

## **Mandatory IFRS Adoption and the Effects on SMES in Nigeria: A Study of Selected SMEs**

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**ABSTRACT :** *This paper studies the Impact of the Mandatory adoption of International Financial Reporting Standards (IFRS) the small and medium scale enterprises (SME) in Lagos State, Nigeria. The study used a descriptive survey design and primary source of data were also used. The study shows that adopting IFRS is crucial to SMEs since it aids the comparability of financial reporting. IFRS is perceived to be not just relevant but also a core requirement to competing in a globalized village by the SMEs.*

**KEYWORDS:** *International Financial Reporting Standard, Mandatory adoption, Small Medium Enterprises, accounting standards, performance*

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### **I. Introduction**

Small and Medium Sized Enterprises (SMEs) are often the main driving force of a country's economic growth and development (Okechi & Kepeghom, 2013; Ogundana, Okere, Ayomoto, Adesanmi, Ibidunni & Ogunleye, 2017) After the official announcement of the IFRS adoption made by the European Union, accounting research has radically been on the benefits, costs and challenges encountered in the adoption processes (Callao, Jarne, & La'inez, 2007). According to Owolabi & Iyoha (2012) the level of expansion of international trade and investments has led to the desperate need for adopting IFRS (Owolabi & Iyoha; Spiceland et al., (2001), p.36) believes that this is a hospitable progress bearing in mind the fact that the tangibility of financial reporting is keen to the needs of users who have need of useful accounting information for investment and other decision-making purposes.

Nevertheless, conversant studies done on adoption of IFRS are observed to be by countries hence they are country specific (Gyasi, 2010) and the locus point of a large number of literatures have been on larger firms, and sometimes only quoted firms (Anacoreta & Silva, 2005). The adoption of IFRS for SMEs as announced by the FRCN is unknown with empiricism. Moreover, few works have been done on the impacts of IFRS adoption on small and medium scale business thereby causing a scarcity of experiential researches. This research was undergone to explore the capability, comparability and level of disclosures in which the adoption of IFRS provides for SMEs in Nigeria. The remaining aspect of this paper is structured into four sections. Section 2 is the literature review while section 3 is the research methods. Section 4 presents data analysis and results section 5 presents summary of findings, conclusion and recommendations.

## II. Review of Related Literature

### 2.1 Introduction

According to Onugu (2005) Small and Medium Enterprises (SMEs) occupy a place of conceit in almost every nation or state. Due to (SMEs) important roles in the progress and augmentation of the economies, SMEs have appropriately been referred to as “the locomotive of expansion” and “catalysts for socio-economic change of any nation.” Onugu (2005) believes that SMEs represent an authentic medium for the attainment of national economic objectives of employment generation and poverty reduction at low investment cost as well as the development of entrepreneurial capabilities including indigenous technology. Owolabi, Adetula & Onyinye (2014) postulates that SMEs function in intercontinental trade as lots of them are drawn in exportation of raw materials.

The Organization for Economic Co-operation and Development (OECD), stated that the level of altitude to which small firms are globalized is more often than not a direct function of their involvement in exportation (OECD, 1997). Due to the echelon at which business is being globalized in the present day, Nigeria cannot afford to present its financial reporting with local standards hence this research. According to Grosu & Bostal, (2010) a good number of local standards cannot offer the desired level of comparability.

### 2.2 Definition of SMEs

Previously SMEs were known to be a tool for national enlargement in both developed and developing countries in which Nigeria is a developing nation. Since SMEs are seen today as the moral fiber of every country universally, (Ojeka & Dickson, 2011). SMEs are important in determining the stability of the nation’s wealth. SMEs are defined using definite distinctiveness, and these differ with economies. Some of this distinctiveness include: size, the rate of turnover, number of employees, capital base, total assets and the kind of ownership structure (Kanu, Onuoha, Egwu & Gabriel, 2014). These types of companies are present universally and in every sector in Nigeria. SMEs simplify the wealth of Nigeria; hence the nation’s growth and development relies solely on it.

If the SMEs are funded by the respective sources and agencies they would impact the economy better than they are operating presently (Kanu, Onuoha, Egwu & Gabriel, 2014). Many research conducted by academia, shows the fact that SMEs are the backbone of progress in a nation, if SMEs provide large man power then it forms a huge section of the Nigeria’s economy therefore it should be properly setup, managed and funded. SMEs provide family incomes which in turn drives immediate expenses and factor into the expansion of Nation’s economy. According to number of researchers who believe that SMEs in Europe are perceived to be the most vivacious but yet improved sector of the economies in comparison with the larger organizations.

Kanu et al., (2014) also believed that, a large amount of Small and medium scale businesses develop over the years to become big corporations. Every company basically begin small as Small and medium scale business and become prominent corporations. Regrettably, a great magnitude of Small business and companies set up yet on no account do they make it in becoming an establishment. As afore mentioned, very few Small business and companies in Nigeria attain their desired growth and profitability. Kanu et al., (2014) perceived that the reasons for the SMEs inability to achieve its full capacity and potentials are mostly due to their inability to receive any funds to begin the business. Small businesses in Nigeria are confronted with many hurdles which have stopped them from attaining the purpose of being a spine in the Nigeria’s economic growth and development.

Government has made countless efforts enhancing the survival of SMEs in Nigerian economic development, but it short that both ecological and biased factors prevents the attainment of these objectives to be realized. That’s why Molokw, (2005) said that unfortunately, these Small businesses have been harassed by several hurdles, which tend to make their growth continuously stagnated by insecurity of lives and property, multiplicity of taxation infrastructural decay, etc.

### 2.3 Empirical review of literature

Author	Objective	Result	conclusion
Olango (2014)	to identify the effects of IFRS adoption by SMEs on their performance	The result showed a positive effect of IFRS adoption on SME’s performance	It can be concluded that it had great effect in improving SMEs service delivery and production of goods.
Mabruk (2013)	sought to establish if the adoption of IFRS by SMEs in Nairobi County has been associated with higher accounting reports quality.	there was a positive significant relationship between the relevance and quality of accounting reports of SMEs with the application of IFRS	Government should introduce some incentives to motivate them or they can even start a compulsory adoption of these standards to ensure that all SMEs adhere to the adoption.

Sodha (2010)	To examine the impact of IFRS on SMEs sector	IFRS performs vital part to make standardization in accounting side at international level yet at the same time it is under process to finalize the standard for the SMEs	IFRS performs vital part to make standardization in accounting side at international level yet at the same time it is under process to finalize the standard for the SMEs
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#### **2.4 IFRS for SMEs in Nigeria**

Iyoha & Jafaru (2011) stated that there is an increasing need for reliable financial information to meet the requirements of stakeholders who have ready interest in financial reporting. IASB, (2009) stated that IFRS designed for SMEs is an independent standard of 230 pages, in which the needs of the SMEs are expected to be met. Nobes (2004) postulated that due to the universal accounting multiplicity, challenges have been constantly brooding and attempts to lessen these accounting gaps across nations have been continuing for decades. Again the expected needs of users of SMEs financials are not the same for large corporations, more especially where SMEs in Nigeria is a business for feeding the immediate family and some do not have accounting records. Owolabi & Iyoha (2011) stated that via the study's survey result that the ethical environment is the most challenging factor.

Meanwhile Kanu et al., (2014) believed that the cost of preparation of SMEs financial statements in IFRS should be expensive. Incomplete records are the regular happenings in SMEs; Alas the book keeping cannot be efficient. Some do not understand the need for upholding accounting records still they add greatly to the progress of the economy. Public accountability" is not a characteristic of SMEs hence the little or no disclosure of information like the listed companies. Again, the viewing of the cost of IFRS might not lead to foresight of relevancy since the SMEs generally have small or limited manpower and resource and the cost of adoption will be high. Holt (2006) defines this as "an exclusive monetary weight" that is weighed down on SMEs because they must pay the same but an advanced cost than the large corporations for the same benefit.

The users of SME financial statements are employees, creditors, suppliers and the tax authorities may center on diverse information compared to the users of financial statements of quoted companies. The users may have further significance in interest coverage, liquidity, debt cover, short term cash cycle (Sivaram, 2006). However, Cheney (2004) cites the aim of IFRS for SMEs as: to lessen the weight of disclosure for SMEs, while adhering to the principles of international standards. (Iyoha & Faboyede, 2011; Apostolos et al., 2010; Jermakowicz et al. 2007; Alicja et al., 2007; Susana et al., 2007; Jermakowicz, 2004) also maintain that adoption of IFRS is important to a wide range of stakeholders for reasons as such: it amplifies the comparability of consolidated accounts, better transparency and disclosure, Enhanced access to the global capital markets and other stakeholders would benefit from overall better reporting and inform

### **III. Research Methods**

#### **Sample and Data Collection**

The research used a descriptive survey design and from primary sources of data using questionnaire. All the SMEs in Lagos State were the population in which just 1766 members were registered under the platform of the Lagos State Chamber of Commerce and Industry (LCCI, 2016). The 324 sample for the study was calculated scientifically using the Yaro Yamane sampling technique method after which the sample were chosen randomly.

### **IV. Data Analysis and Results**

Under the survey taken out, those who strongly agree that the effect of this mandatory adoption of IFRS initialized in 2014 would aid the users and preparers in comparing the financial statements and getting there expected results were 150 (75%), Meanwhile the people who agreed that the effect of this mandatory adoption of IFRS initialized in 2014 would aid the users and preparers in comparing the financial statements and getting there expected results were 20 (10%) of them were undecided as to whether the effect of this mandatory adoption of IFRS initialized in 2014 would aid the users and preparers in comparing the financial statements and getting there expected results were. The research also shows 120 (60%) out of the respondents strongly agreed that adequate disclosure which leads to better informed decision making is a product of prompt and efficient adoption of IFRS by SMEs. 65 (32.5%) of these respondents agreed to this statement. While 5 (2.5%) of them (respondents) disagreed while 10 (5%) of the respondents were indecisive.

#### **4.1 Summary of Findings**

1. Findings show that the primary reasons for adopting IFRS by Nigeria is due to the fact that other countries were adopting them.

2. The study shows that adopting IFRS is crucial to SMEs since it aids the comparability of financial reporting. IFRS is perceived to be not just relevant but also a core requirement to competing in a globalized village by the SMEs. This is consistent with the finding Bunea-Bontus & Petre (2010).

## V. Conclusion

This research was carried out to test the mandatory adoption of IFRS for SMEs and the impact it has on SMEs. From the review carried out, it showed that IFRS for SMEs is fundamental to SMEs in Nigeria as small businesses in Nigeria will gain easy access to foreign direct investments, international sources of finance.

## VI. Recommendations

Based on the findings of this study, the following recommendations were made:

1. SMEs adoption of IFRS in Nigeria should be a steady process.
2. Showing the way campaigns should be the first step in adopting IFRS.
3. A formal guidance into not just the basic but also the key rudiment on IFRS is required for SMEs to have required expertise therefore enhancing preparers in providing reports which are comparable not just nationally but also worldwide.

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