value and present value.
- International financial reporting standard for small and medium enterprise is silent about the concepts of capital maintenance and its impact on financial statements of SMEs where as under indian GAAP certain concepts of capital maintenance, revaluation or restatement of assets and liabilities giving rise to increases/decreases in equity. Indian GAAP Framework provides in detail About concepts of financial and physical capital maintenance.
- International financial reporting standard for small and medium enterprise has few and less disclosure requirements compare to Indian GAAP
- Section 2 of international financial reporting standard for small and medium enterprise includes qualitative characteristics of information therein i.e. understandability, relevance, materiality, reliability, substance over form, prudence,

completeness, comparability, timeliness and balance between benefit and cost.

Whereas The Framework of Indian AS is also in line with that of Framework of International financial reporting standard for small and medium enterprise, however, it covers all topics at length.

Finally in general the requirements in international financial reporting standard for small and medium enterprise are simpler than those in Indian GAAP and simplification might make the standard more attractive to financial statement preparer

The challenges and problems while adopting international financial reporting standard for small and medium enterprises

- Convergence process of accounting practices of small and medium enterprises to international financial reporting standard involves various operational and information technology process. These operational and information technology process are very costly and it's very difficult to bear such cost
- Proper implementation international financial reporting standard for small and medium enterprises require extensive education and training but in many case it's hard to get entities like small and medium enterprises due to lack of adequate financial facility
- Lack of awareness about full international financial reporting standard also major challenges for small and medium enterprises in India. In most of cases it's difficult to understand issues which are all related to international financial reporting standard for small and medium enterprises
- It's difficult adhere with practices of full international financial reporting standard because of non availability of professional personals And also its costlier to hire such professionals for small and medium enterprises
- Full implementation of international financial reporting standard will leads to lot of changes in reporting practices of small and medium enterprises thus it faces many challenge while reporting its financial state of affair

Apart from above challenges, the major issue for small and medium enterprises while implementation of international financial reporting standard is to

- 1) Scarcity of resources;
- 2) Expertise knowledge to achieve all the compliances

The study suffers from following limitation

The issues raised in the paper are drawn majorly from secondary sources, i.e., Journal article, magazine, news paper etc. the study is qualitative in nature. Its therefore difficult examine the issues through quantitative tools

CONCLUSION

International financial reporting standard for small and medium enterprise is long awaited step by both developed and emerging economies of the world. In India, one major criticism against the full implementation of IFRS was that it would impose an unnecessary burden and hardship on SMEs. In general to state ‘financial statements comply with IFRS for SME’s’ is not difficult. Most of the requirements are already being complied with while preparing financial statements for ‘income tax purposes’ and other general purposes. A little more fine tuning of presentation and disclosure would enable an SME to state it complies with ‘IFRS for SME’s’ thus increasing the credibility manifold. This would open many doors for SME’s for accessing finances, joint ventures and collaborations.

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