

# The Suitability of the Jordanian Small and Medium-Sized Enterprises to the Requirements of International Financial Reporting Standards

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## Abstract

The aim of this study is to identify the suitability of Jordanian Small and Medium Sized Enterprises environment with the requirements of Financial Reporting Standards specific to them in the presentation of financial statements and explanations. Furthermore, to identify the constraints small and medium sized enterprises face when applying their own Financial Reporting Standards. In order to achieve objectives of the study, a questionnaire was designed to collect the necessary data; they were distributed to auditors licensed to practice the auditing profession in Jordan, the study sample consisted of 135 licensed auditors. The study concluded based on statistical tests that small and medium sized enterprises correspond to the requirements of International Financial Reporting Standards specific to them in the presentation of financial statements. Also that the environment of small and medium sized enterprises correspond to the requirements of International Financial Reporting Standards specific to them in the presentation of explanations to the financial statements.

**Keywords:** small and medium-sized enterprises, international financial reporting standards, Jordan

## 1. Introduction

Many economists view that the development of small and medium enterprises and the encouragement of their set ups are among the most important contributors to the economic and social development in countries generally, and in developing countries particularly. This perspective is essential to increase the production capacity on one hand, and to contribute to the problems of poverty and unemployment on the other hand. Therefore, these enterprises have been given increased interest, and aid and provided assistance by all means in accordance to the available potentials (Matar, Noor, 2008, page 2)

According to the latest statistics in Jordan, 98% of Jordanian companies are small or medium sized enterprises, these enterprises are considered the first and main contributors to the country's economy (Chamber of Industry and Commerce Amman, 2014). The small and medium sized enterprises are those enterprises that do not trade shares in financial markets and do not publish their financial statements to benefitting third parties outside the enterprise. Accordingly, these enterprises are not obligated to apply the specific International Financial Reporting Standards issued by the International Accounting Standards Board (Chamber of Industry and Commerce Amman, 2014).

In 2007, the International Accounting Standards Board issued the first draft of proposed International Financial Reporting Standards specific for small and medium sized enterprise, this issuance included less numbers of International Accounting Standards and International Financial Reporting Standards and a less complicated Accounting processors which requires much less disclosures than those in the International Financial Reporting Standards.

The origin of the study's problem is the importance of the role played by small and medium sized enterprises in the economics structure of any country. This in fact is what made countries around the world obligated to adopt and implement International Financial Reporting Standards specific to small and medium sized enterprises, in an effort to engage within global markets and new available open markets. Although in Jordan, the passage of the law to make it compulsory for small and medium sized enterprises to apply these standards is in final stages, but the law is expected to be applied to companies as of 1/1/2016. Based on this, the study was conducted to identify the small and medium sized enterprises environments readiness to adopt the International Financial Reporting

Standards specific to them. The main study's problem can be represented by the following question: What is the degree of suitability of the small and medium sized enterprises environment to the requirements of the International Financial Reporting Standards specific to them? The research problem can be represented accurately by answering the following questions:

- 1- To what extent do small and medium sized enterprises environment correspond to the content of the International Financial Reporting Standards specific to them?
- 2- To what extents do the differences between the International Financial Reporting Standards and the International Financial Reporting Standards specified to small and medium sized enterprises affect the level of standards applications?
- 3- What are the main obstacles small and medium sized enterprises in Jordan face which limit their ability to apply the International Financial Reporting Standards specified to them?
- 4- Are the small and medium sized enterprises ready to adopt the International Financial Reporting Standards specified to them?

## 2. Conceptual Framework

Maingot and Daniel, 2006 study aimed to find out the main reasons to why accountants prepare the financial statements of small companies in Canada, to make sure of the accountants views around the weaknesses or the burdens that can determine the financial statements for small businesses. Also to gain suggestions from accountants on how to reduce the burden of the preparation of financial statements for small businesses. The study reached the following conclusions: 1) the main purposes of the preparation of financial statements is firstly for taxing purposes, secondly for banking purposes and thirdly for performance evaluation. 2) The weaknesses in the current system of financial reporting is represented by it taking a vast amount of time, very complicated, expensive and inappropriate to conduct.

Then Scheibel, 2007 study aimed to analyse the trends and mechanisms followed by the International Accounting Standards Board during the preparation of the draft of the International Accounting Standards for small and medium sized enterprises. In addition to questioning if those mechanisms were built on a solid base and within correct methodology. Of the most important findings of the study: 1) the specific drafted standards for small and medium sized enterprises lack many important aspects such as: the definition of small and medium sized enterprises, the definition of the external users of those enterprises statements. Where the preparation of the statements in accordance to the standards does not explain how it is beneficiary to external users. 2) The International Accounting Standards Board has not gathered enough views on the subjects and especially from developing countries, causing a despising information gap. 3) The International Accounting Standards Board could not analyse the needs of external users, especially from an international perspective. The study recommends that the International Accounting Standards Board conduct deeper analytical studies on the surrounding environment before the issuing and finalisation of the standards.

Lunge, Caraian & Dascalu, 2007 study aimed to re-examine and analyse previous literature and studies that discussed small and medium sized enterprises, based on a survey conducted by the International Accounting Standards Board, and the impact of these new standards on professional organisations. The study found that the Financial Reporting preparation Standards must meet the needs of users, however small and medium sized enterprises standards remain undefined though these standards include a large number of enterprises that welcome commitment especially with the expected benefits of those whom apply them. Therefore, what inhibits these enterprises on the application of these standards is the complexity and over detailed standards that require much effort to understand.

The study of Popa, Nistor & Deaconu, 2009 aimed to analysing the needs of owners of small and medium sized enterprises. Moreover, to analyse the impact of their needs on the financial statements issued by these enterprises and on the conceptual framework, the measurement and recognition criteria, and the identification of the enterprises stakeholders. The enterprises revealed that they prepare the financial statements in accordance to the owner's suitability, taking into account the cost and benefit balance.

Albu, C.N & Albu, N, 2010 study's purpose was to discuss cases related to the implementation of International Standards for small and medium sized enterprises in the Romanian environment. The researchers conducted an exploratory study on this subject, they reached to a conclusion that it is inevitable that the local applied standards can ever be as such quality as the International Accounting Standards, however between countries there are possible differences in the application of these standards due to a difference in previous accounting background. There are a number of opinions around the application of these standards, that it will affect the accounting

education and professionals, but in the researchers opinion these problems are solvable by increasing the quality of teaching and continuous professional training.

Followed by the study of Gerogovich, 2011 in which aimed to reveal financial reporting standards and content. The study adopted a method of comparing the Canadian accounting standards in reporting with the International Financial Reporting Standards. The results of the study show that the difference between the generally accepted accounting standards in Canada and the International Financial Reporting Standards will have an impact on the identification and reporting of income tax expense, deferred asset tax and debt. Moreover, the Canadian accounting standards will be replaced by the International Standards applied in more than 100 countries worldwide.

### 3. Research Methodology

#### 3.1 Sample Study Population

The study's population is consisted by all licensed auditors to practice the auditing profession in Jordan at the end of 2014, in accordance to the Society of Chartered Accountants records totalling 430 auditors. The study sample will be limited to a simple random sample consisting of 30% of the overall study population.

#### 3.2 Study Tool

The study tool is represented by a questionnaire designed around the concept of 'the suitability of Jordanian small and medium sized enterprises environment to the requirements of the International Financial Reporting Standards specific to them'. The study's questionnaires design adopted the quintet Likert scale in order to obtain the necessary data required for the study. The questionnaire was distributed to auditors whom are licensed to practice the audit profession in Jordan, in order to identify the answers of the individuals of the sample.

### 4. Statistical Analysis

#### 4.1 Descriptive Statistics of the Study and Variables

This part of the study displays the descriptive analysis of the variables of the study as follows:

The questionnaire was distributed to (152) stakeholders, the questionnaires returned (143) in which (8) were excluded for being invalid for statistical analysis purposes, the final study sample was represented by (135) questionnaires, and represented (89%) of the study sample. Table (1) explains the demographic distribution of the study sample:

Table 1. The Distribution of the Study Sample

ITEM	REPEAT	PERCENTAGE
1. <u>Gender</u>		
- Male	112	82.9%
- Female	23	17.1%
2. <u>Do you work in one of the Big Four Audit Firms?</u>		
- Yes	23	17.1%
- No	112	82.9%
3. <u>Academic Qualification</u>		
- Diploma	0	0%
- Bachelor's Degree	99	73.3%
- Master Degree	27	20%
- PhD Degree	9	6.7%
4. <u>Speciality Field</u>		
- Accounting	114	84.4%
- Finance and Banking	21	15.6%
- Economics	0	0%
- Other	0	0%
5. <u>Years of experience in Audit</u>		
- Less than 5 years	7	5.2%
- Between 6 - 10 years	56	41.5%
- Between 11 – 15 years	49	36.3%
- More than 15 years	23	17%
6. <u>Degree of familiarity with the International Accounting Standards for Small and Medium sized enterprises</u>		
- Excellent	107	79.3%
- Very good	28	20.7%
- Good	0	0%
- None	0	0%
TOTAL	135	100%

It is noted by table 1 that a large part of the study sample acquire adequate experience and academic

qualifications. Where the percentage of whom has experience of more than five years accounted for 94.8% of the respondents, moreover the percentage of bachelors, masters and PhD holders accounted to 100% of the study sample, these results led to an increased stability of the questionnaire.

### 5. Descriptive Analysis

The following is a presentation of the study's results by answering the study questions and in which explain whether the business environment for small and medium sized enterprises corresponds to the requirements of the International Financial Reporting Standards specified to them.

Table 2. Descriptive Analysis for the first hypothesis regarding the extent of which Jordanian SMEs environment is compatible to the requirements of the International Financial Reporting Standards specific to them in the Presentation of their Financial Statements

<b>Degree of compatibility between the environment of Jordanian small and medium sized enterprises (SME) and the requirements of IFRS specific to them in the presentation of their Financial Statements.</b>	<b>Mean</b>	<b>S-Deviation</b>
The Jordanian SME environment is compatible to the commitment of the principle of caution in the presentation of financial statements.	4.04	1.11
The Jordanian SME environment is compatible to the proper presentation of financial statements.	4.10	0.84
The Jordanian SME environment is consistent to representing the information present in their financial statements with the validity of financial operations and events presented.	4.17	0.94
The Jordanian SME environment is consistent to present financial statements in an understandable manner.	4.23	0.81
The Jordanian SME environment is consistent to fulfilling the completeness of contents in financial statements within the limits of materiality and cost.	4.27	0.83
The Jordanian SME environment is consistent with the comparability of the contents of its financial statements with other entities.	4.30	0.88
The Jordanian SME environment is consistent in the presentation of financial statements reliably.	4.32	0.85
The Jordanian SME environment is consistent to the obligation to present financial statements in a timely manner.	4.49	0.62
<b>Total of section</b>	<b>4.24</b>	<b>0.34</b>

Table 2 presents the descriptive analysis of the responses of the first section related to the compatibility of small and medium sized enterprises environment with the requirements of International Financial Reporting Standards in the presentation of financial statements. It is noticed that the items in this section have obtained relatively close averages, results ranged between agreed and strongly agreed. This explains the fact that all responses obtained a mean of 4.24, in accordance to the quintet Likert scale the result of this section is (strongly agreed) with a standard deviation of 0.340. This indicates that there is consensus opinion among Jordanian legal auditors that the SMEs comply with the requirements of their IFRS in presenting their financial statements, in terms of adherence to the principle of caution and maintaining appropriateness, validity and understanding ability of their financial statements in appropriate timing and within the limits of materiality and cost.

Table 3. Descriptive Analysis for the second hypothesis regarding the compatibility of Jordanian SMEs with their IFRS in the presentation of financial statements

<b>The compatibility of SME environment with its IFRS requirements in the presentation of financial statements.</b>	<b>Mean</b>	<b>S-Deviation</b>
The Jordanian SME environment is consistent with the disclosure of information in financial statements related to main assumptions to maintain the enterprises sustainability and estimation uncertainty.	3.93	0.91
The Jordanian SME environment is consistent with the disclosure of financial statements about the preparation of their financial statements in accordance to the requirements of their IFRS.	4.20	0.94
The Jordanian SME environments is consistent with the disclosure of financial statements of the measurement basis used in the preparation of their financial statements.	4.39	0.69
The Jordanian SME environment is consistent with the disclosure in its financial statements a summary of significant accounting policies.	4.64	0.74
The Jordanian SME environment is consistent with the disclosure of financial statements of information that supports the items in the financial statements and is relevant to help understand them.	4.79	0.51
<b>Total of section</b>	<b>4.39</b>	<b>0.37</b>

Table 3 shows the descriptive analysis of responses to the second section related to the compatibility of Jordanian SMEs with their IFRS in presenting their financial statements. The table shows that the lowest ranked items in accordance to the average number of responses to the items was "The Jordanian SME environment is consistent with the disclosure of information in financial statements related to main assumptions to maintain the

*enterprises sustainability and estimation uncertainty*". Where the highest ranked item was "The Jordanian SME environment is consistent with the disclosure of financial statements of information that supports the items in the financial statements and is relevant to help understand them". This section generally received an average of 4.39, and in accordance to the quintet Likert scale, this result is (strongly agreed). These results indicate an agreement among the Jordanian legal auditors study sample that the Jordanian SMEs environment are compatible to the requirements of their own IFRS in the presentation of financial statements, regarding accounting policies, measurement basis, main assumptions for the entity's sustainability and other important accounting policies related to accounting data.

## 6. Testing the Hypotheses of the Study

a) *First Hypothesis: "The Jordanian SMEs environment does not comply with the requirements of the IFRS in the presentation of financial statements"*.

In order to prove or disprove the hypothesis, the researcher used the One Sample T-Test. The following is a presentation and discussion of the results for the first hypothesis test and a comparison of these results to previous study results. The researcher depended on the value of the arithmetic value to determine whether there is a correspondent or not by looking at the  $\mu$  value, which refers to the coefficient of the arithmetic mean of the set of paragraphs related to the study section. There is a correspondent in the case of ( $\mu \geq 3$ ) based on the quintet Likert Scale. Furthermore, to determine whether these results are statistically significant, the researcher depended on the t and sig value. If the t calculated is greater than the t-scale this indicates an existence of statistical significance, to confirm we can consider the sig value.

Table 4. Results of the One Sample T-Test for the compatibility of the Jordanian SME environment with the requirements of the International Financial Reporting Standards specific to them in the presentation of financial statements

Reject H0	Mean	S-Deviation	T-Distribution Table	T-Statistics	DF	Sig
	4.240	0.340	1.978	42.023	134	0.000

Table 4 presents the results of the One Sample T-Test related to the compliance of the Jordanian SMEs environment with the IFRS requirements in the presentation of financial statements. The results showed that the arithmetic mean in the first hypothesis reached (4.240) which is greater than the average default mean ( $\mu \leq 3$ ).

The results of the One Sample T-Test also showed a significant statistical difference at the mean level (0.05) between the mean and average default mean ( $\mu$ ). Where the value (sig<5%), and the t value calculated was (42.023) which is higher than the table value of (1.978). Accordingly, we reject the first null hypothesis and accept the alternative hypothesis, i.e. the Jordanian SMEs environment corresponds to the requirements of the IFRS in the presentation of financial statements.

b) *Second Hypothesis; "The Jordanian SMEs environment does not comply with the requirements of the IFRS in the presentation of financial statements"*.

In order to prove or disprove the hypothesis, the researcher used the One Sample T-Test. The following is a presentation and discussion of the results for the second hypothesis test and a comparison of these results to previous study results. The researcher depended on the value of the arithmetic value to determine whether there is a correspondent or not by looking at the  $\mu$  value, which refers to the coefficient of the arithmetic mean of the set of paragraphs related to the study section. There is a correspondent in the case of ( $\mu \geq 3$ ) based on the quintet Likert Scale. Furthermore, to determine whether these results are statistically significant, the researcher depended on the t and sig value. If the t calculated is greater than the t-scale this indicates an existence of statistical significance, to confirm we can consider the sig value.

Table 5. Results of the One Sample T-Test for the compatibility of the Jordanian SME environment with the requirements of the International Financial Reporting Standards specific to them in the presentation of financial statements

Reject H0	Mean	S-Deviation	T-Distribution Table	T-Statistics	DF	Sig
	4.391	0.372	1.978	43.349	134	0.000

Table 5 presents the results of the One Sample T-Test related to the compliance of the Jordanian SMEs environment with the IFRS requirements in the presentation of financial statements. The results showed that the arithmetic mean in the first hypothesis reached (4.391) which is greater than the average default mean ( $\mu \leq 3$ ).

The results of the One Sample T-Test also showed a significant statistical difference at the mean level (0.05) between the mean and average default mean ( $\mu$ ). Where the value (sig<5%), and the t value calculated was (43.349) which is higher than the table value of (1.978). Accordingly, we reject the second hypothesis, i.e. the

Jordanian SMEs environment corresponds to the requirements of the IFRS in the presentation of financial statements.

## 7. Study Results

Based on the statistical tests and hypotheses conducted, the results are summarised as followed; the Jordanian SME environment is consistent with the requirements of the International Financial Reporting Standards set specific for SME in the presentation of financial statements. This is because SMEs should be considered an important part of the national economy, and therefore should prepare their accounting records in an appropriate and accurate manner and in accordance to its own accounting standards to ensure its financial statements are presented correctly and hence enable them to make appropriate decisions. On the other hand, the International Financial Reporting Standards for SMEs has laid the foundation for the presentation of financial statements for these establishments at the lowest costs to serve user's needs. Therefore, increasing fairness in business outputs, financial position and the improvement of all financial information included in the financial statements.

The following recommendations were made based on the findings of the study; to increase employee motivation in Jordanian SMEs to familiarise themselves with the International Financial Reporting Standards specific to these enterprises, in order to view the positive impact on improving decisions related to SMEs and the reflection of this impact on the general national economy. In addition, professional entities should pay attention to the International Financial Reporting Standards specific for SMEs in order to increase the capability to agree with the demands of these enterprises and to increase their applicability. Moreover, to have laws appointed by the relevant authorities that oblige SMEs to apply IFRS for SMEs, having supervisory bodies keeping up with the work and the efficiency of these facilities. Finally, to conduct future studies based on the impact of the application of International Financial Reporting Standards for SMEs on their performance.

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