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INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) FOR SMES ADOPTION PROCESS IN NIGERIA

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ABSTRACT: *This paper studies the readiness of small and medium scale enterprises (SME) in Lagos State, Nigeria for the adoption of International Financial Reporting Standards (IFRS) and the likely challenges that may be encountered in the adoption process. The work employed a descriptive survey design and data were collected from primary source. 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. This study recommends that the curriculum of both secondary schools and tertiary institutions should be restructured in order to be IFRS compliant and the cost of acquiring IFRS education should also be subsidized especially for small firms by major accounting regulatory bodies in Nigeria.*

KEYWORDS: Adoption Process, International Financial Reporting Standards, Small and Medium Scale enterprises.

INTRODUCTION

Of recent, the harmonization and international convergence of accounting standards and practices are of interest to researchers in both developed and developing countries. For the past decade, members of the accounting profession have been anticipating the adoption of the IFRS (Securities and Exchange Commission, 2010 as cited in Winney, Marshall, Bender, Swiger, 2010) and this anticipation has prompted a lot of academic research on the subject of adoption of IFRS by different countries of the world- Nigeria is not exempted. As a result of this, the Financial Reporting Council of Nigeria (FRCN) announced the transition date for adopting IFRS for SMEs in Nigeria to begin from January 1, 2012. (Report of the Committee on Road Map to the Adoption of International Financial Reporting Standards in Nigeria, 2010).

Since the official announcement of the mandatory adoption and implementation of IFRS in the European Union in 2002, accounting research has examined the process, especially the impact, progress and difficulties it entails (Callao, Jarne, and La´ınez, 2007). However, most of the previous studies on adoption of international accounting standards by countries are country specific (Gyasi, 2010) and the focus of most literature have been larger firms, sometimes only listed firms (Anacoreta and Silva, 2005). The level of preparedness of Nigeria for the adoption of IFRS for SMEs with regards to the roadmap announced by the FRCN is not known with empiricism.

In view of the proposed adoption of IFRS by Nigeria, a lot of researches have been conducted by researchers on the topic of IFRS adoption dwelling mostly on its cost and benefits, the challenges, and the differences between the Nigerian GAAP (Generally Accepted Accounting Principles) and the IFRS. Some of these works include Fowokan (2011), Okafor and Ogiedu (2011), Eke, Onafalujo and Akinlabi (2011). Nevertheless, there have been limited research works on the adoption of IFRS and its effect on small and medium-sized businesses thereby causing a dearth of empirical studies.

This research study is motivated and carried out to explore the viability of the adoption of IFRS for SMEs in Nigeria by 2014. This research is very topical in Nigeria because the researchers are still in doubt about the level of preparation and readiness to adopt IFRS for SMEs in Nigeria. Report shows that even many listed companies who have adopted IFRS in Nigeria since year 2012 still have issues in meeting deadlines for the submission of their annual reports such that the deadline had to be extended by one month (Nwachukwu, 2014). Hence, the need for this research.The remaining part of the paper is structured into four sections. Section 2 is the literature review while section 3 is the research methodology. Section 4 presents data analysis and results section 5 presents summary of findings, conclusion, recommendations and policy implications.

LITERATURE REVIEW

Introduction

SMEs play a very significant role in international trade as many of them are involved in exportation of raw materials. According to the Organization for Economic Co-operation and Development (OECD), the level to which globalization affect small firms is a function of their engagement in exporting activities (OECD, 1997). This is particularly the case of SMEs in African countries. For instance, Nigeria is the most populous country in Africa and a major exporter of agricultural produce.

With the current state of the globalized market, SMEs in Nigeria cannot continue with local standards for reporting purposes. The world of business today has become more global than any other time in history and thus lost a significant part of national identity. According to Grosu and Bostal, (2010) most national standards cannot provide a satisfactory level of comparability.

As a result of the harmonization of accounting practices, the adoption of IFRS has been on the increase with many nations adopting the IFRS or aligning their national standards with the IFRS. However, the full IFRS promulgated by the IASB has been found to be irrelevant due to the disclosure requirements, which are too extensive for SMEs. For this reason, the IASB promulgated a simplified version of the IFRS applicable to SMEs- the IFRS for SMEs.

Definition of SMEs

The definition of SMEs differs with jurisdiction (PricewaterhouseCoopers, 2009) and 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 (Holt, 2009). Ekpenyong and Nyong (1992), claim there is no generally accepted definition of a SME because the classification of businesses into large-scale or small-scale is a subjective and of qualitative judgment.

In Nigeria, definition of SMEs differs with different organizations. 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). 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

Industrial Development Bank (NIDB) defined Small - 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. The central guidelines to commercial banks in 1979, stated that, Small - Scale enterprises were those with annual turnover not exceeding N5m, while the merchants banks were to regard Small- scale enterprise as those with capital investment not exceeding N2m (excluding cost of land) or with maximum turnover, of not more than N5m.

IFRS for SMEs

IFRS for SMEs is a modified and simplified version of full IFRS aimed at meeting the needs of private company financial reporting users and easing the financial reporting burden on private companies through a cost-benefit approach. IFRS for SMEs in itself is an independent global accounting and financial reporting standard that can be applied in the preparation of general purpose financial statements and other financial reporting by SMEs. IFRS for SMEs are developed by the International Accounting Standards Board (IASB). Although established with focus on the needs of a typical mid-size company, IFRS for SMEs may be used by any non-publicly accountable entity regardless of size (KPMG LLP, 2009).

According to Stainbank (2010), South Africa is the first country in the world to adopt the IFRS for SMEs. It was first adopted in its draft form. In the work of Stainbank, it was concluded that the major reason for the adoption of the draft IFRS for SMEs was the urgent need for auditors to express an opinion on financial statements which are prepared in accordance with an accepted framework of the auditing profession in South Africa. The second major reason for the adoption was to provide a beneficial framework for the preparation of the financial statements.

METHODOLOGY

Sample and Data Collection

The work employed a descriptive survey design and data were collected from primary source using questionnaire. The population for this study consists of all SMEs in Lagos State. Due to lack of statistics as to the total number of SMEs in Lagos state, it was difficult to correctly ascertain the total number of SMEs in Lagos state. The population size was however pinned down to the number of SMEs registered with the Lagos State Chamber of Commerce and Industry (LCCI). The LCCI currently has about 492 members under their Small and Medium Enterprises and Distributive Group (LCCI, 2012). The 221 sample for the study was determined scientifically using the Yaro Yamani sampling technique method after which the sample were chosen randomly. The choice of sampling techniques was informed by the class of the population needed for the study. One sample T-test was used to gauge the data in order to ascertain the viability of the adoption of IFRS for SMEs in Nigeria by 2014.

Data Analysis and Results

The response indicates that 110 (65%) of the respondents strongly agree that the adoption of IFRS would increase the comparability of the financial statements of SMEs among other SMEs locally and internationally, 54 (32%) agree that the adoption of IFRS would increase the comparability of the financial statements of SMEs among other SMEs locally and internationally and 5 (3%) of the respondents were undecided as to whether the adoption of IFRS would increase the comparability of the financial statements of SMEs among other SMEs locally and internationally. Also, the result shows that 86 (50.9%) of the respondents strongly agreed the adoption of IFRS by SME s in Nigeria would allow for adequate disclosures which will inform good decision making. 72 (42.6%) of the respondents agreed to this assertion.

However, 3 (1.8%) of the respondents disagreed while 8 (4.7%) of the respondents were indifferent.

The responses reveal that 30 (17.8%) of the respondents strongly agreed with the statement that the cost of IFRS training is very high for SMEs, 67 (39.6%) of the respondents agreed with this statement. However, 8 (4.8%) of the respondents strongly disagreed with the statement and 32 (18.9%) of the respondents disagreed with the statement while 32 (18.9%) were indifferent.The responses again indicate that 5 (3%) of the respondents strongly agreed that the management of their organizations have worked towards meeting the 2014 timeline for IFRS adoption and needed supports have been given. 17 (10.1%) of the respondents agree with this assertion. However, 61 (36%) of the respondents strongly disagreed with the assertion and 62 (36.7%) disagreed with the assertion. 24 (14.2%) of the respondents were indifferent.

Furthermore, the result shows that 28 (16.6%) of the respondents believed that their organizations are ready to adopt IFRS. 47 (27.8%) of the respondents disclosed that their organizations are still actively preparing to adopt IFRS. 64 (37.8%) of the respondents disclosed that their organizations are having preliminary discussions while 30 (17.8%) of the respondents disclosed that their organizations had no plan to adopt IFRS.

SUMMARY OF FINDINGS

1. Findings show that a major factor why IFRSs would be adopted by Nigeria is because other countries have adopted them;
2. The study discovers that adopting a globally accepted financial reporting is relevant to small firms as they operate in a globalized world. The preparers of financial reports of small firms perceive IFRS for SMEs promulgated by the IASB to be very relevant to small firms in Nigeria. This is consistent with the finding Bunea-Bontus and Petre (2010).
3. It is also discovered that the IFRS for SMEs adoption process is currently plagued with different challenges that may distort the effective adoption and implementation of IFRS for SMEs in Nigeria in 2014 if they are not urgently and squarely addressed. According to Bunea-Bontus and Petre (2010), the degree of financial and resource cost needed to effect the change in accounting standards is sometimes harder on smaller firms. These roadblocks as listed by them include; high cost of training, the unimpressive attitude of the management of SMEs towards achieving the 2014 timeline, high cost of employing and retaining accountants with IFRS competences by small businesses and the current inadequacy of accountants who fully understand IFRS.
4. The study shows that the level of preparation by SMEs in Lagos is not yet satisfactory.

RECOMMENDATIONS AND POLICY IMPLICATIONS

This study recommends that regulators of the accounting practises in Nigeria should increase the level of awareness among managers, investors and other major stakeholders on the merits of adopting the IFRS to enhance the degree of compliance with the financial reporting and accounting requirement.

In addition, in order to effectively execute its function of monitoring compliance with accounting standards, the Financial Reporting Council of Nigeria (FRCN) should further encourage and promote team work between the monitoring unit and enforcement unit. The monitoring unit should be charged with the responsibility of identifying reports on noncompliance and reporting same to the enforcement unit for appropriate sanctions. Again, the recruitment process into these units should be unbiased considering their importance.

This study also recommends that the management of small firms should support and encourage the training of their staffs in getting the IFRS training. The educational institutions such as the secondary and tertiary education institutions should be mandated to produce graduates who are competent on IFRS as some of them would eventually be employed by small businesses. It implies that the curriculum of these institutions should be reviewed to provide for adequate IFRS education and this should be strictly monitored by the National Universities Commission (NUC). Furthermore, the cost of acquiring IFRS education should also be subsidized especially for small firms by major accounting regulatory bodies in Nigeria such as FRCN, ICAN, and ANAN.

CONCLUSION

This study was carried out to examine 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).

SUGGESTIONS FOR FURTHER STUDIES

In as much as the researchers has put in a lot of effort into this study, the current harmonization process experienced in the accounting profession is rather broad and cannot be dealt with in its entirety in this study alone. The following are suggested for further studies:

1. A study with a larger geographical scope should be carried out so that a more representative answer can be obtained to ensure appropriate and justifiable generalization.
2. A study could be conducted on the feasibility of the IFRS adoption process in relation with the company's size to establish if there is a relationship between the size of a company and the effectiveness of the IFRS adoption process.

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