Assessing the Preparedness of

Small and Medium-sized Entities in Sweden to Adopt International Financial Reporting Standard (IFRS) for Small and Medium-sized Entities (SMEs).

Authors: *Suhaib Aamir*
Umar Farooq

Supervisor: *Catherine Lions*

STUDENT
UMEÅ SCHOOL OF BUSINESS
SPRING SEMESTER 2010
MASTER THESIS, ONE-YEAR, 15 HP

Thesis information

Academic institution: **Umeå School of Business, Umeå University**

Course level: **Master in Accounting**

Supervisor: **Catherine Lions**

Authors: **Suhaib Aamir and Umar Farooq**

Thesis topic: **IFRS for SMEs**

Title: **Assessing the preparedness of small and medium-sized entities in Sweden to adopt International Financial Reporting Standard (IFRS) for Small and Medium-sized Entities (SMEs).**

Date: **June, 2010**

Thesis submitted in partial fulfillment of the requirements of the Masters Degree in Accounting from the Umeå School of Business at Umeå University.

Acknowledgements

We would like to express our gratitude in this humble acknowledgement to several people that made this research possible, directly and indirectly, with their support and enthusiasm.

We appreciatively acknowledge our research supervisor, *Professor Catherine Lions* for her productive advice, support, supervision, and valuable and professional guidance which made her an important element of this research and who took patience to revise our work several times making necessary criticism and suggestions.

We would also like to convey our thanks to the eleven interviewees for giving us the opportunity to interview them, out of their very busy schedules. As such we are obliged to:

Mr. Henrik Bergdahl	*Chief Financial Officer (CFO) of Umeå Biotech Incubator (UBI).*
Mr. Anonym	*Chartered Accountant of Company X.*
Mr. Anders Rinzen	*Authorized Public Accountant and partner in Deloitte.*
Mr. Carl Rehnberg	*Investment Director and Head of Norrland Division in Armarium.*
Mr. Johan Pettersson	*Auditor in Ernst & Young (E&Y).*
Ms. Maria Larsson	*Controller in Uminova Innovation, and was an auditor at PriceWaterHouseCoopers (PWC).*
Mr. Kjell Hedström	*Controller in VITEC.*
Ms. Gunika Klingstedt	*Accountant in Oryx Simulations AB.*
Mr. Anders Mårdell	*Authorized Public Accountant in Ernst & Young (E&Y).*
Mr. Stefan Sundgren	*Professor and Head of Accounting department in Umeå University.*
Mr. Stellan Nilsson	*Assistant Professor in Umeå University.*

At last but not the least, we want to thank our families, friends and loved ones back in our home countries for their prayers and motivational support.

Suhaib Aamir
Umar Farooq

Abstract

SMEs serve as a backbone to keep an economy going and to boost it up in times of difficult hours like recession, for example. They are considered as the main source of modernization, innovation and entrepreneurial spirit. Like rest of Europe, 99% of enterprises are SMEs in Sweden which form a ratio of approximately 58 SMEs per 1000 inhabitants. Moreover SMEs employ around 60% of Sweden's manpower which shows their concern toward social responsibility.

Several companies irrespective of their size are bound by the statutory rules of a particular country in which they operate to prepare financial reports that conform to specified set of accounting principles. There has been much ongoing debate regarding the suitability of one set of accounting standards in a country for all its operating enterprises, regardless of their size. In July 2009 the International Accounting Standards Board (IASB) published the International Financial Reporting Standard (IFRS) for Small and Medium-sized Entities (SMEs). The IFRS for SMEs is intended to be applied to the general purpose financial statements of entities that do not have public accountability. The main theme of our thesis is to examine the suitability and difficulties faced by SMEs in Sweden towards IFRS for SMEs. Furthermore, this thesis will identify the problems that will be faced by SMEs in Sweden, in the process of adopting IFRS for SMEs. Lastly, this study will be conducted to check whether SMEs in Sweden prefer to choose and use IFRS for SMEs or Swedish GAAP.

In order to achieve the determined objectives, the study "Assessing the preparedness of small and medium-sized entities in Sweden to adopt International Financial Reporting Standard (IFRS) for Small and Medium-sized Entities (SMEs)" was conducted. A qualitative research employing semi-structured interviews was carried out with eleven interviews in order to solidify the quality criteria of our research work. Sample was selected based on convenient sampling from Umeå due to the limitations of resources in terms of cost and time; opinions from three different categories of respondents (audit firms, SMEs and experts' opinion from the academic perspective) would be gathered. All collected data would be analyzed against the theoretical framework, and with the help of analysis conclusion regarding this study would be drawn.

Based on the qualitative results, the findings exhibits that SMEs in Sweden are not inclined towards IFRs for SMEs and are not ready in any way to adopt these standards. The Swedish GAAP has been designed over years and all SMEs are very much familiar with the rules and principles applicable in Swedish GAAP. Therefore, according to our research inclination of SMEs in Sweden is towards Swedish GAAP rather than IFRS for SMEs.

Keywords: International Financial Reporting Standards (IFRS), Small and Medium-sized entities (SMEs), IFRS for SMEs, SMEs in Sweden, IFRS for SMEs in Sweden, IFRS in Europe.

Table of Contents

List of Tables and Figures

Tables

Figures

Chapter 1: Introduction

1.1 Introduction:

Small and medium-sized enterprises (SMEs) play a vital role in the economy of any country, and their growth brings positive impact for the overall economies. As per the European Commission report, Small and Medium-sized Entities (SMEs) represent 99% of all the entities operating in Europe, and have been important for both the social and economic developments in Europe. SMEs have been categorized into three different groups of micro, small and medium-sized enterprises on the criterion of ceilings defined by European Commission for number of employees and either of turnover amount or balance sheet total (European Commission, 2010, p. 2).

In Europe, micro-enterprises within the SMEs are considered to be the real giants of European economy, and are the ones with fewer than 10 employees. As per the stats of Eurostat, 67% of the private-sector jobs in Europe are created by SMEs, which represents a major share in the overall economy of a country (European Commission, 2008, p. 7). In Europe, regulations for accounting of SMEs differ on country level, and these are the accounting standards which are followed by the SMEs on national level. In Sweden, a governmental body named Bokföringsnämnden (BFN), which is the Swedish Accounting Standards Board, is responsible for issuing standards for unlisted companies in Sweden (Bokföringsnämnden (BFN), 2010).

As a result of broad discussion of SMEs and common standards for SMEs worldwide, the International Accounting Standard Board (IASB) introduced an International Financial Reporting Standard (IFRS) designed for use by small and medium-sized entities (SMEs) on July 9, 2009 (International Accounting Standards Board (IASB), 2010). According to IFAC chief Executive Ian Ball, “This global accounting standard represents a very significant step on the path to global convergence of financial reporting practices by SMEs. It will contribute to enhancing the quality and comparability of SME financial statements around the world and assist SMEs in gaining access to finance.” This standard is helpful not only for SMEs, but also for their clients, customers, management and all other users of SME financial statements. According to Sylvie Voghel, chairman of the IFAC SMP Committee said, “This standard is a significant development; however, its issuance is not the end of the story, but rather the opening chapter.” (International Federation of Accountants (IFAC), 2010).

1.2 Problem Background:

Many companies irrespective of their size are bound by the statutory rules of a particular country in which they operate to prepare financial reports that conform to specified set of accounting principles. There has been much ongoing debate regarding the suitability of one set of accounting standards in a country for all its operating enterprises, regardless of their size. These discussions and debates resulted in the quest of IASB for a set of standards for different enterprises depending upon the size criterion defined (Pactor, p. 31). It was during 90ies that the first proposal regarding complication of standards issued by the IASC board and faced by less developed countries were reported by a member of Jordanian delegation to IASC. Although this proposal was rejected, but it was then that the proposal for a new set of standards for SMEs was initiated by IASC which was replaced by IASB. It was concluded by IASB that the SME's financial statements users are different from those of the public entities financial statements users (Rundfelt, 2007, p.1).

It was in 2001 when IASB formally started to develop accounting standards for the suitability of SMEs while keeping the emerging economies in focus. For this purpose a discussion paper was formulated in 2004 with the title of *Preliminary Views on Accounting Standards for Small and Medium-sized Entities* and the comments were invited on this discussion paper from around the world. Emphasis and recommendation were directed to the core elements of any accounting standards which are recognition, measurement, presentation and disclosure of financial statements. The first exposure draft of IFRS for SMEs was published by IASB in February 2007, with the aim to provide simple and self-explanatory set of accounting principles for non-listed companies based on full IFRS. Based on this exposure draft field tests were conducted by IASB on a sample of 116 small entities from 20 different countries. On the basis of comments and reviews of exposure draft, and results from field tests eased the job for IASB in further enhancing and simplifying the accounting standards for SMEs, and finally launching the official and final version of IFRS for SMEs on 9th July, 2009 (IASB, 2009, p. 6-12).

IASB in their publication of IFRS for SMEs describe the SMEs as those entities which are not publically accountable and thus publish financial statements with general purpose for its external users. These external users refer to the non-managerial owners, current and prospective creditors and credit-rating agencies. IFRS for SMEs cannot be used by publicly accountable enterprises because of its limited application designed only for small and medium-sized entities. Subsidiaries of a big company are not prohibited from using IFRS for SMEs, if they themselves are not publicly accountable to anyone. Financial statements of SMEs provide their intended users with the information about the firm's financial position, its performance and cash-flows of the firm. Variety of users of these financial statements relies on the information provided in these statements for their future economic decisions (IASB, 2009, p. 10-11).

In Sweden just like rest of the Europe, around 99% of the enterprises are small and medium-sized entities, which forms a ratio of approximately 58 SMEs per 1000 inhabitants. Along with such a big share in the economy of Sweden, SMEs employ around 60% of manpower in Sweden, thus contributing to their social responsibility towards society. Sweden, due to well-established multinational firms has got stronger economy as compared to the rest of Europe, and therefore the SMEs in Sweden have got lower employment ratio than that of the rest of the Europe which is around 67% (European Commission, 2008).

Bokföringsnamnden (BFN) in December 1998 initiated the work of writing guidelines and standards for Small and Medium-sized companies in Sweden. These guidelines were mainly the simplified translation of the recommendations and standards issued in full IFRS, and were referred to as K-project. In their reply to the IASB questionnaire, BFN has briefed the board regarding their work of simplifying the standards for unlisted entities, and the way they have categorized the companies in Sweden into four different classes depending upon their size namely K1, K2, K3 and K4. Each of these four classes is then bound by law to follow certain set of accounting standards for issuing their financial statements (Ekonomifakta, 2010).

Table 1.1: Percentage of Enterprises by Class Size, 2009

Type of Company	Employees	Share (Percentage)
Sole Proprietors	0	74.7
Micro Entities	1-9	21.5
Small Entities	10-49	3.2
Medium Entities	50-249	0.5
Large Entities	> 250	0.1

Source: Ekonomifakta for Year 2009 (Ekonomifakta, 2010)

1.3 Research Questions

Our research question is:
"Are the SMEs in Sweden inclined to the adoption of IFRS for SMEs and how do they prepare for its implementation?"

1.4 Purpose of the Study

The main purpose of this thesis is to observe the appropriateness and hindrance faced by small and medium-sized companies in Sweden towards IFRS for SMEs. In terms of costs and benefits, how do SMEs perceive IFRS for SMEs and will it be economically favorable for them to use it for the preparation of their financial reports. How much does the approach towards IFRS for SMEs vary in the physical market as compared to the theory? Furthermore, this thesis will identify the problems that will be faced by SMEs in Sweden, in the process of adopting IFRS for SMEs. Lastly, this study will be conducted to check whether SMEs in Sweden prefer to choose and use IFRS for SMEs or Swedish GAAP.

1.5 Limitations

Our thesis work will be subjected to several limitations due to time and financial resources. These limitations are:

- The literature review in this paper will only discuss the key issues and needs, on the basis of which accounting standards for small and medium-sized entities were required. It will not take into consideration the details and standards provided in different sets of accounting standards.

- Explanation of standards in either IFRS for SMEs or Swedish GAAP will not be discussed in this paper, as these accounting standards are self-explanatory.

- This thesis will examine and discuss the preparedness of SMEs in Sweden to adopt IFRS for SMEs and will not deal with any kind of accounting treatments on financial statements.

- Due to time and cost limitation the main focus of our research work will be limited only to SMEs in Sweden and particularly in Umeå. For data collection we shall divide our respondents into three categories; audit firms, SMEs and expert opinions.

- Swedish language would be a barrier as it is difficult to understand the annual reports of SMEs or the Swedish GAAP, which are in Swedish language.

1.6 Glossary

International Accounting Standard Board (IASB): The International Accounting Standards Board (IASB) was established by the International Accounting Standards Committee (IASC) on April 1, 2001 in London, England. The main responsibilities of IASB are developing the International Financial Reporting Standards (new name for the International Accounting Standards Board issued after 2001), and encouraging the use and relevance of these standards. The development of high quality, comprehensible and understandable accounting standard for the purpose of financial statements, is the goal of IASB. The International Accounting Standards Board (IASB) is accountable for its governance, funding, oversight and supervision (IASB & IASC, 2010).

International Financial Reporting Standard (IFRS): These are guidelines, treatments, rules, regulations, policies and procedures established by the International Accounting Standards Board (IASB) for the preparation of financial statement. The main objective of these international standards is to allow investors, organizations and governments to compare the financial statements with greater ease.

Small and Medium-Sized Entities (SME): The Small and Medium-Sized Entities (SME) can be characterized into three categories; micro, small and medium-size enterprises. The basic requirements for Small and Medium-Sized Entities (SME) are as follow:

- Companies do not have public accountability, and
- prepare general purpose financial statements for external users (IASB, 2010)

Swedish Accounting Standards Board: Bokforingsnamnden, BFN is a governmental body with the main objective of promoting the development of generally accepted accounting principles (Swedish GAAP) for identifying, recording as well as the setting up of annual accounts. Detailed information about accounting matters and practices are also issued by this board for companies in Sweden.

IFRS for SMEs: IFRS for SMEs are set of accounting standards developed by IASB for its intended use in general purpose financial statements and reporting by small and medium-sized entities, private firms and non-publicly accountable enterprises.

1.7 Disposition

Chapter 2 (Methodology): This chapter will be about the Research methodology. Research methods and approaches that will be used in our thesis work will be defined in this chapter. This chapter will discuss empirical data collection methods in order to provide answers to the research questions and our choice of study.

Chapter 3 (Theoretical Framework): This chapter will be about the literature review according to which the theoretical framework will be formulated. Existing or previous theories related to our area of study will be presented to the readers in this chapter. This chapter is not only a literature review; it goes beyond it, since it will end with the justification of hypotheses and the empirical study.

Chapter 4 (Empirical Findings): In this chapter we will be discussing the empirical findings based on the data being collected from respondents. Based on these empirical findings analysis, discussions and conclusions will be made.

Chapter 5 (Analysis and Discussions): This chapter will be based on analysis from previous chapters, data collected from interviews, and review of previous literature. Conclusions and recommendations will be derived on the basis of this analysis.

Chapter 6 (Conclusions and Recommendations): In this chapter we will look back at the research problem and the objectives which were stated at the beginning of this thesis. On the basis of it conclusion for this study will be derived.

Chapter 2: Research Methodology

This chapter will describe the methodology that was used in order to conduct the thesis work for this study. It will describe the type of methods selected for data collection and analysis from a selected perspective, and the reasons for why these methods were chosen in comparison to the other alternative methods. In this chapter we will discuss the choice of subject, preconceptions, perspective, research approach, research methods, research design, and data collection methods for our study.

2.1 Choice of Subject

The choice of subject for our thesis has been based on the concern for the adoption of International Financial Reporting Standards (IFRS) for Small and Medium-sized entities (SMEs) by SMEs in Sweden. There has been much debates and discussions during the last decade regarding the formulation of a set of standards suitable for small and medium-sized entities. In the effort, IFRS for SMEs was launched by International Accounting Standards Board (IASB), while the RRs standards were developed by Swedish Accounting Standards Board for the unlisted companies in Sweden. Full IFRS has been made statutory by the European Union for the listed companies to make their financial statements in compliance with IFRS. But there has not been yet any statutory regulations imposed on SMEs in Europe in reference to the adoption IFRS for SMEs. The external users of SMEs, which include indirectly involved owners, creditors and credit rating agencies, do require financial statements for the appropriate economic decisions to be made by them.

Almost all the countries have a national set of accounting standards to be followed by the companies operating within the national boundaries. These accounting standards had been developed over time, and with the purpose of their development was to keep a check and balance on the transactions and events of a company by bringing in quality and control into it. It was understandable to us that the public listed companies have a broad set of creditors and investors, and these stakeholders need to be presented with financial reports as per certain accounting standards in order to occupy them with the knowledge and understanding of the firm’s financial position and performance. But, the question which we thought of was that why would small and medium-sized companies which do not have such a broad range of shareholders or creditors would need a global set of accounting standards to prepare their financial statements. Thus, in order to find the answers to these questions based on empirical observations we have selected this specific subject as our choice of study.

2.2 Preconceptions:

In order to be objectively involved in the thesis work one needs to have certain pre-involvement or interest in the field of study. This helps in choosing the appropriate methods and tools for data collection and analysis. Being naïve in the chosen field of study can create complications in a way that the author might move around different unrelated objectives without an appropriate idea about where the work might be headed to and what are going to be the end results. Setting objectives is not an easy task, and for our study we had to go through a lot of discussion in order to specify our objectives for this study. The objectives of our study in turn represent the research questions of our study as well. Thus the objective is defined to be the approach of SMEs in terms of their preparedness and willingness to adopt this new set of accounting standards, IFRS for SMEs, into their financial reporting.

Both the authors of this thesis come from the same program of study, which is Master in Accounting, and more or less share the same knowledge regarding International Financial Reporting Standards being taught during the module of Advanced Financial Accounting. The authors belong to Pakistan, where companies follow International Accounting Standards (IAS) which is issued by IASB, and IFRS are soon to be implemented by companies in Pakistan. During our studies in Pakistan we were mostly taught about the US GAAP (Generally Accepted Accounting Principles). Working on this specific topic regarding IFRS for SMEs would give us the opportunity to comprehend these standards and their usage in much more depth. Although, we do lack practical experience in Small and Medium-sized Entities or involvement in IFRS oriented financial statements, but we do share sound theoretical pool of knowledge regarding IFRS and SMEs.

It was during the course of Advanced Financial Accounting that our interest towards IFRS was developed. During the course we were given brief highlights regarding a new set of standards which have been developed by IASB for the SMEs, known as IFRS for SMEs. Since then the keenness to know IFRS for SMEs much in detail and how it will be seen by the markets was developed by us. It was then that we started to look into these standards, and read about it in some articles published in 'The Economist'. As, these standards were in very early stages of its launch into the market, we wanted to see how the SMEs are going to react to it, and what is going to be their approach and willingness towards it. More interest was developed when we could not find any previous studies conducted either specifically in Sweden or in other countries in general about this topic. Thus, we wanted to find out that how the SMEs in the real market perceive IFRS for SMEs. To be more specific about the approach of SMEs towards IFRS for SMEs, we have selected the SMEs operating in Sweden only.

2.3 Perspective:

In a study made by Eriksson and Wiedersheim-Paul (1997, cited in Arey and David 2008, p.7) perspective gives the point of view about the problem question from different dimension with the option of choosing the most appropriate one according to problem focus. An individual's judgment matters a lot in his/her choice of perspective, as it is about how the individual looks at the reality and how he/she perceives it from different perspectives. The discipline and the field of study of an individual matters in a way that it better equips the author in conducting a good research with sound choice of perspective. The reason for this is that things can be perceived differently from different individualistic minds as per their previous knowledge and expertise.

Our topic "*Assessing the preparedness of small and medium-sized entities in Sweden to adopt International Financial Reporting Standard (IFRS) for Small and Medium-sized Entities (SMEs)*" will be viewed from an accounting perspective and academic perspective, since the study will be based on related theories from accounting and academics. Although, these accounting standards cover both internal and external perspectives, but we will be mainly looking at it from the external perspective and to some extent from internal perspective as well.

2.4 Research philosophy

Research philosophy is very important for selecting the best appropriate research design for answering the research questions. There are two research philosophies; the epistemological philosophy and the ontological philosophy. Epistemology is the study of knowledge and knowing/belief. It refers to the ways to acquire the knowledge (Bryman & Bell, 2007). It describes how it is possible to know about the world that is how we can study about reality. It is further divided into two parts: positivism and interpretivism (phenomenology). Positivism is a study of social reality and beyond, that is how the social world can be analyzed as natural science. While, interpretivism or anti-positivism relates to elements such as values, norms and subjective position of researcher and research community are important for interpretation of reality (Bryman & Bell, 2007).

On the other hand, Ontological assumption refers to the subject of existence. It concerns the nature of the world and human being in social contexts (Bryman & Bell, 2007). It deals with nature of the world and what we can know about it. The ontological assumption is divided into Objectivism and Constructionism. Objectivism is a normative emphasis that asserts that social phenomena and their meanings have an existence that is independent of social actors (Bryman & Bell, 2007). On the other hand, Constructionism position accepts that social phenomena and their meanings can be continually accomplished by social actors and reality of social world is constructed and does not exist out there (Bryman & Bell, 2007).

In our research for the epistemological assumption we take the interpretivist position and for the ontological stance we take the constructionist view point. Reasons being that in our research, we will investigate at what extent Swedish SMEs want to adopt IFRS for SMEs and what is the reaction against/in favor of new proposal. As per the interpretivist approach, the researcher as per their norms and values will be identifying and interpreting the approach of SMEs in Sweden towards the accounting standards. The adoption of constructionism view point as the ontological assumption will lead the researchers in accomplishing their conclusive result as per their analysis of the knowledge acquired. Subjective judgment of the respondents in expressing their viewpoint in support of easing the tasks of interpretation and opinion building will be considered vital.

2.5 Research Approach

The concern of research approach is about answering the researchers' questions regarding the way in which they will collect data (Saunder et al., 2000). The research philosophy is usually based on the researchers' interpretation of the development of data, facts and knowledge. It is just simply the way we go about doing research to develop knowledge, rather than profound and not something which you will give much thought (Saunder et al., 2000). Thus, the implementation of suitable method to achieve the best foundation of the study will be essential for any research. Since, there can be numerous concerns at stake but two stands out in particular. First, there is the question of what form of theory one is talking about. Secondly, there is the matter of whether data are collected to test or to build theories (Bryman & Bell, 2007).

According to Bryman & Bell, research approaches can be segregated into three different types; inductive, deductive and abductive approaches. In deductive approach a conceptual and theoretical structure (model) is developed and then tested by empirical observations; use the hypothesis testing to derive its outcome. This is usually from general to particular approach and data is collected to test the theories. Inductive approach is normally from particular to general approach and data is collected to generate the theories. In this approach, theory is developed from the observations of empirical reality and all findings connected with certain enquiry that what reality is (Bryman & Bell, 2007). To put it straightforwardly, deduction involves a process in which:

Theory $\Longrightarrow$ observations/findings

With induction the connection is reversed:

Observations/findings $\Longrightarrow$ Theory

Finally, the *abduction* is a combination of both the deductive and inductive approach. More simply it can be defined as:

Observations/findings $\Longrightarrow$ Theory $\Longrightarrow$ Observations/findings

OR

Theory $\Longrightarrow$ Observations/findings $\Longrightarrow$ Theory

In our research we shall use the abductive approach because we think it is the best approach that has a link with research methods to answer our research questions. We start with the theory about the International Financial Reporting Standards (IFRS), Small and Medium-sized entities (SMEs) and IFRS for SME. On the basis of these theories, we will develop the theoretical framework which will help us in creating the interview guide. Analysis of empirical findings will be tested against the theoretical framework, and on the basis of this conclusion regarding this study would be derived. The tests conducted on the observations/findings would lead us to the conclusions in terms of either the empirical findings validate the theoretical framework or not. If the empirical findings are in line with the theoretical framework then we would not generate any new theory. Contribution to the knowledge would be made when the findings are not in accordance to the theoretical framework and reasons are provided by the respondents to support their views or opinions of rejecting particular observations/findings.

2.6 Research Design

There are five different types of research designs; experimental, cross-sectional, longitudinal, case study and comparative designs (Bryman & Bell, 2007, p. 39). The research design that we will employ in our research work is the cross-sectional design. It is also called social survey design. " Cross-sectional design involves the collection of data on more than one case and at a single point in time in order to collect a body of quantitative or quantifiable data in connection with two or more variables, which are then examined to detect patterns of association" (Bryman & Bell, 2007, p. 55). When a number of cases are looked at one single point in time, then it is termed as a survey. In this design, we use semi-structured interviews for the different cases relating to SMEs in Sweden. The variation between these cases is helpful for us and this can only be obtained when more cases are scrutinized. The data collection is finished at a single point in time for all case concurrently. This means that the respondents are expected to answer most of the questions asked in the interview, and their feedback is collected promptly. Through this data we shall obtain useful findings which will help us in exploring our research question. Using this design, we will try to make sure that the representativeness of the sample being studied in relation to the overall population is adequate. The key strong point of this research design is thus derived from its representation of the different cases, which we get through analyzing different reactions of SMEs in Sweden to adopt IFRS for SMEs.

2.7 Research Strategy

The two main methods that researchers apply in their studies are; qualitative and quantitative, which straightforwardly influence the different kind of data collection methods used in the research (Kekäle, de Weerd-Nederhof, Cervai and Borelli, 2009). "Quantitative research that is focused primarily on the construction of quantitative data, and quantitative data is a systematic record that consists of numbers constructed by researcher utilizing the process of measurement and imposing structure" (Ray Kent, 2007). The quantitative methods employ measurement that can be quantifiable while qualitative cannot be measured. It could also be differentiated by the connection between theory and research which helps in determining which methods to be used (Bryman & Bell, 2007).

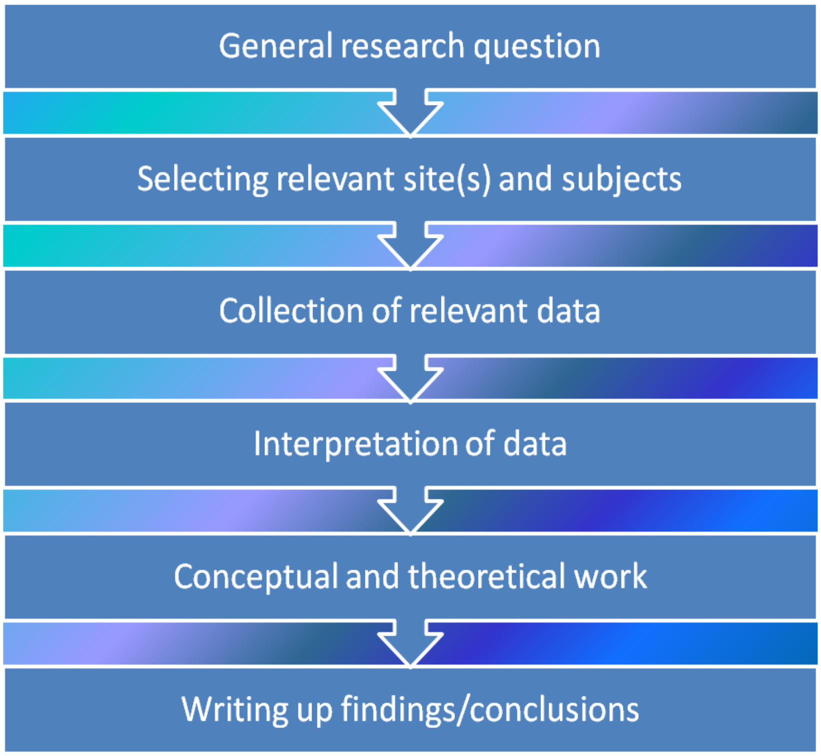

Figure 2.1 Research Strategy Flow-Chart

We use qualitative research strategy for our work and as a consequence we conduct semi-structured interviews for the collection of data. We choose qualitative research strategy for many reasons. Firstly, we have main concern with words, images rather than numbers because we want to conduct interviews to generate some theory and not to test new theory. We can sketch a clear picture in advance what we are looking for by using this method. Secondly, as a part of abductive research, all aspects of our study are carefully designed before data is collected so the later stages of research can be carried out carefully. Thirdly, in our research our main concern is with subjectivity and gaining access to “inside” experience and relate with inside reality of human. Fourthly, in our research, we seek close involvement with the people being investigated. It is only possible in qualitative research because in quantitative research, researchers are uninvolved with their subject and in some cases may have no contact with them. Finally, it is a very good tool to conduct large market research for assessing the preparedness of SMEs in Sweden to adopt IFRS for SMEs.

2.8 Data Collection:

Data collections are the means, which refer to the sources from where the relevant information can be gathered that will be used in answering the research questions. The sources from where the relevant information can be gathered are primary and secondary data sources. Primary data collection sources refer to the sources from where concerned original data is collected for the research problems identified in the study. Primary data sources include observations, experiments, social surveys like questionnaires, and interviews. While secondary data sources are the ones from where we collect the information contributed by others towards the study but its purpose might be different from that of ours. Secondary data sources comprise of books, journals, articles, and web-based data about the specific subject (Ghauri & Gronhaug, 2005, p. 91-102).

Our data collection was initiated with the secondary data sources, on the basis of which our theoretical framework is constructed. We started with readings of previous and current literature, which stood out to be of relevance to our research question, and provided us with beneficial understanding and knowledge of key objective terms on which further study should be approached. Finding exactly specific and relevant secondary sources in accordance to the chosen research question is a complex activity, as it is a tough job to find objectively same previous or current work. But reasonably relevant secondary sources have been identified and included through out the thesis work. The sources of secondary data on which we relied for referencing in our study were mainly obtained from the University Library’s electronic search engine at Umeå University. The ease of access to large amount of secondary data sources especially the books at the Umeå University library has been the most utilized source of information for our study. Due to technological advancements and availability of almost all kind of data regarding any issue and topic on the Internet, clicks and constant look backs have been directed towards the electronic sources.

Keywords searched: International Financial Reporting Standards, IFRS, Small and Medium-sized entities, SMEs, IFRS for SMEs, SMEs in Sweden, IFRS for SMEs in Sweden, IFRS in Europe.

For primary data collection we have opted for face-to-face interviews. We will be carrying out semi-structured interviews from the respondents based in Umeå, Sweden. Semi-structured interviews provide the researcher with the ease of producing a list of questions on specific topics, which are formulated into the interview guide. (Bryman & Bell, 2007). We will be using open-ended questions in the semi-structured interview guide, as it provides much more room to the respondents to express their views and reasons. In semi-structured interviews, the order in which the questions will be asked might vary, but it is preferred to keep track of the questions in the same order as in the interview guide (Bryman & Bell, 2007). The interview guide which will be used for the interviews will be attached in the Appendix section of this thesis. This interview guide will be sent to the respondents a week prior to the formal interview, so that the respondents do have an idea and appropriate preparation for their expressions regarding the questions. The interview guide is devised in a way to be structured into two parts. First part will take into account the background of the respondents and their brief profiles in terms of designation, experience etcetera, while the second part will deal with a set of questions related to the issues and topics concerning the research questions.

Face-to-face interviews are preferable over other type of interviews, for instance telephonic interviews, as the interview settings and the presence of both the interviewer and the interviewee provides more confidence and the ease of understandability to both the parties. In face-to-face interviews the exactness of understanding each other and the doubts raised from the responses can be clarified instantly. Non-verbal gestures in face-to-face interview provide the clues about the comfort and understanding of the questions by the respondent, on the basis of which the questions can be rephrased, skipped or less emphasized. Interviews were conducted with the concern to generate the maximum possible detailed views of the respondents in reference to the research question formulated (Bryman & Bell, 2007).

All interviews will take place in a setting comfortable to both the interviewee and interviewer. Rendezvous will be decided as per the suitability and access of the interviewee. From the perspective of ethics, respondents will be provided with all kind confidentiality concerns, and as per their permissions their identity might be disclosed or kept anonymous. The use of recorders during the interviews will be as per the discretion of the respondents. Use of recorders during the interview will helps in concentrating solely on the interview rather than going for multi-tasking activities during the interview. Relevant data will be excerpted from the recording as per its conciseness and preciseness in answering the specific question being asked. The collected data do need to be organized and formalized into specific format in the thesis writing, as it would not be useful to include the word by word reply of a respondent. On the average the interviews would be of 30 to 40 minutes length.

2.9 Sample Selection:

The representative part of the whole population is known as sample, and the appropriate selection of sample is crucial for the reliability of the research (Bryman and Bell, 2007). This study focuses on the approach of small and medium-sized companies in Sweden towards their preparedness of IFRS for SMEs. Our sample will not only comprise of the respondents from SMEs, but we would also select respondents from the audit firms and the academic experts. Audit firms would be considered as samples because they work closely with the SMEs and provide them with different kind of accounting, auditing and consulting services. Academic experts will be interviewed because they are the ones who equip the students with the in-depth knowledge and understanding of different accounting standards, and can provided detailed analyses on the basis of the literature and from academic perspective. All the samples will be selected from Umeå, Sweden. We would try to conduct at least ten to twelve interviews in order to solidify the quality criteria of our research work. The basis for selecting sample SMEs from Umeå is due to the limitations of resources in terms of cost and time.

Sample selection will be based on judgmental (purposive) sampling for the selection of sample from audit firms and academic experts; while convenient sampling will be opted for the selection of sample from SMEs. Both of them are type of non-probability sampling. The reason, why we have opted for these two different types of sampling methods is that for audit firms and academic experts we had pre-defined groups in our minds from where would select the sample. In case of audit firms, the pre-defined group consists of the big-4 audit firms operational in Umeå, who will be approached for the interviews. While for the academic experts, the pre-defined group consisted of the professors and lecturers working in Umeå University. The reason for selecting convenient sampling method for approaching the SMEs was that, SMEs are scattered over a wide range from a sole-proprietorship firms to the medium-sized firm employing approximately 250 employees. Due to the complexities and limitations involved in selecting the sample from such a large population, convenient sampling has been used which provides the ease of selecting the sample as per the convenience of researchers.

Firstly, the big four audit firms operating in Umeå will be approached for interviews. Audit firms provide accounting and consulting services to all kind of SMEs and public-listed companies, and do the auditing for most of the public listed firms. In the second group, we will approach the small and medium-sized companies operating in Umeå and we would try to interview their Chief Financial Officers (CFOs), accountants or managers. In the last group, we will try to interview and acquire experts' opinion from the academic perspective, regarding their views about IFRS for SMEs and their adoptability in Sweden. Samples have been assigned into three different set of groups due to the fact that all these entities are not from the same functional area of business, and as per their operations and functionalities there might be difference of opinion. Grouping all the different nature companies into one set would complicate the data analysis and drawing appropriate unbiased conclusions would be difficult.

2.10 Quality criteria:

In qualitative research strategy quality or sustainability of the investigation is very important to determine the value of the evidence (Ritchie and Lewis, 2005). There are two quality criteria employed for the evaluation of research study; reliability and validity. There are some alternative criteria proposed by Lincoln and Cuba (1985) for evaluating a qualitative study: trustworthiness and authenticity (as cited in Bryman and Bell, 2007, p.411). These concepts are very similar to the concepts of reliability and validity. So in our research, we tried to ensure the trustworthiness and authenticity of the research.

2.10.1 Trustworthiness: There are four main additional criteria, such the credibility, transferability, dependability and confirmability, when assessing the trustworthiness of a qualitative research (Bryman and Bell, 2007, p.411).

- **Credibility:** This is parallel to internal validity. The establishment of the credibility of findings involves both make sure that research is carried out according to the approach of good practices and submitting research findings to the members of the social world who analyze that researcher has correctly understood that social world (Bryman and Bell, 2007, p. 411). The respondent validation is important in the perspective of credibility in qualitative research. For the respondent validation, we shared the findings with the respondents who participated in our research. They confirmed us that they have the same meanings that we write in our empirical data.

- **Transferability:** This is parallel to external validity. There is an empirical issue that whether or not findings of a study will hold true in some other context or even in the same context at some other time (Lincoln and Guba, 1985, p 316). The transferability of this research with in Sweden will be valid, but its transferability in other European and non-European countries would be weak.

- **Dependability:** This is parallel to reliability. Dependability means to ensure that complete records are kept of all phases of the research process that is problem formulation, selection of research participant, fieldwork notes, interview transcripts, and data analysis decisions and so on in an accessible manner (Bryman and Bell, 2007, p.414). We will keep records of all the different stages of our research, from the problem formulation, references, interview recordings and previous versions of our research paper. We will use this to assess the degree to which our theoretical inferences can be justified (Bryman and Bell, 2007, p. 414). Due to this, we can state that the dependability of our research is good.

- **Confirmability:** This is parallel to objectivity. Confirmability is concerned with ensuring that research would be conducted properly and also researchers would act with relevant personnel in good faith (Bryman and Bell, 2007, p.414). Our research purpose is to observe the appropriateness and hindrance of IFRS for SMEs by SMEs in Sweden and we collect our data through semi-structured interview and identify the result which replied to our research question. First of all we will prepare interview questions that we think is in accordance with our study purpose and problem of study and will be based on theoretical framework. We will send these interview questions to our respondents before the interview dates to ensure that they have sound knowledge and get prepared for the interview. Also to avoid biasness and inaccuracy of information we decided to interview ten to twelve respondents from three different categories; certified auditors of big four audit firms, certified accountants of SMEs and expert opinions. In interview we will use questions which are easily understandable by respondent. However, in case of complexity we will explain the questions to the respondents. Thus, generally the confirmability of our research will be high.

2.10.2 Authenticity: Apart from trustworthiness the quality of qualitative research depends on the authenticity criteria. The authenticity of the research has criteria of fairly representing different viewpoints of the social settings (Bryman and Bell, 2007, p. 414). For the purpose of authenticity the opinions and responses collected during the interviews from the interviewees would be sent back to them after its transcription in order to be authenticated by the interviewees themselves.

2.11 Ethical consideration:

Ethics are usually defined as codes and conducts which every researcher should follow in his research. Ethics are linked with norms, values and corporate social responsibilities. As we are using qualitative research and primary data analysis as a method for collection, it is our responsibility to maintain high ethical standards during the whole process because it is obligatory and essential not to break ethical rules. Ethical issues cannot be ignored because they relate directly to the integrity of the research (Bryman and Bell, 2007) and it is a way to do the work honestly and responsibly. The literature we have used in our research work such as books, journals and other sources are appropriately cited and referenced to avoid plagiarism. In addition, during our study the four main areas of ethical principles classified by Diener and Grandall (as cited in Bryman and Bell, 2007) are never disobeyed: harm to participants, lack of informed consent, invasion of privacy and deception. All these four unethical factors are avoided in our work with special consideration and emphasis. Appointment will be decided as per the suitability and access of the interviewees and sufficient time will be given to every interviewee in order to prepare themselves for the interview. Moreover, respondents will be provided with all kind of confidentiality concerns, and as per their permissions their identity might be disclosed or kept anonymous. The use of recorders during the interviews will be as per the discretion of the respondents. We also fully agreed with the Bryman and Bell's (2007) view that in business research it is desired that researchers are aware of the ethical issues and concerns involved so they can make knowledgeable decisions.

Chapter 3: Theoretical Framework

This chapter of literature review will be based on the study and review of existing and previous theories related to the research area we have chosen for our study. This helps the researcher in understanding and gaining the precise knowledge of existing relevant theories and ideas about the subject, along with knowledge of consistencies and implications on the research area. The literature review in this chapter is divided into three sections. The first section deals with the theories related to IFRS, the second part is about the theories related to SMEs and the last part is regarding IFRS for SMEs.

3.1 International Financial Reporting Standards

3.1.1. Overview

IASB's Framework for the Preparation and Presentation of Financial Statements states that the objective use of financial statements is to present the wide range of users of these financial statements with information about the entity's financial position, performance and the changes in financial position. This helps in better equipping the users with more suitable economic decision making (Epstein & Jermakowicz, 2010, p. 10-11). Initially, regulated financial statements were needed on country level in order to ensure that all the companies present their financial statements in a similar and consistent fashion. But the pace with which globalization is taking place, the need for internationally comparable financial reports were brought forward. Thus, in order to decrease the national differences and the differences in financial reporting, the international setters and regulators, for example, Financial Accounting Standards Board (FASB) and International Accounting Standards Board (IASB) have issued accounting standards such as Generally Accepted Accounting Standards (GAAP) and International Financial Reporting Standards (IFRS), respectively (Elliott B. & Elliott J., 2002, p. 3-4). IFRS is considered by management think-tanks as a phase shift in the general accounting, balance sheet position valuations and financial reporting techniques (Chorafas D., 2006, p. 6).

IFRS, which is a principle based set of accounting standards, encompasses broad principles such as recognition principles, measurement principles, derecognition principles, and presentation and disclosure principles. These principles are considered to be core elements of any set of accounting standards. These principles are derived on the basis of conceptual framework and are subject to professional judgment in their application in business scenarios (Nicoleta, Victoria & Mariana, 2009, p. 1125-1126). On the contrary, the US GAAP is more of rules based set of accounting standards, although both IFRS and GAAP almost share the same general principles and conceptual framework. Being principle-based IFRS provides fewer details in its standards as compared to GAAP. More than 100 countries today use IFRS for their financial reporting. IFRS serves to be an international financial language which can be easily and reasonably interpreted by the users of these financial statements (Elena, Catalina, Stefana & Niculina, 2009).

IFRS got its major breakthrough in the year 2002, when legislation was passed by the European Union requiring all the listed companies in Europe to use IFRS for the preparation of their consolidated financial statements. The legislation was enacted in the year 2005, and more than 8000 firms in around 30 countries of Europe are now issuing financial statements in compliance to IFRS. The adoption of IFRS in Europe has been very demanding as it has provided the users of the financial statements with financial reports that were of high quality, harmonized and comparable. Other than being helpful to investors and other external users, the adoption of IFRS has increased market efficiency and has reduced the cost of raising capital. IFRS being a popular set of accounting standards on the global market, countries like US and Japan are still reluctant to use it in preparing their financial statements. Constant efforts are being made by the local accounting boards in US and Japan in collaboration with IASB in order to converge the IFRS and local accounting standards (Mirza, Holt & Orrell, 2008, p. 1-2).

3.1.2. Financial Statements and IFRS

What are financial statements and why should they comply with certain standards? Both these questions revolve around the objectivity of financial statements. There are two underlying assumptions for proper preparation and presentation of financial statements; and they are the accrual basis accounting and the going concern of an entity. Accrual basis accounting relates to the recognition of transactions when they occur in a chronological order, and not being dependent on when cash is paid or received. The other assumption which is regarding going concern relates to the operations of an entity for a foreseeable future period of time without any intentions of liquidation or curtailment of business activities. Above all the qualitative elements of financial reporting should be more emphasized, because a good quality financial report can in itself cover many different perspectives. The IASB framework considers understandability, relevance, reliability and comparability as the four principal quality characteristics needed in a sound financial report (Mirza, Holt & Orrell, 2008, p. 8-9).

Financial statements, if made in compliance with IFRS can be a measure of fair and true presentation of financial position, financial performance and cash flows of an enterprise. Use of IFRS in financial statements gives consistency of presentation in the financial reports. Consistency of presentation refers to holding fast in a consistent way the classification and presentation of accounting items in regular periods of time. The materiality and aggregative measures of IFRS principles, defines classes for both similar group of material items and dissimilar group of material items differing in nature or function. Financial statements prepared in accordance to IFRS gives the ease of comparison of current period disclosures with that of previous periods. Accounting policies used in the financial statements needs to be summarized in the notes section of financial report (Mirza, Holt & Orrell, 2008, p. 13-17).

It has been stated in an article that the study about adoption of IFRS in Europe and Australia has shown that the conversion to IFRS by any company in any country costs both time and resources more than expected (Street and Jr. Needles, 2009, p. 56-57). This transition has been very troublesome for some companies as they had to rush and risk mistakes while adopting IFRS or these companies outsourced more work than needed to be outsourced. The cost of IFRS adoption includes the cost of transition process in a way that the adopting firm lacks the required expertise, and thus seeks the services of auditors and analysts. Transition costs are less in those countries where a harmonized accounting system exists, and vice versa; as studied by Taylor in a case study conducted by him (Taylor, 2009, p. 40 & 55). From the benefits perspective, the major arguments being made are regarding the high quality of accounting information being generated by the use of these standards. In terms of value enhancements, there has been no solid evidence that financial statements prepared under IFRS creates more value than financial statements prepared under GAAP. Taylor in his study compared value creation by the use of IFRS for financial statements with the transition and standards setting costs, and concluded that due to higher transition costs during the initial stages the benefits derived are negligible (Taylor, 2009, p. 55).

Accounting and financial models are the tools on which accountancy of firms is based, and by its use principles for internal and external reporting are formalized. Internal reporting models are less standardized than the external reporting models in a way that corporate managers do not want to go for too many transparencies in their accounting. Thus it needs to be argued that along with regulated external financial reporting; sound internal financial reporting model should be devised as well. Compatibility of internal reporting models with that of external reporting models should be prioritized while formulating the internal reporting models, which will help in achieving the desired level of transparency in order to control and monitor the checks and balances of corporate manager acts and decisions. While harmonized external accounting practices can provide level of transparency in monitoring and controlling activities in companies where exploitation of gaps can take place (Aras & Crowther, 2008, p. 5). There persists the national level challenge towards the harmonization of world-wide standardized accounting system, which needs to be tackled. The successful transition towards a standardized accounting system like that of IFRS will make the accounting reports around the world to be more universal, understandable and transparent. Other than that its impacts on the company level will provide accounting professionals to have same set of standards to be followed throughout the world with the ease of transferability of accounting skills. In order to achieve international harmonization of accounting standards, emphasis should be placed on eliminating the differences between different accounting standards rather than expanding the scope of conforming to the international standards (Aras & Crowther, 2008, p. 6).

The compliance of companies with IFRS brings in with itself the element of Corporate Social Responsibility (CSR) to the firm. CSR is defined to be the commitment of the firm to improve the well-being of a community through discreet use of business practices and corporate resources contribution (Kotler & Lee, 2005, p. 3). The compliance with the CSR should be voluntary by the companies rather than being made mandatory on them. The way in which financial information is presented to the shareholders and other users in accordance to certain specific accounting standards is also a type of CSR. Enterprises are ready to take voluntary steps towards CSR, but the issues which mostly rise up are that how to keep a balance between the conflicting needs and expectations of various stakeholders; how to keep sustainability and the ways of reporting to these stakeholders; and finally how to justify that which activity is more socially responsible than the other one (Aras & Crowther, 2008, p. 10).

3.1.3. Globalisation

Globalization has manipulated the ways in which enterprises and information users seek information from an organization. These users now require much clearer picture in terms of clarity, comparability and the ease of understanding the processes of an organization and evaluating the firm performance in terms of financial reporting. International accounting harmonization can provide the globalised firms with the opportunity to enhance its capacity of raising capital in international markets. For international accounting harmonization, all the considerations should not be placed only on the technical issues regarding the comparability, but arguments should be taken into account about the particular financial reporting standards efficiency and the cost-benefit analyses of convergence (Bhimani, 2008, p. 446). In order to select the most appropriate accounting method, the governments decide to weigh the advantages and disadvantages of different accounting methods as per their national requirements. The bases on which governments compare different accounting systems are stated to be the economic, institutional and cultural bases; and on the very same factors the relevance of IFRS to the national requirements is being assessed. For developing countries, this comparison and assessment provides them with the answers to the issues regarding their degree of similarity to the economic and social scenarios of the developed countries; the size of public and private sector; and the conditions of capital market development (Tyrrall, Woodward & Almagoul, 2007, p. 86).

Accounting differences among different countries and economies toughen the job for investors, lenders and other users to understand and compare different financial reports. The benefits of global financial reporting cannot be limited only to the benefits achieved by the providers of debt and equity capital; other entities like the ones who seek to generate capital from the market benefit from it in terms of reduction in their compliance cost and lower the uncertainties which affect the cost of capital. Consistency in audit quality is improved by the implementation of global standards, and facilitates the training and education of these standards at a global level (IASC Foundation Education, 2009, p. 1).

3.1.4. Principle-based vs. Rule-based Standards

In recent times, debates have been directed towards the use of either Principle-based standards or Rule-based standards. Rule-based standards are defined as the ones which state explicit criteria in terms of their restrictions and expectations to specific concerns followed by the consequent patterns and guides for implementation. While Principle-based standards refer to the basic understandings, that helps guide the inferences about the transaction and events (Nelson, 2003, p. 91). Generic accounting standards are being issued by the Principle-based systems, which in turn creates ambiguity in terms of referring to the controversial problems at hand as opposed to the rules-based system. Ambiguity arises in principle-based system while addressing certain processes like book keeping and measurement. IAS/IFRS has gained world-wide popularity and has been employed by many countries. IFRS was adopted by Germany and United Kingdom, which prior to it followed national level rule-based and principle-based systems. Australia and New Zealand being common law countries, and Italy and Spain with Civil-law system also employed the IFRS accounting standards (Carmona & Trombetta, 2008, p. 456-457).

Rule-based system provides accountants with detailed guidance about its implementation. The element of uncertainty in the role an accountant reduces with the use of specific rules and thus the application of these rules turns out to be mechanical. In contrast, principles-based system of IFRS has much more openness and elasticity with keen insight into the educational and professional skills of the accountants and auditors (Carmona & Trombetta, 2008, p. 457). The primary benefit of principles-based accounting is that it provides the users with broad guidelines that can be applied to different situations. These standards allow the accountants to devise their professional judgment regarding the substance of a transaction, and are different from the checklist based approach followed in rules-based accounting. Along with the mentioned benefits there are certain complexities in principles-based accounting as well. For example, there is lack of precision and minor inconsistencies in the principles-based accounting as how some standards should be applied in different organizations. From the legal perspective, accountants prefer rules-based standards, as they don't have to make any judgments of their own when there are no bright-line rules mentioned in the accounting standards to be followed (Shortridge & Myring, 2004).

Deciding upon the accounting treatments is not an easy task for accountants while applying IFRS to specific events or transactions due to their business and economic concerns. In this way IFRS requires the accountants to have sound knowledge of both business and economics. For the use of principles-based standards the accountant's role is more discreet in terms of their technical skills along with involvement of some ethical and legal aspects. With the employment of IFRS, the auditor's role is not limited to his report regarding the firm's financial statements compliance with standards of an accounting system. Principles-based system seeks the auditors to have solid understanding of the firm's extent in the proper application of standards issued by IFRS, and report their reasonable assurances on its compliance (Aras & Crowther, 2008, p. 458). Principles-based IFRS has also changed the organizational structure of accounting firms in terms of communication, and has replaced the traditional system of solitary accounting division. As principles-based IFRS does not seek rule checking approach and requires much of the professional judgments; therefore, there will be an improvement in terms of communication and relations among the different divisions (e.g. accounting division, operations division and relations division) of a firm (Carmona & Trombetta, 2008, p. 460).

3.1.5. Costs and Benefits of IFRS:

Adoption of IFRS in Europe generated high level governmental debate due to the controversies associated with the reporting changes it has prompted (Armstrong, Barth, Jagolinzer & Riedl, 2008). Reaction of investors in European firms would be positive towards the adoption of IFRS, if it would result in high quality financial reports by minimizing the information asymmetry and information risk between the firm and the investors, and consequently lowering the cost of capital. IFRS application will lower the cost of comparing firms' financial reports across different countries thus enabling the European capital market to become global with an increase in their liquidity. The negative reaction of the investors in the European firms could be due to the fact of regional difference in the economies, perception of investors that the quality of reporting might be lowered, and the investors feared the implementation and transition costs associated with IFRS would surpass its benefits (Armstrong, Barth, Jagolinzer & Riedl, 2008).

Firms with lower pre-IFRS adoption information quality have shown a positive reaction in terms of adopting IFRS, in order to provide consistent informational benefits to their investors. It was also found out by them that there exists a positive reaction to the adoption of IFRS by those firms which have higher information quality prior to Pre-IFRS adoption, as it is consistent with investors' expectations regarding the mitigation of information asymmetry. A less positive reaction of firms to IFRS adoption was found in countries domiciled with code laws, as investors concerns have been seen in such countries with weaker accounting standards. European Commission (EC), a private-sector standard setter, has the right to endorse the standards issued in IFRS by IASB before their implementation in European Union. In this way the regulatory authority lies with EC in order to either retain or reject a particular standard or any part of a standard. European commission looks at three specific criteria before endorsing any standard. Those criteria are: the standard should comply with the true and fair principle of EU; the standard should meet the criteria set out in terms of reliability, understandability, relevance and comparability; and that the adoption of any such standard would be in the best interest of European public (Armstrong, Barth, Jagolinzer & Riedl, 2008).

3.2 Small and Medium-Sized Enterprises (SMEs)

3.2.1. Overview

Small and medium-sized enterprises (SMEs) are the most vital and important sector in the economy of a nation (Hillary, 2000 p. 11). They are the backbone of an economy and a crucial factor for employment (Erixon, 2009, p. 293). They provide and generate opportunities for employment, particularly during the period of recession; they are a main source of modernization, innovation and entrepreneurial spirit; they connect individual innovative effort; and they build competition and play a very important role for the future development of business i.e. seed bed for businesses of the future. In short, healthy dynamic market economies are totally based on small and medium-sized firms and they are vitally important in the solidity of any country and are the engine of the nation's economy (Hillary, 2000, p. 11).

The SME sector is very gigantic. In Europe, around 99% of all enterprises fall into this category, provides two-thirds of all private sector jobs, out of every two new jobs one is from SMEs and more than half of the European Union's GDP is as a result of the operations of SMEs (Tudor & Mutiu, 2008). In UK SMEs cover 99.8% of all enterprises. Other EU member states, including, for example, in Italy and Spain, in 1990, SMEs covered 99.96% of the total number of business entities, and the employment ratio accounted for 82.84% and 91.9%, respectively (Paoloni, Demartini, Moneva & Cuellar, 1999). In Poland large-scale businesses privatization gave rise to a rapid growth in the SME sector, which currently represents 99.8% of active enterprises and employs more than 60% of the labor force (Jaruga and Fijalkowska, 2004). In last, Germany has traditionally even larger and more influential SME sector than the UK. In Sweden the percentage of SMEs is approximately the same as that of the rest of the

European Union. In Sweden there are approximately 58 SMEs per 1000 inhabitants in Sweden, which is a major contribution in the economy.

The proportions of SMEs are similar in countries all over the world but their numbers are set to increase. There are some factors which will result in greater numbers of small and medium-sized firms over large firms. These factors are as follow:

- Technological innovation and advances.
- More modern and flexible production methods.
- The reorganization and reformation.
- Downsizing and outsourcing by large firms and
- Increase in franchising and self-employment (Hillary, 2000, p. 11).

3.2.2. What are Small and Medium-sized Entities

There is no distinct definition of small and medium-sized firms, mainly because of the extensive variety of businesses. There are different ways to define SMEs; some main aspects are number of employees, balance sheet total, size and range of products, revenue, turnover, markets, and so on. Some General definitions of SMEs are:

According to International Accounting Standard Board (IASB), the Small and Medium-Sized Entities (SME) can be characterized into three categories; micro, small and medium-size enterprises. The basic requirements for Small and Medium-Sized Entities (SME) are as follow:

- Companies do not have public accountability, and
- prepare general purpose financial statements for external users (IASB, 2010)

From above definition it is clear that, the entities which have public accountability are capital market oriented entities and entities that have assets for broad groups of outsiders in a fiduciary capacity, whether or not they are capital market oriented. Hence, SMEs are neither listed entities nor financial service business.

An enterprise that has only a small share of its market, is managed by its owner or part-owner and do not have detailed management structure. They are independent with regard to decision making (Bannock, 1981).

An entity is called SME if it has three characteristics:

1. Independent management; usually there is no principal-agent relation i.e. managers and owners are same entities.
2. An individual or small group can invest in entity and also control whole entity.
3. There is local area of operations. Both owners and workers belong to the same community, but market necessitates not to be situated in the similar community (Scott & Bruce, 1987).

SMEs are also defined as;
Those firm which are non-subsidiary autonomous firms having limited number of employees. The specified limit of number of employees is different in each country. The

most common highest number of employees in SMEs is 250 employees. However, for some countries the highest limit is 200, while United States includes those firms in SMEs which employ fewer than 500 employees. When a firm has less than 50 employees it is generally consider to be "Small firm" whereas micro-enterprises have nearly ten, or in a few cases, five employees (OECD, 2006, p.123).

The enterprises which provide work for only less than 250 persons and which have an annual turnover not more than 50 million Euro, or an annual balance sheet total not beyond 43 million Euro (European Commission, 2005, p.5).

European Commission divides SMEs into three categories (shown in table)

Enterprise category	Headcount	Turnover	or	Balance sheet total
Medium-sized	< 250	≤ € 50 million		≤ € 43 million
Small-sized	< 50	≤ € 10 million		≤ € 10 million
Micro-sized	< 10	≤ € 2 million		≤ € 2 million

Source: European Commission

- **Micro Enterprise:** The enterprises which contain fewer than 10 employees and which have an annual turnover not higher than 2 million Euro, or its total annual amount of balance sheet does not cross the limit of 2 million Euro.

- **Small Enterprise:** All enterprises which employ no more than 50 persons and their annual turnover does not go beyond 10 million Euro, or its balance sheet total is not more than 10 million Euro can be categorised in small enterprises.

- **Medium-Sized Enterprise:** The enterprises which provide work for only less than 250 persons and which have an annual turnover of not more than 50 million Euro, or an annual balance sheet total not beyond 43 million Euro**.**

3.2.3. Similarities and Differences between Small and Big Business Reporting Needs

There are some differences and similarities in all businesses, for example, management in small organizations is closer to the work force as compared to large organizations but always too much closeness may lose the wider perspective. In contrast, larger organizations have better credit facilities and also have superior ability to raise capital. In more detail, Lippitt and Oliver explain some similarities and difference. Some of them are as follows:

3.2.3.1. Differences between Small and Big Business Reporting Needs

Lippitt and Oliver discussed some differences between large and small firms in the scientific article "Big GAAP, Little GAAP: Financial Reporting in the small business Environment." The suggestion for determining the expenditures and profits of differentiating financial reporting standards according to the size of the firm may cause difference between large and small firms. Lippitt and Oliver indicate that in small

businesses the importance of investor and creditor users may be relatively different as compared to large businesses (Lippitt & Oliver, 1983, p. 57).
Descriptions have been extracted from a study that very few information appears to be substantive in nature which belongs to small and big businesses, while others relate to only financial self interest. There are three main differences between small and big businesses according to reporting standards; ownership interest of small businesses, management of small businesses and external entities e.g., creditors, suppliers and external accounts (Lippitt & Oliver, 1983, p. 54).

There are explanations in a study, that owners of small businesses are less diversified as compared to large businesses. The majority of investors in large businesses are financially diverse because of reducing their market risk; they enhance their portfolio by purchasing shares in different firms. Therefore, the shareholders are mostly focused on that financial information which is helpful for determining the market risk of the portfolio and less interested in periodic information about total risk. On the other hand, in most of the small businesses capital is invested by a single person and also obligated to a single small business. The key to success in the growth of small businesses is greater financial commitment of ownership to maintain the control. As a result, the owners are more concerned with periodic information about total risk, rather than market risk which is the systematic risk (Lippitt & Oliver, 1983, p. 54, 55).

It has been concluded by some studies that in consequence of attention of ownership, the capital market for large businesses are less "thinner" than for small ones. Thinner financial markets are less efficient and effective because parties strongly rely on whatever accounting information is available. In small businesses almost all financial decisions are based on ownership and few changes in ownership may become frequent with regular financial reports less appropriate (Lippitt & Oliver, 1983, p. 55).

Managers of small businesses should be independent of formal financial information as compared to large businesses because in small business one or a few individuals can monitor and handle the whole management (usually also the ownership). They are engaged in numerous management roles and responsibilities which enable the typically small business managers well-known and familiar with approximately all aspects of the business and such managers should be less dependent (Lippitt & Oliver, 1983, p. 55).

In small businesses the principals (owners) are more active in management and have close involvement in management, thus have more right to use internal information than in large businesses, which also lead to small business managers less dependent upon formal financial statements (Lippitt & Oliver, 1983, p. 55).

Explanation regarding the accounting decisions and suggestions suggest that small businesses mostly rely on an independent Certified Professional Accountants (CPA) and there should be better synchronization between the small firm's procedures and professional standards of the particular CPA firm. Therefore, the extended audit gives not as much of information about new services (Lippitt & Oliver, 1983, p. 55).

The role of the bankers and other short-term creditors is relatively significant because of the inadequate entrance of small businesses to the capital markets. Short-term creditors and bankers regularly need to organize their financial reporting information (Lippitt & Oliver, 1983, p. 55).

Thus from all the aspects explained above it is conclude that an owner of a small business has more knowledge and has more information about the total operating attributes of his/her firm, rationally well-informed about his/her meticulous industry and also small firms would be more instrumental in their approach to management development, but on the other hand less information about financial markets, promising competitive industries, etc., in contrast of the owner of a large business. Lippitt and Oliver have separated similarities between small and big business reporting needs into two main categories namely: internal and external, which is environmental (Lippitt & Oliver, 1983, p. 55).

3.2.3.2. Similarities between Small and Big Business Reporting Needs

Lippitt and Oliver have separated similarities between small and big business reporting needs into two main categories namely: internal and external, which is environmental (Lippitt & Oliver, 1983, p. 55).

The internal business processes of almost all firms are quite similar and they try to perform well in different functional areas (production, marketing, finance, accounting, management, etc.) in order to achieve their strategic objectives and for their survival. Size of the firm may have some impact on the processes, but have no impact on the purpose or requisite of these processes. All internal information which is required for decision making process and inventory control process is quite similar in all firms. Thus the primary data bases of all firms are very much the same in all firms. All accounting data which is necessary for financial reporting and summary of transactions with other entities are quite similar in both small and big business. One more similarity between small and big business reporting needs is reasonable rate of return on their capital investment. The investors in big businesses and the investors in small firms are just as interested in earning and for earning reasonable rate of return are essential. Small business would not manage their processes and not operate for long if return on their capital invested is not according to their expectation (Lippitt & Oliver, 1983, p. 55, 56).

On the other hand, there are also many external similarities between small and large firms. Firstly, in both cases financial statements are the primary source of financial information for external users. Another harmony in both firms is the legal status of the business unit. According to law rights and obligations of any firm are determined on behalf of its form, not on the basis of its size but with few exceptions, partnerships are partnerships and corporations are corporations. All firms, apart from size, must follow regulations of the Internal Revenue Code. It has been explained in a study that, small and large firms may adopt quite similar processes to produce financial information (Lippitt & Oliver, 1983, p. 56).

3.2.4. Users of SMEs Financial Statements

In the article “New Directions of Financial Reporting within Global Accounting Standards for small and Medium-sized Entities” by Lugnu, Caraiani and Dascalu, the authors identify the main users of financial statements. It include investors, lenders, suppliers and other trade creditors, employees, customers, government (and their agencies) and the public. Although the users of small enterprises are somehow different from these users; the banks, directors (or owner-managers and non-manager-owners) and tax authorities are the main users of financial statement in small entities. According to a recent study, venture capitalists are new users of SMEs' financial statement (Lungu, Caraiani, & Dascalu, 2007, p. 2).

The author suggests how different users of SMEs financial statement can improve and enhance their operating activities from these financial statements. Firstly, the banks use SMEs financial statements to determine ability to pay back and to gauge profitability, security and liquidity. According to Robin Jarvis, these reports are very useful for banks in making lending decisions and for monitoring the loan agreements. Secondly, Owners employ financial reports to determine remuneration awards and dividend payouts, to examine performance, capital expenditure, budgeting, planning for loans and financing. They use the financial reports of SMEs for planning, control and decision making (Jarvis, 2003, p. 80). Thirdly, tax authorities are also the key users of SMEs accounts. They use SMEs financial statements to calculate total gross profit, directors' fees, tax provisions, total expenses and to ensure that these expenses are reasonable and also confirm clean audit report (Lungu, Caraiani, & Dascalu, 2007, p. 2-3).

The needs of SMEs accounts users diverge from user needs in large companies. For example, the ability to generate positive cash flows, and profitability and liquidity is more important and relevant than the value of the firms at any point in time (Riistama & Vehmmanen, 2004). In another study it has been argued that differential reporting rules play a very important role for listed and non-listed companies. For example, a research conducted in Australia, questioning practitioners; recommends that 97% of those who were questioned, supported the need for differential reporting (Holmes, Kent, & Downey, 1991, p. 128)

The statutory accounts were not useful for decision making because owner-managers do not have appropriate understanding about the contents of statutory accounts. They prefer management accounts and a cash flow forecast for decision making and consider that the statutory accounts are of no practical use (John & Healeas, 2000). Others suggest that financial statements of larger companies reproduce more difficult transactions and extremely comprehensive data, and this data are used by a larger number of users, and for a broad set of decisions, than SMEs accounts, which entails that more extensive disclosures are appropriate (Harvey & Walton, 1996).

3.2.5. Costs and Benefits of International Standards for SMEs

Small and medium-sized enterprises have a lot of costs and benefits associated with financial reporting. The costs primarily rely on the preparation of the financial statements. The cost of producing financial statement usually depends upon the size of the enterprise, that is, costs are proportionally higher for small companies (Harvey & Walton, 1996). The benefits are linked with the monitoring and decision making of the financial statements. The enterprises and users receive high benefits if monitoring and decision making of the financial statement is done in effective and efficient way. If the benefits are more than the costs it means rules and regulations related to financial reporting are imposed idyllically (Jarvis & Collis, 2003, p. 5).

The regulators, especially governments, have laid more emphasis on the costs related to financial statement and do not take into account the benefits. For example, in various countries, the audit of financial statements of SMEs is considered as undue burden on small business due to the cost. Any benefits associated with the audit have been disrespected. That's why, in several countries, small businesses are totally exempt from statutory audit. However, research conducted in the UK, proves that statutory audit of the financial statement of small businesses provides huge benefits for both owner-manager and users. Therefore, a large number of owner-managers of small companies would prefer statutory audit even though there was no legal requirement to do so and they clearly differentiate that the benefits of the audit is higher than the costs. The benefits are not always apparent or measureable; it is particularly emphasis on the number and diversity of users, the satisfaction of their information needs, reliability, truthfulness and timeliness of the information (Collis, Jarvis and Skerratt, 2001, p 41-42).

The benefits of the IFRS for SMEs comprise better access to capital; financial institutions, creditors and venture capitalists financing across borders can manage their capital in easier way. The IFRS for SMEs presents a regular beginning of accounting for entities that control in more than one jurisdiction and in that way reporting costs will automatically be decreased. Moreover, the quality of financial reporting will also increase with the help of international accounting standards. The maintaining costs of standards on a national basis are also reduced and very supportive for those growing businesses that are getting ready to go into public capital markets, where application of full IFRSs is required (IASB publishes IFRS for SMEs, 2009).

3.3 IFRS for SMEs:

3.3.1. Overview

Globalization, especially the economic globalization is now a days an unquestionable reality and has great demand for the cultural situation, socioeconomic and human condition of the entities. The SMEs have been of central importance both in the process of globalization and in strengthening worldwide economy, thus the accounting information presented by SMEs is also very important. We must know about the associated and concerned aspects of SMEs which are its users, its comparability and the harmonization of information. For this purpose we are not ignorant of the role of those who act in this show (i.e. developers of standards). In this context, International Financial Reporting Standard for Small And Medium-sized entities was issued in July 2009. IFRS for SMEs may represent a considerable step towards global convergence of financial reporting practices by SMEs. It will help to improve the quality and comparability of SME financial statements all over the world and would be helpful for SMEs in gaining access to finance (Neag, Masca & Pascan, 2009, p. 1).

It was in 2001, when IASB formally started to develop accounting standards for the suitability of SMEs while keeping the emerging economies in focus. A discussion paper was designed for this purpose in 2004 with the title of Preliminary Views on Accounting Standards for Small and Medium-sized Entities and for this discussion paper comments were invited from around the world. Emphasis and proposal were directed to the core elements of accounting standards which are recognition, measurement, presentation and disclosure of financial information in financial reports. The first exposure draft of IFRS for SMEs was published by IASB in February 2007 with the aim to provide uncomplicated and easy to understand set of accounting principles for unlisted companies based on full IFRS. Based on this exposure draft field tests were conducted by IASB on a sample of 116 small firms from 20 different countries. On the basis of comments and reviews on exposure draft, and from the results of field tests the job for IASB was eased up in further enhancing and simplifying the accounting standards for SMEs, and finally launching the official and final version of IFRS for SMEs on 9th July, 2009 (IASB, 2009, p. 6-12). The IASB previously considered, in principle, full IFRSs as appropriate for all entities, but acknowledged at the same time the different user needs and cost consideration for SMEs. The IASB decided that its mission would permit it to extend its focus also to SMEs (IASB, 2004, pp. 14-15).

IASB along with IFRS for SMEs also released an implementation guide for the understanding of its users. This implementation guide explains the standards much more in detail along with examples in terms of financial statements and disclosure checklist. IASB developed IFRS for SMEs by taking into consideration the cost-benefit analyses of these standards to the applying firms. Criteria like recognition, measurement and accounting treatments have been eased up in comparison to the criteria available in full-IFRS. Topics concerning disclosure issues have been relaxed in IFRS for SMEs and irrelevant topics have been omitted (Fitzpatrick & Frank, 2009, p. 50). IASB did not held itself back from making these standards even more compatible and easy for the end users; and is working on the launch of its training material for IFRS for SMEs. A total of 35 modules will be developed in the training module, and out of which 17 modules have been released to the public. These modules will are subject to be reviewed by different multi-levels peers (IASC Foundation Education, 2009, p. 1).

3.3.2. IFRS for SMEs and National/local accounting standards

IASB, in their publication of IFRS for SMEs define the SMEs as those entities which are not publicly accountable and thus publish financial reports with general purpose for the external users. External users in this context refer to the non-managerial owners, existing and prospective creditors and credit-rating agencies. IFRS for SMEs is a broad, complete and comprehensive set of standards and includes almost all important assistances and regulations provided by the full IFRS. For example, it explains those features and qualities that are necessitated for IFRS-complying financial reporting (reliability, understandability, etc.), the components of financial statements (incomes, expenses, assets, liabilities, etc.), the required smallest heading in the required full set of financial statements, the authorization for proportional reporting etc (Epstein & Jermakowicz, 2010, p 37).

The mystery related to IFRS for SMEs are the problems associated with the technicality of transition from locally adopted GAAP to IFRS for SMEs. As SMEs are unlisted companies, new ways of inventing financial instruments for these unlisted companies are devised by the financial market. These instruments should provide SMEs with long-term financing, which can be refinanced in the market without any formal listing on the stock exchange. The probability is that in the near future such instruments will be made available for the situations in which capital markets seek investment opportunities and unlisted firms in Europe offer such opportunities. In situations like this unlisted firms would be required to present financial reports in accordance to IFRS stating and communicating the financial and economic stability of a firm to attract the prospective investors of the capital market (Epstein & Jermakowicz, 2010, p. 37-38).

For successful transition from local GAAP to IFRS, a relationship needs to be developed between audit procedures and management assertions. Audit objectives can be derived from the IAS statements itself which can serve to be a reasonable starting point of the transition process. The detailed regulations included in the IAS statements are regarded as the audit procedures. These audit procedures and the process of auditing involves certain types of risks; audit risk and inherent risk are the ones which affect the transition process (Wittsiepe, 2008, p. 62). Audit risk refers to the inappropriateness of opinion given by the auditor in his report about the compliance of a company's financial statements in accordance to the standards set out in IFRS. Audit risk arises can be further broken down into two segments of different consequences and they are: the risk that misstatements might be there in the financial statements and the risk that auditor will not be able to determine such risk of misstatements by the use of extensive audit procedures (Gray & Manson, 2008, p. 173). Inherent risk refers to the risk is which is associated with the characteristics of an event, transaction or account balance, and are affected as a result of the environment in which the business operates. What a business environment constitutes of are: general market conditions, existing or new governmental laws and regulations, and the industry trends are some of them, and cannot be controlled by the management (Gray & Manson, 2008, p. 190-191).

In all EU countries, SMEs and unlisted companies use national accounting standards. Roughly all listed companies in Europe have to use IFRS for financial statements and disclosure from 1 January 2005. In Sweden, the problem of SMEs or unlisted companies is that their reporting and disclosures are still open. National accounting standards are divided into two main types: ones that fetch National accounting standards in accordance with IAS/IFRS and the other that brings completely independent standards for their companies. Australia, New Zealand, Japan, Canada, United Kingdom, France, United States and Germany are using independent National Standards for unlisted companies. EU Members countries (27 countries) have National Accounting standards and Company Law, Some countries have Accounting Act (or Law) but some countries are regulating accounting issue through Company Law. There is lack of country-specific textbooks, guidance, training materials and software for implementing national standards and also developing national standards is very costly. The comparability within a country is decreased due to this problem because different requirements are interpreted differently (Pacter, 2004, p 118).

Comparison of IFRS for SMEs and U.S. GAAP shows that IFRS for SMEs are much simpler than the standards provided in U.S. GAAP in terms of: the requirements for the accounting of financial instruments have fewer categories and there are less restrictive requirements to qualify for hedge accounting; intangibles and goodwill are amortized over their useful life, and impairment tests are required only when there are indications of it; there are limited specific industry revenue recognition guidance in IFRS for SMEs, while US GAAP presents detailed guidance on different industry sectors; impairment models does not change for assets held for sale and remain the same as they are for long-term assets under IFRS for SMEs; IFRS for SMEs have fewer disclosure requirements as compared to US GAAP and are less detailed; IFRS for SMEs does not provide any guidance related to the classification of financial instruments as debt or equity (Munter, Anderson & Mellentine, 2009, p. 5).

3.3.3. Financial Statements Users

IASB realized the fact that IFRS for listed companies is not enough to serve the global purpose of accounting standards, and there is a great demand of global standards for the small and medium-sized entities, which outnumber the listed companies with huge margin. The reasons because of which global standards for SMEs were needed are that: around half of the SMEs have bank loans, and bankers for their lending decisions regarding loan terms and interest rates rely on financial statements; vendors need financial reports in order transact on credit with buyers from different countries; financial reports are important for an entity's rating by the credit rating agencies and banks; financial reports of suppliers are used by SMEs in assessing the prospects of business relationship for long-term; financial reports needed by the venture capital firms in order to provide SMEs across the border with funds; financial reports are required by outside investors who are not directly involved in the daily operations of the management (IASC Foundation Education, 2009, p. 1-2).

Mostly users of SMEs financial reports are interested in information regarding the firm's short-term cash flows, financial position and performance of the firm in prior years, interest coverage, and trends of profit and loss in prior years. SMEs financial statements users unlike the listed companies' financial statements users do not look for the company's cash flows in long-term, profit or loss and value of the firm in long run (IASC Foundation Education, 2009, p. 2). Keeping in mind the needs and requirements of the users of financial reports of SMEs, IFRS for SMEs has been developed with much more simple rules and options as compared to the full-IFRS. Some of the examples related to the simplicity of options in IFRS for SMEs are: in IFRS for SMEs provisions regarding investment property allow the firm to opt for either fair value method if the value of the investment property can be measured reliably without any extra expenditure, or else the firm should consider the cost method for its measurement. For the measurement of amortization and impairments of property, plant and equipment along with intangibles, the cost-amortization-impairment model method should be used as per IFRS for SMEs, while the use of revaluation model is not allowed. IFRS for SMEs require immediate expensing by the firms regarding its borrowing costs, unlike the capitalization model used in full-IFRS for borrowing costs. As per the standards of IFRS for SMEs, those entities which are jointly controlled are not allowed to be consolidated under these standards; rather they should be consolidated under full-IFRS. Firms adopting IFRS for SMEs are required to expense both the research and development cost as they are incurred; while firms employing full-IFRS expense the research costs and capitalize the development costs (Epstein & Jermakowicz, 2010, p. 38).

3.3.4. An inside look into IFRS for SMEs

In IFRS for SMEs the disclosure requirements have been relaxed as compared to those required in full-IFRS. Supplemental disclosures are mostly required by key stakeholders like banks and other financial institutions. In terms of maintenance of IFRS for SMEs, IASB has decided that it will update the standards of IFRS for SMEs approximately once in a time period of every three years (Epstein & Jermakowicz, 2010, p. 38). A parent company or a consolidated group that uses full IFRS standards, then the subsidiary of such a group is not allowed to make use of the simplified disclosure requirements given in IFRS for SMEs. If the recognition and measurement principle of IFRS for SMEs followed by the subsidiary firm are different from those accounting procedures for recognition and measurement which are being used by the parent company, then the subsidiary firm should follow its parent company's opted standards. Firms, whose financial statements are constructed in compliance with IFRS for SMEs, should confirm with all the provisions of IFRS for SMEs (IASC Foundation Education, 2009, p. 13).

IASB has not defined any specific criteria in IFRS for SMEs regarding the criteria of quantified size, in order to determine that which firms can be considered as small or medium-sized entities, as it is quite complicated to define such criteria irrespective of the differences among countries. National jurisdictions itself should determine the quantifiable criteria for categorizing small and medium-sized entities. Jurisdictions in a country should also decide upon which economically significant entities of a country should use full-IFRS instead of IFRS for SMEs. General purpose financial statements are prepared by the IFRS for SMEs complying firms, which does not have any public accountability on voluntary basis. These general purpose statements are designed to provide meaningful information to a variety of wide range users, who are not supposed to demand any kind of tailored information meeting any specific defined needs of users (IASC Foundation Education, 2009, p. 6-7).

The 'statement of changes in equity', in fact the relationship on reserves note, should be presented significantly if there are transactions with owners other than payment of dividends. The prospect property revaluations are not permitted, but the existing assessment can be used as an opening estimated cost. Deferred tax rules are not defined properly, and are very problematic to apply, but the tax provision will be much the same for most companies. A fair value method of valuation is used for a higher number of financial instruments, for example derivatives and various loans with prepayment options, however majority of entities will still be using cost-based measurements (Sleigh-Johnson & Shearer, 2009, p 65).

3.3.5. IFRS and IFRS for SMEs

The IFRS for SME standards are generally based on the full-IFRS principles and framework. IASB has omitted certain topics or standards which are not relevant in financial reporting of SMEs', and in a way reducing both the number of standards and their complexities. The topics which have been omitted in IFRS for SMEs are: earnings per share as it is only required by the publicly accountable entities; interim financial reporting and segmental reporting have been skipped for SMEs; those assets which are termed as held-for-sale are treated in the same manner as other long-term assets for measuring their impairment and presentation (Munter, Anderson & Mellentine, 2009, p. 4). The needs of external users such as lenders, vendors and tax authorities etc have been ignored in the accounting standards for SMEs in many countries. In countries especially in small and developing countries these standards create problems in small companies' access to capital and also raised the cost of capital. The quality of implementation is often problematic in small companies which are bound by law to use full IFRS (Pacter, 2004, p 118 & 119).

There are many similarities between IFRS and IFRS for SMEs. For example, a solitary statement of comprehensive income can be presented, with profit or loss being the transitional step in the beginning of the period's comprehensive income or loss, or on the other hand a separate statement of income can be displayed, with profit or loss (the "bottom line" in that statement) then being the opening item in the separate statement of comprehensive income. The need to consolidate special-purpose entities that are controlled by the reporting entity, also exist under IFRS for SMEs (Epstein & Jermakowicz, 2010, p. 37). Some topic such as, general price level-adjusted reporting in a hyperinflationary environment; fair value calculations for stock options and agricultural assets; extractive industries; interim reporting; lesser accounting for finance leases; recoverable amount of goodwill; earnings per share and segment reporting; and insurance contracts are in full IFRS but omitted from the IFRS for SMEs (Epstein & Jermakowicz, 2010, p. 37).

The training modules provided by the IASB for the understanding and adoptability of IFRS for SMEs, overviews different handling procedures for specific heads according to full-IFRS and IFRS for SMEs. Non-current Assets which are held for sale, does not require any special classification under IFRS for SMEs, only assessment of impairments needs to be carried out; while under full-IFRS, non-current assets held for sale are measured at a lower of fair value and carrying amount less selling costs. Defined service cost of pension plans are immediately recognized in profit and loss statement under IFRS for SMEs; while under full-IFRS it is determined as an expense on the basis of straight-line method over an average period. IFRS for SMEs recognizes exchange differences on a monetary item, which are in the form of investment in foreign operations, as a part of other comprehensive income and is not classified in the profit and loss on its disposal; while full-IFRS reclassifies such an investment in profit and loss on its disposal. Borrowing costs are classified as an expense under IFRS for SMEs, while under full-IFRS the borrowing costs which are directly attributable to an asset are capitalized. Investments in associates and investments in jointly controlled associates, which has got published price, must be measured through profit and loss at fair value under IFRS for SMEs; while in full-IFRS investment in associates are measured with the use of equity method. Firms using IFRS for SMEs must measure the investment property at a fair value through profit and loss, if it's fair value can be measured reliably without any extra expenditure; while under full-IFRS firms have got the option to exercise either fair value model or cost-depreciation-impairment model for measuring the value of investment property. Biological assets under IFRS for SMEs should be measured at fair value if and only if its fair value is readily available; while under full-IFRS agricultural assets should be measured at fair value as it can be reliably measured. For the treatment of income taxes under IFRS for SMEs, as different rates are applied to distributed income, therefore current and deferred taxes for the undistributed profits should be measured first (IASC Foundation Education, 2009, p. 14).

3.3.6. Factors of Consideration in the Shift towards IFRS for SMEs

Before a firm can start using the IFRS for SMEs for preparing its financial statements, the management of the firm might consider evaluating its feasibility in terms of certain factors which might be necessary a firms' long-term success. The willingness of the key users' of these financial statements need to be taken into consideration at first place, along with the appropriateness of timing during which conversion from local GAAP to IFRS for SMEs will be made. The type of training which will be suitable for the personnel of an adopting organization needs to be evaluated prior to the adoption. All the related information and key aspects regarding the conversion process, and the scope of conversion on the basis of geographical or entity based should be evaluated. Internal controls should be assessed in terms of how much the new control or the modified controls can affect the effectiveness of internal controls. Communication plans should be devised in a way that it minimizes the surprised shocks of coming across something totally new information by the investors, creditors, customers and suppliers. Renegotiations should be conducted for the current contracts regarding the debt agreements and covenants to reference IFRS for SMEs instead of local GAAP, and its potential impact on the financial information in these contracts and covenants (Munter, Anderson & Mellentine, 2009, p. 2).

IFRS for SMEs are too complex for micro-entities because the small businesses do not need complicated accounting and reporting regulations and many requirements will also not be applicable for this type of business model entities. They are a small part of SMEs; international institutions (except the European Union) do not distinguish the existence of micro-entities as a separate group of SMEs. These entities may have the opportunity to organize the financial statements if the users of the financial information require them (Neag, Masca & Pascan, 2009, p 5-7).

Different countries have different tax legislations and laws, and the preparation of financial reports in accordance with the IFRS for SMEs might differ from what the tax authorities require. SMEs incorporating IFRS for SMEs might not fully comply with what has been required of them by the specific country's tax authority. These SMEs in order to satiate the needs of tax authorities might prepare two different set of statements, one of which should comply with IFRS for SMEs and the other one complying with the tax authority requirements. The dependency of manipulation or change in the tax laws lies with the national tax authorities and these changes might be exercised only if they are in the best interest of both the nations' economy and the SMEs (IASB, 2009, p. 7-8).

In Sweden, the Swedish GAAP, which is based on laws of Swedish Annual Accounts Act and Book-keeping Acts, and standards of RRs and BFN, provide the regulations for the interpretations along with the guidelines. For listed-companies in Sweden, full-IFRS has been made mandatory by the European Commission. But for unlisted companies, the Swedish GAAP provides the firms with the rules, regulations and guidelines set out by Bokföringnämnden (BFN), which is the Swedish Accounting Standard, and Redovisningsrådet (RR), which is the Financial Reporting Council. The selection of standards out of either BFN or RR is dependent upon the company's choice, although RRs standards are no more updated. All the companies in Sweden irrespective of their size and accountability have to comply with the Swedish Book-keeping Act (Bokföringslag) and Annual Accounting Act (Årsredovisningslag). After the compliance with these two acts, then the companies in Sweden are further divided upon their size and accountability, and based on it they are bound to comply with specific set of accounting standards (Göransson, 2008, p. 50-51). The Swedish Accounting Standards Board started its work on a national level project named K-project in 2004 for companies in Sweden. This project comprises of four categories where: K1 comprises of private manufacturers and partnerships; K2 comprises of private small joint-stock entities; K3 group comprises of all the private large firms; and the listed companies are grouped under the K4 group (Bokföringsnämnden, 2008).

3.4 Theoretical Framework

Theoretical framework has been summarized from what was stated in the literature or the theories. On the basis of this theoretical framework, we will be developing our interview guide, which will be used in conducting the interviews. Analysis will be made on the empirical findings by comparing the results from empirical finding with what was mentioned in the theoretical framework.

As seen in the literature, IFRS for SMEs is an up-to-date global set of accounting standards which will enhance the quality of financial statements and will bring comparability to them. In most of the European countries, national accounting standards are followed by SMEs (Pacter, 2004). In case of Sweden SMEs have to follow the Swedish GAAP which is developed from the principles and guidelines provided by Bokföringsnamnden. Currently, accounting standards in Sweden are going through further development and enhancement change, and the regulations are working on the K-project. This project has four different categories as per the size and type of the companies (Bokföringsnamnden). IFRS for SMEs is described as a set of broad, comprehensive and complete standards which includes and derives many principles and regulations from full-IFRS, and are applicable only to SMEs. IFRS for SMEs as being mostly to be derived from full-IFRS will have the characteristics of reliability, quality, understandability and above all comparability (Epstein & Jermakowicz, 2010).

Theory suggests that IFRS for SMEs will bring quality and comparability to the financial reporting of SMEs, which will make the financial information, presented in it more reliable and could be compared across the countries globally. Financial statements of good quality and comparability will give the SMEs the opportunity of gaining access to finances from different sources (Neag, Masca & Pascan, 2009). Comparability as per local accounting standards is limited because different requirements and standards are interpreted differently (Pacter, 2004). There has been much ongoing debate in the market regarding a set of accounting standards which is globally used by SMEs around the world as per certain criterion of size defined. The feedback and opinions of SMEs from around the world were gathered by IASB in 2004, and the results stated that most of the SMEs are looking forward to have a global set of accounting standards for SMEs. It was due to this fact that IASB officially started to work on the formulation of IFRS for SMEs (IASB, 2009).

As per the theory stated above, the main users of financial statements of SMEs are banks, vendors, credit rating agencies, lenders, suppliers, venture capital firms, investors, owners, tax-authorities, and government agencies (Pacter, 2004; IASC

Foundation Education, 2009; Neag, Masca & Pascan, 2009; Lippitt & Oliver, 1983). The users of SMEs are mostly interested in the general financial information about the firm, and do not want any specifically tailored information as per their demands (IASC Foundation Education, 2009). The users of financial statements of SMEs are mostly concerned with the financial position, financial performance and the changes in financial position on which their economic decisions are based (Epstein & Jermakowicz, 2010). Different accounting standards make it difficult for the users to understand and compare different financial reports (IASC Foundation Education, 2009). The users of financial statements of SMEs differ from that of the users of financial statements of public listed companies or large businesses due to their different needs and requirements (Lippitt & Oliver, 1983).

It has been stated in the theory that IFRS for SMEs other than being of high quality, harmonized and comparable by its users, its adoption by SMEs can increase market efficiency and decrease the cost of raising capital (Mirza, Holt & Orrell, 2008). The benefits of financial reporting as per IFRS for SMEs cannot be restricted only to the benefits achieved by the providers of debt and equity capital; other entities like the ones who seek to generate capital from the market benefit from it in terms of reduction in their compliance cost and lower the uncertainties which affect the cost of capital (IASC Foundation Education, 2009). Cost of capital will be lowered as a result of positive reaction of investors in European firms towards the adoption of IFRS and it would result in high quality financial reports (Armstrong, Barth, Jagolinzer & Riedl, 2008). The rate of return on capital investment is of much importance to both the small and big business entities as they manage their processes and operations according to the rate of capital invested (Lippitt & Oliver, 1983). Owners employ financial reports to examine capital expenditure, budgeting, planning for loans and financing, and they use the financial reports of SMEs for planning, control and decision making (Jarvis, 2003, p. 80). In order to attract the prospective investors of the capital market a firm needs to produce financial statements according to IFRS for SMEs which gives and communicates the financial and economic stability of a firm (Epstein & Jermakowicz, 2010).

Theory suggests that IFRS for SMEs is based on accrual basis of accounting and the going concern of an entity, which are the two basic underlying assumptions for proper presentation of financial statements (Mirza, Holt & Orrell, 2008). The transition of SMEs towards IFRS for SMEs will make their financial statements global, understandable and transparent (Aras & Crowther, 2008). The standards in IFRS for SMEs have been designed on certain specific criteria set out in terms of reliability, understandability, relevance and comparability, and these are the characteristics which the European Commission looks into before approving these standards (Armstrong, Barth, Jagolinzer & Riedl, 2008).

Theory states that the adoption of IFRS will cost the companies both time and resources, and these costs would be more than what would have been expected (Street and Jr. Needles, 2009). The transition would be cumbersome for many companies as they would face a lot of risks and would need to outsource much of their work and hire the services of auditors and experts, which would be an extra cost for them. The transition cost would be less in those countries which are already following a set of harmonized accounting standards, but would be higher for those countries where no such accounting standards are followed (Taylor, 2009). Investors in European firms would react negatively to the adoption of IFRS for SMEs because of the regional differences in the economies, perception of investors that these standards might lower the quality of reports locally, and the fear of the investors that the implementation and transition costs associated with IFRS would be much higher than the benefits to be acquired (Armstrong, Barth, Jagolinzer & Riedl, 2008). The costs and benefits of producing financial statements vary as per the size and type of the company, which means that costs will be higher for the small-sized companies (Harvey & Walton, 1996). IASB states that they have produced and designed IFRS for SMEs by keeping the cost-benefit analyses of these standards in consideration (IASC Foundation Education, 2009).

From the benefits perspective, theory states that financial reports prepared in accordance to IFRS for SMEs would be the generation of high quality financial reports. But the initial transition costs would be so much higher that it would be negligible to identify the benefits, as it has been found by Taylor in his comparison of value creation and standards setting costs (Taylor, 2009). It is believed that users and enterprises would generate high benefits if their monitoring and decision making on the basis of financial statements has been done in an effective and efficient way (Jarvis & Collis, 2003).

Theory suggests that when companies make their financial statements in accordance to IFRS, it brings with itself the quality and characteristic of Corporate Social Responsibility (CSR). Thus the way in which financial information is presented to the shareholders, users and others in the society is a type of CSR. Companies should voluntarily feel the need for the inclusion of CSR characteristics in their financial reporting but the issues which companies face while doing so is the balancing of needs and expectations of the firms and shareholders, sustainability issues and ways of reporting, and lastly justification of the activities which might be more socially responsible (Aras & Crowther, 2008).

Theory states that due to the complexities of events and transactions, and applying the most appropriate accounting treatment as per the standards in IFRS would require an accountant to have the knowledge of both business and economics. The technicalities of standards and their application in a discreet way also require the accountant to have knowledge and understanding of the ethical and legal issues and aspects (Aras & Crowther, 2008). From the legal perspective, rules-based standards are preferred by accountants over principles-based standards, as they don’t have to make judgments of their own when there are unable to find clearer rules mentioned in the accounting standards to be followed (Shortridge & Myring, 2004).

As per theory, the principals (owners/managers) in small businesses are more active in management and they closely involved in the management, thus have more rights to use internal information than in large businesses, which also lead to small business managers less dependent upon formal financial statements (Lippitt & Oliver, 1983). Banks use SMEs financial statements to find out their capacity to pay back and to determine profitability, security and liquidity. As per Robin Jarvis, for banks these financial reports are very useful in making their lending decisions and for monitoring the loan agreements (Jarvis, 2003). Many SMEs have acquired or try to acquire bank loans and for this purpose bankers rely on financial statements in order to decide the loan agreement terms and the interest rate to be charged (IASC Foundation Education, 2009).

Theory states that tax authorities are one of the main users of financial statements of SMEs. Tax authorities use the information from financial statements to calculate total gross profit, directors' fees, tax provisions, total expenses and to ensure that these expenses are accurate (Lungu, Caraiani, & Dascalu, 2007). In many countries, there are different tax legislations and laws, and financial statements prepared in accordance to IFRS for SMEs might not comply with these tax laws. In such circumstance, companies which will adopt IFRS for SMEs have to prepare two different financial reports, one of them complying with IFRS for SMEs and the other satisfying the requirements of tax authorities. Changes in the tax laws can be only enacted by the national tax authorities and these changes might be exercised only if they are in the best interest of both the nations' economy and the SMEs (IASB, 2009).

Chapter 4: Empirical Findings

Our empirical findings are based on the interviews which were selected as the most appropriate method of qualitative nature of this study. Eleven interviews were conducted with the purpose to acquire the opinions and feedback of the SMEs and their accountants in the real market regarding their perceptions and practical approach towards their preparedness to adopt IFRS for SMEs. All the interviews were conducted face-to-face with the respondents as per their permission and convenience.

This chapter has been divided into three sections. The first section will be about the brief profiles of the respondents, their companies and work-experience. The second section will be about the opinions of SMEs, their accountants and the audit firms which provide services to these SMEs. In the last section, the views of experts regarding this topic would be presented.

4.1. Interviewees' Profiles

Henrik Bergdahl is the Chief Financial Officer (CFO) of Umeå Biotech Incubator (UBI) and works part-time. Other than that Henrik runs his own accountancy firm, which provides accounting services to the small-sized firms. UBI deals in ManTech businesses and helps the smaller companies getting started by providing them both infrastructure and economic support. UBI also provides support to university students in their research projects and provide them with high-tech lab facilities. There are seven employees working in UBI, with annual turnover of 15 to 16 million Swedish Kronor and balance-sheet total of 15 million Swedish Kronor.

Anonym is a Chartered Accountant working for Company X for almost 25 years. Anonym currently provides his services to around eighty SMEs in Umeå. Most of those SMEs are of micro-level.

Anders Rinzen is an Authorized Public Accountant and partner in Deloitte. Anders has been working in Deloitte for last 20 years. Anders works with SMEs located in the Northern region of Sweden and provides them with different kind of accounting and consultancy services.

Carl Rehnberg is an Investment Director and Head of Norrland Division in Armarium. Armarium works as a privately owned finance company which provides services in both equity sector and corporate finance sector. Armarium works with those SMEs which have grown large in size and are getting prepared to be listed on the stock exchange. Armarium also deals with both public and non-public funding in the form of Initial Public Offerings (IPOs).

Johan Pettersson is an auditor in Ernst & Young (E&Y) and has been working in E&Y for last 2 years. During his work Johan also works as an assistant to the qualified auditors in E&Y, and works with book-keeping.

Maria Larsson is a Controller in Uminova Innovation, and has been working for the company for last 3 and half years. Maria was an auditor at PriceWaterHouseCoopers (PWC), before she joined Uminova Innovation as a controller. There are seventeen employees working in Uminova Innovation, with annual turnover of 29 million Swedish Kronor and balance-sheet total of 19 million of Swedish Kronor.

Kjell Hedström is a Controller in VITEC. VITEC works as a computer software and program development company. VITEC makes software for different kind of companies like real-estate companies, brokerage firms, power companies, newspapers, media companies, and yellow pages etcetera. There are around 200 employees working in VITEC. The annual turnover of VITEC is 200 million Swedish Kronor, and the balance-sheet total is 250 million Swedish Kronor.

Gunika Klingstedt is an accountant in Oryx Simulations AB. This company works in physical simulation products for example simulators for the forest industry, heavy machinery and harbor machinery etcetera. Recently, Oryx Simulations AB has initiated the medical simulation project where practice operations are carried out with simulators. There are 25 employees working for Oryx Simulations AB. The balance-sheet total of the company is 14 million Swedish Kronor.

Anders Mårdell is an Authorized Public Accountant in Ernst & Young (E&Y), and has been working in E&Y for almost 35 years and was partner in E&Y for 20 years. Anders now works part-time in E&Y, and has been auditor with E&Y through-out his career.

Stefan Sundgren is a Professor and Head of Accounting department in Umeå University, and has been teaching International Financial Reporting Standards for almost 10 years. Stefan is also co-author of a book which is about international accounting standards, which has given him the command and expertise over IFRS. Stefan is also a member of group which is responsible for the Certified Professional Accountants (CPA) examination, reviewing and writing the questions for it in Sweden.

Stellan Nilsson is an Assistant Professor in Umeå University teaching Financial Accounting as the main subject and has been working in Umeå University since 1990. Stellan has worked as a tax auditor, CFO of regional tax department and as Controller for a company in Stockholm.

Table 4.1: Groups of Interviewees

SMEs	Auditors	Experts
Henrik Bergdahl	Anonym	Stefan Sundgren
Carl Rehnberg	Anders Rinzen	Stellan Nilsson
Maria Larsson	Johan Pettersson	
Kjell Hedström	Anders Mårdell	
Gunika Klingstedt		

4.2. What the SMEs had to say:

4.2.1. IFRS for SMEs vs. Swedish GAAP

In reply to the first question which was regarding the type of accounting standards followed by SMEs in Sweden, Henrik Bergdahl said that Swedish GAAP is being used by SMEs in Sweden, and it has been in the use for long-time. The rules and principles of Swedish GAAP have been designed over years, and have been in-use by the companies in Sweden with the know-how of using it. According to Anonym, SMEs in Sweden use Swedish GAAP, which can be somewhat considered as to be similar to that of IFRS, as most of the principles in both the accounting standards are similar. As per Anders Rinzen, mostly companies in Sweden follow the Swedish GAAP, even if the company is part of an international group and is operating in Sweden; it is statutorily bound by the Swedish regulators to prepare financial statements in accordance to Swedish GAAP. Although its mother company would be using IFRS for its consolidated reporting, but the local regulations needs to be followed by the subsidiaries. Carl Rehnberg's reply was not different from others and his reply was that it is the Swedish GAAP which is being followed by the SMEs in Sweden, and soon regulations would be passed to exempt the micro level companies from the use of any accounting standards in their financial statements.

According to Johan Pettersson, almost all the SMEs in Sweden follow the lowest-level rules of Bokföringsnämnden (BFN) and if there are certain rules missing in them then the companies take guidance from Redovisningrådet. Thus, Bökforingsnamnden is mostly used by the micro and small-level firms, while Redovisningsrådet is used by Medium-sized firms. Swedish GAAP is a bit more complicated in a way that they take recommendations from different communities. Maria Larsson's in reply to the question said that SMEs in Sweden follow the Swedish law, Swedish accounting standards and instructions from Bökforingsnamnden and Redovisningsrådet. As per Kjell Hedström, his company although being a medium-sized public company but not yet listed on Stockholm OMX stock exchange, uses IFRS as their accounting standards since 2005. As the company is not listed on stock exchange, so it has got the option to either use IFRS or not to use it. Gunika Klingstedt said that mostly SMEs in Sweden use Swedish GAAP as an accounting standard, but Oryx Simulators uses IFRS as their accounting system. According to Anders Mårdell, Accounting standards in Sweden are based on Swedish Laws for annual reports which are the basis for all the standards, as it serves as a framework of accounting standards. Then there is Bökforingsnamnden which provides the guidelines to the companies and these are not any kind of laws. Currently, the regulators in Sweden are working on the accounting standards and have categorized it into K1, K2, K3 and K4. K1 and K2 are for small level companies while K3 is for medium sized companies and K4 is for public listed companies. Companies as per their size have to use any of these K-projects, and have to fully adhere to it. K3 project is very similar to IFRS for SMEs, but it is not yet ready for the use.

In response to the question regarding the companies' opinion regarding the launch of IFRS for SMEs, Henrik replied that there has not been much awareness regarding the launch of IFRS for SMEs, and especially the small companies don't know about it. The big accounting firms and the auditors are the ones who might know about the launch of

IFRS for SMEs, as it is in early stages. According to Anonym, it would be better if SMEs in Sweden follow a set of accounting standards which is being used globally, but cannot be possible in the short-run and the implementation stage would be possible in the long-run. So, the proposal seems to be attractive in general in terms of having a global set of accounting standards for all. But the issues might arise between the compatibility of Swedish laws and IFRS for SMEs standards, as both the bodies might have some differences on the use of certain standards. As per Anders Rinzen, there is not much interest regarding the launch of IFRS for SMEs, and it is still very quiet in Sweden. Other than that there is not yet any detailed guide regarding these standards as per its understanding and use. Carl was of the opinion that IFRS for SMEs is a complex book of accounting standards, and it is too large book for SMEs. Not many SMEs in Sweden would have even thought about it, and there are no signs that IFRS for SMEs will be into practice by SMEs in Sweden. The idea of launching IFRS for SMEs was good but eventually it is too large to be adopted by SMEs, and its implementation and use would require even the smallest companies to have Chief Financial Officer (CFO). This will be an extra cost, which most of the companies cannot carry at all. As per Carl, “The idea was dead in water really before July, 2009”.

In Johan’s opinion, it is interesting because it gives the stakeholders a way of comparing companies not just in Europe but in the whole world. But what matters is the cost and complexities of IFRS for SMEs. Due to this many SMEs in Sweden would be hesitant to apply it into their accounting operations. There are some difficulties in IFRS for SMEs, which needs to be dealt with before it is being applicable in Sweden in accordance to the Swedish laws, for instance, the treatment of untaxed reserves as per the Swedish laws and as per IFRS for SMEs. As Maria did not know much about IFRS for SMEs, she did not want to comment on this question. As per Kjell, he has not got much information about IFRS for SMEs, but about IFRS he stated that a lot of information needs to be produced in the financial statements as per the requirements of IFRS. In terms of accounting IFRS is not much complicated but the complexities arise during the disclosure section. According to Gunika, there are not many differences between the Swedish GAAP and IFRS for SMEs. Anders Mårdell was of the view that there has not been much notice about IFRS for SMEs up till now by the SMEs, accountants and other type of associated companies. It will not be easy for the companies to take IFRS for SMEs into consideration, as the definition of SMEs is spread on two extremes, for one extreme it will be favorable while for the other extreme it will be cumbersome.

When asked regarding their considerations for a set of accounting standards for SMEs which is globally used, Henrik said that as per yet, none of the SMEs with which he has worked, ever considered to have a globally used accounting standards just like IFRS for SMEs. According to Anonym, for the smallest companies there is no need for global harmonization but if they are about 50 employees or more then there is a need for global harmonization and that in the future we will have global accounting rules also for SMEs - but it will take some time. The reason is that IFRS for SMEs requires a lot of information and there are too many standards to understand and apply. The standards are quite complicated and require a lot of disclosures. Thus, neither the SMEs nor the market in Sweden needs anything like IFRS for SMEs right now. Anders Rinzen replied with a No answer and added that the need for a set of accounting standards which is globally used has not been yet considered because from an accounting perspective

Swedish GAAP has got many similar principles, valuation and classification standards and methods just like IFRS. Other than that accounting standards does not serve any purpose for SMEs and it does not really matter to them in their day to day business; as stated by Anders Rinzen, “it will not make them sell more pizzas”.

Carl’s reply regarding his considerations for global accounting standards was that it would have been good to have global accounting standards for SMEs but it should be much simpler than IFRS for SMEs. IFRS for SMEs needs to be made much simpler and shortened than what it is now. The companies which will be using IFRS for SMEs are like customers, and IFRS for SMEs is a product. So if a product is complicated in its use then the customer would be hesitant to buy it. As per Johan, it has never been a question of need to have other accounting standards which can be used globally. Maria’s reply was that the SMEs in Sweden do not want to have any more accounting standards. As per Kjell, he is not sure whether SMEs in Sweden does have any considerations for adopting IFRS for SMEs. As per Gunika, they have already adopted IFRS in their financial reports preparation because they have long term objectives and want to grow global. Anders Mårdell was of the opinion that it will be never possible to have a globalized set of accounting standards which is used globally all over the world. It will be very beneficial and a positive step but it very difficult to see it happen in reality.

When asked about the approach of SMEs in Sweden towards their preparedness to adopt IFRS for SMEs, Henrik replied that at the moment SMEs do not have any such needs for switching to IFRS for SMEs, and they are willing to stick to the existing accounting standards i.e. Swedish GAAP. SMEs will switch to IFRS for SMEs only when they are externally asked for it, for instance, it is being made mandatory by the government or the tax authorities asks for it. Anonym in his reply said that the regulators in Sweden are working on a set of accounting standards which is called the K3 project, and it is specially designed for the SMEs in Sweden. This K3 project is more or less the same as IFRS for SMEs but it is much more according to Swedish tax laws, and is expected to be released in the autumn, 2010. After the release and implementation of K3 by the SMEs in Sweden, it will be easy for the SMEs to switch over to IFRS for SMEs in the near future. According to Anders Rinzen, as per the latest there is not much interest shown by the SMEs in terms of any approach towards the adoption of IFRS for SMEs. Carl’s opinion was that none of the SMEs in Sweden are willing to go for IFRS for SMEs. As per Carl, if 100 SMEs, whose turnover is in between 50 to 100 Million Swedish Kronor, are contacted regarding their transition to IFRS for SMEs; then none of them would not even know that what IFRS for SMEs is all about. The only problem about IFRS for SMEs is that it is too big to be adopted.

Johan in his reply to the question regarding the approach of SMEs towards IFRS for SMEs he said that the companies in Sweden are not yet ready for any kind of change nor they are prepared to adopt IFRS for SMEs. Maria’s reply was that as per now, there are no signs yet of adopting any new set of accounting standards, and as for this company (Uminova Innovation) is concerned they already have Swedish GAAP and they do not require any more standards. According to Kjell, for private companies it is just trouble because it is hard to know all the standards in IFRS for SMEs and the services of external experts would be needed for it use, which will cost them money. In a way it can be a good business for the auditors, as their services will be sought by many private firms in this regard. But for the public companies the use of IFRS is more obvious, as they can recover their costs and get the benefits out of its use. As per Gunika, Swedish companies already have Swedish accounting standards and they don't want to have any new accounting standards. But the adoptability of IFRS for SMEs depends upon the situation and the need of the company. Anders Mårdell's opinion was that the SMEs or their accountants are not yet ready to adopt IFRS for SMEs in their financial reporting. Although, the auditors are aware of the IFRS for SMEs, but the owners, directors and the employees of SMEs are not even aware of IFRS for SMEs.

When asked that which accounting standard out of IFRS for SMEs or Swedish GAAP would be preferred by them, Henrik as a CFO of UBI said that he would prefer those accounting standards which the companies prefer, and it is the Swedish GAAP which the companies would prefer to use because the Swedish GAAP is simpler and companies are used to it. For switching to IFRS for SMEs, would require extra knowledge, which is an extra work and extra work is an extra cost and none of the companies wants extra cost. According to Anonym, if considered on international level then preference would be given to IFRS for SMEs, but that would not be possible to adopt IFRS for SMEs instantly. It will be easy if the SMEs in Sweden are given the opportunity to understand and use IFRS for SMEs in their financial statements while using the Swedish GAAP as their primary accounting standard. This is because a lot of education would be required before the implementation of IFRS for SMEs. Also, it is hard to replace a system which has been developed over a period of 100 years and has been in use since then. As per Anders Rinzen, he would prefer Swedish GAAP over IFRS for SMEs because that is how the SMEs want it to be. Ander's firm sells accounting, auditing and consulting services to their clients, and if their clients ask for IFRS for SMEs, they will provide them with that. But up till now, the approach and preferences are towards Swedish GAAP.

Carl in reply to the question regarding preference for accounting standards said that Swedish GAAP is preferred over IFRS for SMEs because Swedish GAAP is much simpler than IFRS for SMEs. Johan was of the opinion that the Swedish accounting standards are going through a change, and it is going from the recommendations to adopt the new projects like K2 and K3. So, it would be a bit early to prefer any set of accounting standards right now, and decide that which one of them is the most appropriate one. According to Maria, as the Swedish GAAP is already being adopted and in use, so it is preferred over IFRS for SMEs. As per Kjell, they have chosen IFRS from the beginning because they have ambitions and they want to grow, for which it is necessary to have international accounting standards just like IFRS. As per Gunika, they would prefer to use IFRS in their financial reports instead of Swedish GAAP because they have long-term goals and want to grow big and global. Anders Mårdell was of the opinion that IFRS for SMEs is preferred over the Swedish GAAP, but that is not how the SMEs think or that is not what SMEs in Sweden are going to prefer.

4.2.2. Characteristics of IFRS for SMEs

When asked about the quality and comparability of financial statements of SMEs, which IFRS for SMEs will bring into them, Henrik replied that it will bring quality and comparability to the financial statements if it has been adopted by all the SMEs. But the most important thing to bring quality and comparability to the financial statements is to have competent accounting personnel and how much time they put into the construction of financial statement; irrespective of the accounting standards being used by the firm. According to Anonym, although the Swedish GAAP has also got high quality and comparability as well but the nature of IFRS for SMEs being more global would be of more quality and comparability. As per Anders Rinzen, “Surely, in theory YES and in practice it would; however it is not widely practiced in Sweden and not broadly used”. Even before the launch of IFRS for SMEs there was a guide with the title “Keys to understand Swedish GAAP” as compared to other accounting standards, and has been in use for fifty years which served the same purpose of quality and comparability in the Swedish market. The general acceptance of IFRS for SMEs would approximately take 5 to 10 years in Sweden. According to Carl, the answer can be well explained by splitting it into two parts: one set of companies that do not use accounting standards, and the other that follows the accounting standards. Companies that do not use the accounting standards will have problems in getting their funds, and companies with no accounting are rarely taken into consideration by creditors and lenders. They will be considered to be out of the financial system. On the other hand, it will be possible for those companies which use accounting standards to raise finances in the market from banks, lenders and creditors. IFRS for SMEs will be suitable for the use by those companies which gets 100 million Swedish Kronor as their turnover. IFRS for SMEs is also suitable for those companies who are looking for mergers and acquisitions, buyouts and to be listed on the stock exchange.

As per Johan, in his reply to the answer regarding the quality and comparability of financial statements of SMEs, he said that IFRS for SMEs would definitely bring quality and comparability. The biggest advantage of IFRS for SMEs is the comparability. But the question which arises here is that what kind of SMEs wants the comparability in terms of their financial reports. SMEs try to reduce their costs as much as possible for them, rather than increasing comparability. Maria was of the opinion that Swedish GAAP does provide quality and comparability, but IFRS for SMEs might bring quality and comparability in terms of International perspective. In Kjell’s opinion, when there are rules and the rules clarifies that this is the way how to do it; then it will surely bring value to the firm and its financial reports. This is what brings comparability to the financial reports as well. According to Gunika, it will bring quality and comparability but the real issue is the understanding of financial statements. If a user can read through the financial reports but cannot understand it then any numbers and standards would be difficult to understand irrespective of the accounting standards. Anders Mårdell was of the opinion that it cannot be commented that IFRS for SMEs is of better quality than that of Swedish GAAP, because there are certain principles which are not compatible either with the Swedish laws or the tax laws in Sweden.

In reply to the question regarding if harmonized accounting standards increase market efficiency and reduces cost of raising capital, Henrik replied that Yes, harmonized accounting standards can be considered to increase the market efficiency and would reduce the cost raising capital. But in terms of cost of capital it just plays a minor role, as the investors mostly try to take into consideration type and profitability of the investment. According to Anonym, it would increase the market efficiency and reduce the cost of raising capital along with making the market tough and competing for the banks. But it will be easy for the banks to compare and find out the more suitable options to which the funds can be lent. As per Anders Rinzen, “I would guess that it is true" that harmonized accounting standards increase the market efficiency and reduce cost of raising capital.

Carl was of the opinion that harmonized accounting standard would definitely reduces the cost of capital and increases the market efficiency by bringing more transparency into the information. As per Johan, from the perspective of financial markets it would surely bring efficiency and decrease the cost of raising capital as it brings comparability into the financial statements. Maria's reply to this question was short and simple in which she said, "Yes, it is possible". According to Kjell, it is hard to judge the benefits in the short run, but in the long run they will bring positive effects in terms of market efficiency. Gunika replied that harmonized accounting standards surely increase the market efficiency as it presents the true picture of the company, and it reduces the communication problem between the firm and the investors. As per Anders Mårdell, harmonized financial statement cannot increase market efficiency or decrease the cost of capital at all. Banks do look at the financial statements but what they rely mostly is on the persons running the firm and their future prospects.

In reply to the question that whether Swedish GAAP is based on accrual basis of accounting or the going concern of an entity, Henrik, Anonym, Anders Rinzen, Carl, Johan, Maria and Kjell replied with a simple Yes answer. Gunika had no opinion in reply to the answer of this question. While Anders Mårdell was of the opinion that Swedish GAAP is based on the going concern of an entity but not on the accrual basis of accounting.

When asked if the Swedish GAAP has the characteristics of understandability, relevance, reliability and comparability, Henrik's reply was that Yes, because Swedish GAAP has been built over time, and it is a principle-based accounting standards. In terms of comparison, IFRS for SMEs have much more comparability than Swedish GAAP, other than that it is more or less the same in terms of understandability, relevance and reliability. Anonym, Anders Rinzen, Johan, Maria and Gunika were of the same opinion that yes, Swedish GAAP does have all these four characteristics. As per Carl, Swedish GAAP has the element of understandability; it is relevant but is not up-to-date; it is reliable too but as compared to IFRS for SMEs it is still lacking; but if the outside book-keepers are used then it is more reliable than the inside book-keepers. It is also comparable in terms of the ease to read reports from different companies. According to Kjell, IFRS makes it easier to compare companies because the Swedish GAAP has got some openings, and makes it lack a bit in these characteristics. As per Anders Mårdell, it would be hard to say that Swedish GAAP has got all these characteristics, to some extent it might have them and might lack in the others.

Regarding the opinions if high quality financial reports minimize the information asymmetry and information risk between the firm and the investors, Henrik, Anonym, Anders Rinzen and Gunika had the same reply that yes the statement is correct. As per Carl, good financial reports do attract the investors in the market. A minimum of three years backward financial data is required legally to be presented by the company to its stakeholders, which makes a company more transparent. According to Johan, this is where the IFRS for SMEs has got benefits over other accounting standards, and would level the information asymmetry between the firm and the investors. Maria's opinion was that information risk and information asymmetry is already low as per the use of

Swedish GAAP, and companies are supposed to present the financial information in an appropriate way as per the Swedish GAAP. But there are some secrets which they companies does not disclose to its users. According to Anders Mårdell, from the theoretical perspective it might be true, but in practice it would not be that applicable, as most of the investors who doesn't know how to read through the financial reports will still find it difficult to understand the company and its performance.

4.2.3. Costs-Benefits Analysis of IFRS for SMEs

In reply to the question that whether the first time adoption of IFRS for SMEs will cost the SMEs with the time and resources, Henrik's reply was that it would absolutely cost the SMEs both with cost and time. Adopting IFRS for SMEs for the first would not be an easy task for the SMEs, as they cannot do it by themselves and they will be hiring the services of expertise, which will cost the SMEs a lot. The initial cost and the extra costs will reduce each year until it goes to zero when fully implemented. According to Anonym, it would not be much difficult for some companies to switch to IFRS for SMEs as it is not much different from the already in use Swedish GAAP. But for some companies it is going to be a difficult task, which will cost them both cost and time. The difficulty does not lie in how to understand the standards; the difficulty lies in how to use the standards of IFRS for SMEs. Anders Rinzen, Carl, Maria and Anders Mårdell had the same opinion regarding this question and that was that the first time adoption of IFRS for SMEs would cost SMEs both time and resources. As per Johan, it is one of the major questions for the SMEs. In order to know the framework of IFRS for SMEs, personnel at finance department would need to go through many different courses; which is a huge cost. According to Kjell, it would as it did for Vitec and it cost them both cost and time when they adopted IFRS for the first time in 2005. The other problem is with information disclosure rather than any accounting issues. As per Gunika, during the very early stage of IFRS for SMEs adoption it would be costly but later on the accounting personnel can adapt themselves to its use in the routine operations.

When asked that if the benefits of IFRS for SMEs in later stages would outweigh the initial costs incurred, Henrik replied that it could not be confidently stated that one accounting system is better than another one, until and unless it has not been implemented and used. The costs of switching can be identified, but the benefits which will come in the future could not be justified. As per Anonym, IFRS for SMEs is important and it is worth its benefits, and it will bring understandability of financial reports between the countries. According to Anders Rinzen, in the long-term may be, but no immediate benefits can be seen in the short-term. Carl was of the opinion that if the company is going to be listed on the stock exchange, looking for buyouts or sellouts then its benefits would definitely outweigh the initial costs. But in terms of other scenarios it would be difficult to justify it. As per Johan, it is hard to see the benefits of IFRS for SMEs after its adoption at least for ten years, but it will depend upon the nature and industry in which the SME operates; for example the biotech companies might benefit from it at the early stages because they are heavily financed. As per Maria, "for some companies may be but not for the smallest ones".

Kjell in reply to the question regarding the benefits of IFRS for SMEs in later stages for SMEs said that in short-term the benefits cannot be sighted. But in case of Vitec, they have ambitions and they want to go abroad for which it is necessary to comply with International accounting standards just like IFRS. The companies which they will approach in the international market will try to get an insight of the financial reports of the company, which will present them with the standing of the company. But those companies which do not have any ambitions of growing or going abroad for them acquiring benefits from IFRS for SMEs would be difficult because they do not need it at first place. As per Gunika, for small companies it would only be a cost, and for them it would not be easy to have the benefits from IFRS for SMEs accounting standards. Anders Mårdell was of the opinion that it will be hard for the SMEs to generate the benefits from the use of IFRS for SMEs even in the later stages. The reason for this is that the companies will have to use it on routine basis which will require the company to keep more employees and will cost them on regular basis. It will cost the companies a lot of money the first time they adopt IFRS for SMEs and later it will be a perpetual cost for the company.

In reply to the question regarding ease for accounting department/personnel of SME to complete the transition process themselves or they will be hiring the services of auditors and analyst, Henrik was of the opinion that SMEs will be hiring the services of auditors and analysts for the transition from Swedish GAAP to IFRS for SMEs. Some companies would be hiring these services for some parts of transition while the others would be hiring it for the complete transition. The other costs will arise, if the SMEs accounting department does the transition itself, then the auditors might find more errors and corrections would be needed in the financial statements, which will raise the cost and will take more time. According to Anonym, Kjell, Johan, Maria, Gunika and Anders Mårdell, companies would require the services of experts and auditors for their transition towards IFRS for SMEs. As per Anders Rinzen, for those SMEs, which are subsidiaries of a bigger group using IFRS, they don’t need to hire any extra services as they already have the use of consolidated statements as per IFRS. But for the majority of SMEs, which are not part of any group, they do need to hire extra services of experts for the completion of this transition process. Carl was of the opinion that if a company does not have an experienced CFO, then they will need the services of auditors and experts. Also, a CFO would be required on routine basis after implementation of IFRS for SMEs, for keeping the track of records according to IFRS for SMEs.

4.2.4. Corporate Social Responsibility (CSR)

When asked if the way in which financial information is presented to the shareholders and other users in accordance to certain specific accounting standards is a type of Corporate Social Responsibility (CSR), Henrik replied that it is a type of Corporate Social Responsibility but it can be associated with the size of the firm. For instance, for a one-man owned firm it cannot be considered as CSR, but the bigger the firm gets the more it needs to disclose the information to its shareholders and other users in accordance to certain specific accounting standards. As per the belief of Anonym, it is very important to present the true financial picture to the shareholder and it is important for the better communication between the company and the society. Strict accounting standards do require the company to disclose much of the information to the society in accordance to the standards. This in a way provides the shareholders to know how the climate is inside a firm. According to Anders Rinzen, it surely is, as it gives some level of assurance to shareholders and other users that the accounting of the firm is presented as per certain accounting standards.

Carl in his reply to the question regarding CSR said that it definitely is a type of CSR in many ways. It is the moral and ethical liability on the firm to present its shareholders with transparent information, and present the taxes and facts in an appropriate way which in turn increases the credibility of the company. As per Johan, the way in which companies spread their financial information cannot be termed as a type of CSR. Maria had no opinion regarding this question. The replies of Kjell and Gunika were in favor of this question and termed presentation of financial statements as a type of CSR. Anders Mårdell was of the opinion that on general terms, it cannot be termed true for all the SMEs. For instance, the micro level or the small level companies are mostly one person owned or family owned, and thus they know what is going on in their company, which does not require them any financial reports. So, financial reports cannot be termed as a type of corporate social responsibility in specific terms.

4.2.5. Rule-based vs. Principle-based standards

When asked that if Swedish GAAP was a rule-based accounting system or principle-based accounting system, Henrik was of the opinion that Swedish GAAP is more of a principles-based accounting system and it has not got many rules in it. As per Anonym, Swedish GAAP is a mix of both rules-based accounting standards and principles-based accounting standard. With in Swedish GAAP, the K2-project is more of rules-based and the K3-project is more of principles-based accounting standards. According to Anders Rinzen, there are certain rules and certain principles in the Swedish GAAP, which needs to be complied with as per the standards framework. There are not any specific black or white criteria in Swedish GAAP, which limits its use and application to certain specific situations. In Carl's opinion, the Swedish GAAP is based on both the rules and the principles, giving the accountants strict and lenient ways of handling the situations. According to Johan and Kjell, Swedish GAAP is principle-based accounting system. According to Maria and Anders Mårdell consider Swedish GAAP to have both rule-based and principle-based standards. As per Gunika, Swedish GAAP is more principles-based accounting system, as it provides the accountants with consequent options on how to treat transactions and events.

In reply to the question if an accountant would require the knowledge of ethical and legal aspects along with knowledge of business and economics in order to use IFRS for SMEs, Henrik, Maria and Anders Mårdell were of the opinion that it is necessary for the accountants to have knowledge in these specific areas. As per Anonym, it is necessary to know the language of how to understand the standards, as they are difficult to be understood by an inexpert person. Thus, without having the knowledge of ethical and legal aspects along with business and economics, it would be hard to comprehend the standards in IFRS for SMEs. For an accountant of SME, deep knowledge is required regarding the complete IFRS for SMEs standards in order to fully comply with the standards. According to Anders Rinzen, knowledge in ethical and legal aspects applies to Swedish GAAP as well along with IFRS for SMEs. Carl was of the opinion that the companies are supposed to have plans for generic quality and environmental control; and it needs to be audited by an authorized accountant who has got the knowledge of ethical and legal issues along with business and economics. According to Johan, it is not the case that ethical and legal knowledge is required along with business and economics. As per Kjell, IFRS has been discussed as a set of rules, and has not been discussed in terms of ethical and legal perspectives. Gunika was of the opinion that legal aspects are very important to know especially in Sweden, as in Sweden you are supposed to know all the laws.

4.2.6. Users of SMEs financial statements

In reply to the question regarding the users of financial statements of SMEs, Henrik stated that the users for SMEs financial statements are mostly internal within the firm but the external users depend upon the type of business and the users can be the lenders and banks. Companies with high infra-structure, heavy machinery and research and development need to keep and present good accounting books in order to raise the funds and investments. As per Anonym, Banks are the main users of financial statements of SMEs. Board of Directors and the owners need financial statements for decision making. According to Anders Rinzen, the banks and financial institutions are the main users of financial statements of SMEs. It is used by local/regional government and can be important from business relations perspective, for instance, as a supplier the financial statements can be used for deciding the terms of credit policies. Carl mentioned that the users of financial statements can be categorized into two groups. The first group refers to the suppliers, who does the credit sales and needs a background check on the financial reports of its customers. The other group refers to the various kinds of investors for example banks, equity companies or private investors who find the interest in going through the financial reports of a firm. The financial statements are mainly designed for the credit reasons.

When asked from Johan, that who can be the users of financial statements of SMEs, he replied that the main users are mostly the banks, investors and different kind of authorities. The authorities in Sweden yet does not know the framework of IFRS for SMEs, thus they would be confused if companies adopt IFRS for SMEs and issue the reports according to it. According to Maria, the users are banks and tax authorities, but for tax authorities extra information is needed as well. International companies have its users globally, and their users are internationally dispersed across the world. As per Kjell, the main users can be the shareholders, banks and financial institutions. Anders Mårdell’s opinion regarding it was that the users of financial statement vary upon the size of the company. For the micro-level firms there will be hardly any users other than the owner himself and the tax authority. As the company size grows and it seeks finances from the outside creditors and investors, then it might require the financial statements.

To the question that what is the opinion regarding the view that small business managers are less dependent upon formal financial statements, Henrik replied with arguments supporting this view. He explained it in with an argument that in one-man owned firm the owner knows what his business is about, what he makes and sells, so he does not have to rely on any kind of formal financial statements. In a way, it can be associated with the size of the firm, the more employees a firm has got the more management it needs, and the financial statements is required in order to keep a check and balance. According to Anonym, small business managers are less dependent on financial statements because in these businesses there are businessmen who do not know much about book-keeping and financial information. The only thing they know is how to earn money, and they can do it without the use of any kind of financial information. As stated by PWC, “they have something in their fingers; they know what is right and when it is right, they can feel when they can earn money. They walk through the factory and walk through the store and find out YEAH! That’s how they can earn money.” Thus, involvement can make the managers understand much more than just getting the idea from financial statements. As per Anders Mårdell, small business managers definitely do not need any kind of financial reports in order to understand their company better, because they already have close involvement in it.

In reply to the same question regarding the dependency of small business managers on financial statements, Anders Rinzen said that if a company is not listed, then they make the financial reports once a year and such companies have much of internal reporting. Small company managers do look into their internal reporting in order to have better picture of their firm. Book-keeping should be maintained on daily basis, while internal reporting should be carried out on monthly basis which in a way can take into focus the going-concern of an entity. As per Carl, if an economist does the book-keeping for a company then he has got much better knowledge of everything within a firm, and so is the case with CEOs. Whereas the Board of Directors needs quarterly and monthly formal financial statements in order to check the health of the company. According to Johan, the small business managers are definitely less reliable on any formal financial information. Maria also supported this view by presenting the argument that because financial statements are mostly for external owners and banks and it is not for the inside users; as the insiders have different types of reports and systems to rely on and get the best information about what is going on in the company. Kjell in his reply to this question said that for both internal and external proposes the same set of accounting standards are being used, for instance IFRS. But they way the financial information is present might differ on the ground of internal and external purposes. According to Gunika, Small business managers are less dependent on the accounting standards because they are involved in the daily operations and know about almost everything. But sometimes they do need to have financial statements for their decision making.

In reply to the question that would IFRS for SMEs ease the job for banks in making their lending decisions and monitoring the loan agreement, Henrik replied that to some extent it can be considered that IFRS for SMEs would ease the job for banks, but that will be only possible if IFRS for SMEs bring high-quality to the financial statements. As per Anonym, this is what is hoped from IFRS for SMEs. It is easy to understand financial reports which are according to global accounting standards, and the data presented in it can be relied upon and can be investigated even across the borders. Anders Rinzen said that banks do get this information today as well, but it is not according to IFRS for SMEs, it is as per the Swedish GAAP. Thus, the adoption of IFRS for SMEs would not make any difference for the banks in making their lending decisions. In Carl’s opinion IFRS for SMEs would ease the job for banks and the banks would be delighted with it but “many firms would die on the road to the IFRS”. According to Johan, banks work on international levels, and in this way local companies of Sweden which use IFRS for SMEs would be able to raise funds from international banks in different countries. Maria said that it can be, because the banks just not look and rely on the financial statements, there are many other things which the banks take into consideration as well. Kjell mentioned that from the long-term perspective it would be, but not in the short-run because at the moment banks would not be able to give it much consideration. As per Gunika, for banks it would surely ease the job, as it will be easy for them to compare the companies before making their decision. In Anders Mårdell's opinion for the banks their lending decisions are based on the personality and the decisive power of the owner or director of an SME rather than solely relying on the financial statements of an SME.

When asked if tax authorities need financial statements for the calculation of taxes, Henrik said that tax authorities surely need financial statements in order to calculate the taxes. He added that there is a possibility that by the end of this year a threshold will be defined for the companies which will not require hiring the services of an auditor. After the implementation of this threshold, the tax authorities would need to take extra consideration of the financial statements of such companies which fall below this defined threshold. According to Anonym, there has been much discussions regarding this issue that whether tax reports can be based on the financial statements. There should be complete information symmetry because the accountants and auditors might know much more than personnel in tax department. In this way, the tax department does not want to rely on financial statements which are made in accordance to specific accounting standards, and they want to use their own rules for the calculation of tax purposes. As per Anders Rinzen, tax authorities does not need financial reports; all the companies have to file their income statements on yearly-basis, while Value-added-tax is calculated on monthly basis in a totally different way. There is difference between the firm's accounting as per certain standards and the process of taxation, but in Sweden this gap is not very much as both the firms and tax authorities have strong connection in between them.

Carl replied to the question regarding the usage of financial statements by tax authorities that Swedish taxation system is really good and beneficial for companies in a way that Swedish taxation system allows the company to put profits into funds for future investments. A maximum of five years are allowed for such kind of funds, and these funds are not taxable. Thus, the Swedish companies try to keep low profits, and pay out less in dividends by investing maximum of the profits into these un-taxable funds. But the money in these funds needs to be invested after five years; otherwise tax will be imposed on these funds. According to Johan, tax authorities do need financial statements for calculating taxes. Although, it not mandatory to send the financial reports to the tax authorities along with the tax form, but some companies do send it to them. As per Maria, tax authorities need other figures for the calculation of tax as well as per the requirement of tax-authorities other than just financial statements. In kjell's opinion, financial information is shared with the tax authorities on a layout presented in the taxable income form, on the basis of which taxes are calculated for the firms. But the tax authorities do have access to the financial reports of the companies as well. As per Gunika, companies and tax authorities in Sweden work quite closely and the tax authorities do require financial statements in order to calculate the tax. In Anders Mårdell's opinion, there have been problems and difficulties in managing the IFRS for SMEs standards according to the Swedish tax laws, and that is the reason many SMEs prefer Swedish GAAP over IFRS for SMEs because it is more convenient to use according to Swedish laws.

4.2.7. Regulations for the use IFRS for SMEs

To the question that how often SMEs voluntarily wish to use accounting standards in their financial reports Henrik replied that the SMEs do not often voluntarily wish to use accounting standards in their financial statements, but it depends upon the size of the company and especially the small companies don't wish for it as they know their economics quite well. In simple, the bigger a company gets the more accounting standards it needs. And due to the complexities involved in the transactions and events of certain big SMEs, accounting standards needs to be referred for their appropriate treatment. According to Anonym, all the companies in Sweden, which are in the form of partnership or whose shares are being traded, have to use the Swedish GAAP in their financial reports and it has been made mandatory on all of them by the Swedish regulators. Thus, SMEs have no choice to make any voluntary decisions in terms of using any accounting standards, or not.

According to Anders Rinzen, when asked regarding the voluntary wish of SMEs to use accounting standards state that in Sweden, SMEs other than the very micro-level firms, have to always use accounting standards (Swedish GAAP) in their financial reports and it is mandatory for them as per the Law of annual report, Law of book-keeping and the Swedish Company Act. There is a proposal in progress, for eliminating the micro-level firms from the use of any kind of accounting standards; and all they would need to prepare is an income statement for the purpose of taxation. As per Carl, in Sweden all the companies are bound to use Swedish GAAP, but soon the bracket is going to be defined which will omit certain companies from the restriction of using any kind of accounting standards for preparing their financial statements. In Johan's opinion it has not been mostly the case that SMEs voluntarily wish to use any kind of accounting standards for their book-keeping. As per Gunika, SMEs very seldom wish to use any kind of accounting standards voluntarily. Anders Mårdell's opinion was that mostly the SMEs try to use those standards which are being suggested to them by their auditors. From the perspective of accounting many firms does not have their own will and they don't even know much about the accounting stuff. Thus, they completely rely on their accountants and auditors.

Regarding the question that what is the respondent's view about the making of IFRS for SMEs mandatory by the European Commission, Henrik said that it should not be made mandatory at the moment. Initially, it should be put slowly into the progress of its adaptation and companies should be able to use it before made mandatory by the European Commission. As Swedish GAAP has been used for years and to be imposed with new accounting standards would make it difficult for the SMEs to adopt it. According to Anonym, it should not be made mandatory because there are so many SMEs all around Europe and making it mandatory would toughen the job for all of them. Although it would be better if all of the SMEs across the Europe use the same set of accounting standards, just like IFRS for SMEs, as it would bring comparability into the financial reports. It should be implemented slowly and gradually over a period of five to ten years. As per Anders Rinzen, there is no reason due to which IFRS for SMEs should be made mandatory, and the European Commission should take into consideration the value which the use of IFRS for SMEs will generate for the SMEs. The adoption of IFRS is driven by the financial markets, and there is rare willingness in the companies to use IFRS voluntarily. Although, financial markets are powerful actors but it would still require almost twenty years to fully regulate IFRS for SMEs.

As per Carl in reply to the question regarding the making of IFRS for SMEs mandatory by EU, he said, “No, it will kill a lot of companies. It’s too big and it’s too complicated”. It is going to cost the companies a lot, and companies would need to carry the perpetual cost of paying the CFO which will be around a million Swedish Kronor per year. As per Johan, it would be a chaos right now for the SMEs to be imposed with mandatory regulations, because at first the companies are not ready for it and secondly it will bring huge costs as they would not be able to handle it themselves. According to Maria, the number of countries in European Union has grown and it is then necessary to have such a set of accounting standards which is being followed across Europe by all the member states. Kjell’s opinion was that in the long run IFRS for SMEs would be worth value and would bring comparability to the statements, thus it should be made mandatory by the European Commission. In the opinion of Anders Mårdell, it would not be possible to make IFRS for SMEs mandatory and being imposed on SMEs. Most of the micro-level and even small-level companies would not ever want to use IFRS for SMEs because of the high costs associated with, and the extra burden the companies will have in their operations.

In reply to the question that will it be economically favorable for the SMEs to be imposed with a statutory regulation to use IFRS for SMEs, Henrik replied that it depends on how does the company looks at it. If it is looked from the perspective of incurring costs and time then it will be termed as unfavorable. But if its benefits in the later stages on the long-run are considered then it can be considered as economically favorable. According to Anonym, it should be taken slow, and the companies should be taken into the confidence that there is something worth it in the IFRS for SMEs. Much education and training would be required before its implementation. Any statutory regulations making IFRS for SMEs to be imposed on SMEs, would be a debacle in a way that locally operating firms with one or two employees don’t need any kind of accounting standards, as they don’t have any dealings with creditors or lenders across the border. Anders Rinzen’s opinion was that from the perspective of an accounting and auditing service provider it is a very good idea, but from the perspective of SMEs it surely is not economically favorable. As per Carl, it should not be made statutory by Swedish government because most of the companies would go bankrupt during the process. It would be good to have common book of rules for the European companies but it should be kept short. According to Johan, as IFRS for SMEs is not yet developed so much in the Sweden that it should not be made statutory by the government and the regulators. Maria was of the opinion that due to the lack of knowledge and practice about IFRS for SMEs, many inferences cannot be derived regarding making it mandatory. Kjell in his reply to this question said that all the accounting standards which make the annual reports to be compared are valuable. But the measurement of this value-creation for the firms is a difficult job, as it cannot be analyzed that which firms will benefit from IFRS for SMEs, and which ones will not. As per Gunika, it will not be economically positive thing to impose the companies with statutory regulations to use IFRS for SMEs in their financial statements. Anders Mårdell presented us with a simple No answer for this question.

4.3. Experts Opinion

4.3.1. IFRS for SMEs vs. Swedish GAAP

Stefan and Stellan in their reply to the question about the kind of accounting standards followed by SMEs in Sweden stated that the accounting system in Sweden is changing, and the regulators have divided accounting system into four groups based on the type of companies. These groups are the K1, K2, K3 and K4 companies, where K1 are the micro-level companies, K2 are the small and medium level companies, K3 are the privately held medium sized and large companies and K4 are the public companies. SMEs in Sweden can be categorized under K1, K2 and K3 level companies. The standards in K1 and K2 are in the market for use, and the Swedish Accounting Standards Board is working on the standards in K3 and it has been stated that the standards in K3 will be partly influenced by the standards in IFRS for SMEs. The rules for publicly traded companies were almost similar to the IFRS, so it was not a very complicated task for at least the public listed companies to switch to IFRS.

When asked about the opinion regarding the launch of IFRS for SMEs, Stefan replied that it was good that a set of global accounting standards just like IFRS for SMEs has been launched which will be used across the countries by SMEs. Before the launch of IFRS for SMEs, some SMEs in different countries used full-IFRS as an accounting standard, but with the launch of IFRS for SMEs their accounting will be simplified to a great extent because the use of full-IFRS is very complex. Now, it depends upon the SMEs and legislators in different countries that whether they want to use IFRS for SMEs or not. According to Stellan, the launch of IFRS for SMEs was good step taken by IASB, and as it was needed it should have been released much earlier. Full-IFRS is too complicated to be adopted by SMEs, and there is very close connection between tax laws and accounting standards in Sweden, which makes is even more complex to adopt some new non-national accounting standards.

As per their answer to the question regarding consideration for a globally used set of accounting standards, Stefan stated that the regulators in Sweden are working on the K3 project and it has been mentioned on their website that they are developing the standards in K3 project according to IFRS for SMEs and the current Swedish GAAP. But how it will in the practice is difficult to know right now, as the K3 project has not been finalized yet. In the current times, if Swedish GAAP is compared with IFRS for SMEs then there are not many differences in between them. As per Stellan, consideration depends upon the level of acceptance and use of IFRS for SMEs that is how much does the SMEs are willing to have accounting standards and follow them. Accounting standards should not be imposed on SMEs by any regulatory authority against their willingness. If a company does not depend upon international capital market then why would such a company want to use IFRS for SMEs and what would quality and comparability mean to it.

When asked about the approach of SMEs in Sweden towards their preparedness to adopt IFRS for SMEs, Stefan's opinion was that the approach of SMEs in Sweden is not positive towards the acceptance of IFRS for SMEs in their financial reporting. Some SMEs think that the IFRS for SMEs is difficult to understand and adopt, while it is much easier to use the current accounting system (Swedish GAAP). In practice, it can be the other way round that is IFRS for SMEs is easier to understand and to use rather than Swedish GAAP. As in general practice, people do not want to try new things when they are familiar with something already in their use, and the same is the case with IFRS for SMEs. So it will take some years for SMEs to adopt IFRS for SMEs in their practices. According to Stellan, there is much skepticism in the Sweden regarding the IFRS for SMEs, and it is considered by the SMEs as some kind of complication in their daily routine accounting and operations, which will make it hard for the companies to accommodate it. The micro-level SMEs are very much reluctant to the adoption of IFRS for SMEs.

In their reply to the question regarding the preference of accounting standards out of IFRS for SMEs and Swedish GAAP, both Stefan and Stellan stated that they would prefer IFRS for SMEs. According to Stefan, IFRS for SMEs are simpler to use and more consistent in their way of presentation, which is lacking in Swedish GAAP, as it does not provide so many standards which can cover almost all the issues faced by a company, and in situations like this standards from Redovisningsrådet are referred. Thus, it is easy to find solutions and accounting treatments in IFRS for SMEs as compared to Swedish GAAP. According to Stellan, the preference would not be the same for SMEs; rather most of them would be reluctant to use IFRS for SMEs. Companies consider IFRS for SMEs as a very unique and complicated set of accounting standards, while in the practice it is not very much different from the Swedish GAAP.

4.3.2. Characteristics of IFRS for SMEs

When asked about the quality and comparability of financial statements of SMEs, which IFRS for SMEs will bring into them, Stefan stated that it would surely bring quality and comparability. In Sweden, it will be easy for those SMEs which use K3 to shift towards IFRS when they are going public, as it is much close to the standards in IFRS. The rules which are there in the Swedish GAAP issued by Bokföringsnämnden are complex, and these standards are being modified to be made much simpler in the K projects. Swedish GAAP is much complex than IFRS for SMEs and it is hard to keep track of it. According to Stellan, the big value of IFRS for SMEs is that it would be globally comparable, but it would not bring much increase in the quality as compared to the current accounting standards. Internationally, it is perceived that if international standards are followed by companies then the quality of their financial reports will be higher.

In reply to the question regarding if harmonized accounting standards increase market efficiency and reduces cost of raising capital, Stefan’s opinion was that from what is being stated in the theory that it surely increases the market efficiency and reduces the cost of capital, but in practice it is difficult judged right now. For companies who want to raise funds internationally for them it is very necessary, as the investors would look into their financial reports and rely on it for their decision making. Financial reports as per international accounting standards lower the information risk and the information can be trusted. In this way it will be easy to seek the capital and slightly lower the cost of capital, but it is difficult to be sought with an empirical findings. As per Stellan, harmonized accounting standards lower the cost of raising capital and to some extent bring market efficiency, as they are connected to each other.

In reply to the question that whether Swedish GAAP is based on accrual basis of accounting or the going concern of an entity, both Stefan and Stellan stated that Swedish GAAP is based on accrual basis of accounting and the going concern on an entity just like IFRS.

When asked if the Swedish GAAP has the characteristics of understandability, relevance, reliability and comparability, Stefan mentioned that in practice all those characteristics are there in the Swedish GAAP, because they are very important characteristics for any accounting system. Although these characteristics are not strictly defined in the Swedish laws but in practicality they are somehow present in it. According to Stellan, Swedish GAAP does have the characteristics of understandability, relevance and reliability but the characteristic of comparability is doubtful, because there are standards in Swedish GAAP which have been designed as per the Swedish tax laws. On the other hand, group reports made in accordance to Swedish GAAP are comparable because they are not based on laws from the tax authority. Thus, it is easy to read and understand the group financial reports in Sweden rather than the separate entity's financial reports.

Regarding the opinions if high quality financial reports minimize the information asymmetry and information risk between the firm and the investors, Stellan said that it is one way of explaining the role of accounting to present different investors with financial information which reduces the information risk and gives the investor an idea about the climate of the company. Investors can learn about the current standing and performance of the company and have an idea about the performance in future as well. As per Stellan, high quality financial reports are not just about the numerical figures, it covers the maximum information about the company in the form of disclosures and notes, which reduces the information asymmetry between the firm and the investors.

4.3.3. Costs-Benefits Analysis of IFRS for SMEs

In reply to the question that whether the first time adoption of IFRS for SMEs will cost the SMEs with the time and resources, Stefan's view was that it would probably cost the SMEs time and resources, because this change would require the knowledge and information about the new standards, which will be different from the already in use accounting standards. According to Stellan's opinion, initially it would cost the SMEs with time and resources, but once it is operational then it would not be much cost for the SMEs.

When asked that if the benefits of IFRS for SMEs in later stages would outweigh the initial costs incurred, Stefan mentioned that initially there would be cost incurred by the SMEs, but in the later stages when the companies get used to IFRS for SMEs, they will benefit from it. As per Stellan, as in the later stages the cost will not be much higher in terms of the use of IFRS for SMEs which would increase the benefits for the SMEs. IFRS for SMEs is a very simplified version as compared to IFRS or the Swedish GAAP, and this would not be a difficult task for the companies accounting department to manage it themselves once it has been adopted.

In reply to the question regarding ease for accounting department/personnel of SME to complete the transition process themselves or they will be hiring the services of auditors and analyst, Stefan replied that it will depend upon the company, and many small and medium-sized firms are already using the services of auditors and accounting firms to do the book-keeping and prepare financial statements for them. In this way, they can get the services from them during their shift toward IFRS for SMEs as well. Other than that there will be need for the knowledge and courses to be offered to the accounting departments working with in a firm In order to educate them about these new set of accounting standards. In the opinion of Stellan, SMEs will need to hire the services from auditors especially during their first step towards the adoption of IFRS for SMEs. Although, the standards in IFRS for SMEs are simple but during their first time use it would be difficult for the companies to understand each and every bit of it by themselves.

4.3.4. Corporate Social Responsibility (CSR)

When asked if the way in which financial information is presented to the shareholders and other users in accordance to certain specific accounting standards is a type of Corporate Social Responsibility (CSR), Stefan said that mostly the public listed companies issue the CSR reports separately other than their financial reports. But for those companies which share financial information with their investors, creditors and shareholders in the form of financial reports in accordance to certain accounting standards can be termed as CSR as well. As per Stellan, it would be necessary for companies to disclose maximum information to the shareholders and the society, which leads to corporate social responsibility.

4.3.5. Rule-based vs. Principle-based standards

When asked that if Swedish GAAP was a rule-based accounting system or principle-based accounting system, both Stefan and Stellan stated that Swedish GAAP has got both the rule-based and the principle-based standards. As per Stellan, for micro-level companies there are many rule-based standards but for other SMEs the standards are more principle-based standards.

In reply to the question if an accountant would require the knowledge of ethical and legal aspects along with knowledge of business and economics in order to use IFRS for SMEs, Stefan was of the view that the ethical and the legal knowledge are required side by side with the knowledge of business and economics as at certain situations they are closely related. According to Stellan, it is something beneficial to have the ethical and legal knowledge by the accountants along with the knowledge of business and economics, as it would benefit them in many situations where there is need to refer to ethical and legal issues.

4.3.6. Users of SMEs financial statements

In reply to the question regarding the users of financial statements of SMEs, Stefan mentioned that the main users of the financial statements include the company itself at first place, and then are the banks, creditors and suppliers depending upon the nature of operations of the company. According to Stellan, the users of financial statements depend upon the size of the SME, but mainly it is the owners and the staff. For SMEs which requires a process of raising capital, then for them the users can be the banks and creditors.

To the question that what is the opinion regarding the view that small business managers are less dependent upon formal financial statements, Stefan's opinion was that small business managers can rely on the ordinary financial reports, but for larger companies financial reports are required on monthly basis in accordance to certain accounting standards. According to Stellan, he does support the view that small business managers are less dependent upon formal financial statements as they have close involvement in the management.

In reply to the question that would IFRS for SMEs ease the job for banks in making their lending decisions and monitoring the loan agreement, Stefan mentioned that IFRS for SMEs will ease the job for banks in making their lending decisions but what is more important is the current economic situation of a country where the bank operates. In Stellan's opinion, as the banks are one the most important users of financial statements of companies, their job in terms of decision making would be eased to a great extent by the use IFRS for SMEs. Now a days, it is more common even for SMEs to raise the funds from foreign banks, and such financial statements could be of much help to the banks.

When asked if tax authorities need financial statements for the calculation of taxes, Stefan's opinion was that for small companies the financial statements serves dual purposes as they can be used for both tax purpose and as an official financial report. But for medium and large sized companies it is not that simple, and there will be more differences between the profit before tax reported in the income statement and the taxable profit. For this reason they have to rely on some other sources of information as well. As per Stellan, in the context of Sweden, it is very much correct that tax authorities need financial statements for the calculation of taxes, due to the close involvement of tax authorities and the companies. This close involvement between the tax authorities and the companies make it difficult to apply many standards from IFRS or IFRS for SMEs in Sweden.

4.3.7. Regulations for the use IFRS for SMEs

To the question that how often SMEs voluntarily wish to use accounting standards in their financial reports, Stefan stated that it is possible for some large non-public companies to step up and use higher-level accounting standards that what is required, but it is not very common for the other type of SMEs. According to Stellan, it would be very seldom that companies voluntarily wish to use accounting standards just like IFRS for SMEs in the financial reporting because they cannot see the benefits they will gain from it at the current stage.

Regarding the question that what is the respondent's view about the making of IFRS for SMEs mandatory by the European Commission, Stefan was of the view that the demands for harmonization is more for the large companies as they do more transactions over the borders and are more international in their operations. On the other hand small firms operate locally with in a country and have local customers so they don’t feel the need for such a global set of standards. Thus, in order to make IFRS for SMEs mandatory levels of SMEs should be defined and this imposition should not be on all the firms. As per Stellan, it should not be made mandatory as it will be difficult to decide the levels at which its use should be made mandatory. Other than that the national circumstances should be taken into the consideration by the European Union before making any such decision. It would turn out to be more centralized steering of the regulations and it would affect the attitude of SMEs towards IFRS for SMEs, and will raise further pessimism against it.

In reply to the question that will it be economically favorable for the SMEs to be imposed with a statutory regulation to use IFRS for SMEs, Stefan’s opinion was that it would not be economically favorable for the small-sized companies, but for medium-sized companies it would be favorable. At the initial stages it will be a bit difficult for the companies but with the passage of time companies will get used to it and they will start to extract economic benefits from it. As per Stellan, it would be favorable for some of SMEs but even they would not able to realize it.

Chapter 5: Analysis and Discussions

This chapter will be based upon the analysis of the empirical findings in previous chapter in accordance to the theoretical framework presented in third chapter. The analyses and discussions in this chapter would be directed towards the evaluation of the appropriateness and hindrances towards the use of the IFRS for SMEs by examining various factors that were identified to influence the adoption of the IFRS for SMEs in Sweden. In addition, we shall discuss the challenges that will be faced by SMEs in Sweden and also analyze whether SMEs in Sweden prefer to choose and use IFRS for SMEs or Swedish GAAP. The appropriateness of IFRS for SMEs, and what could be the hindrances during the transition of SMEs towards it would be discussed, along with the cost-benefit analysis and its economic favorability.

5.1. Accounting Standards followed by SMEs in Sweden

The internal and external accounting is a very significant source of information for owners and managers of small and medium sized enterprises. For this purpose, the accounting systems/standards followed by small and medium sized enterprises are important to meet their needs, by providing essential information to stakeholders. From our empirical data we have analyzed that almost all unlisted companies in Sweden follow Swedish GAAP developed by Bokföringnämnden (BFN) for the interpretations along with the guidelines provided in Redovisningsrådet (RR) to be consulted when there are certain rules missing in Bokföringnämnden. These rules have been in use for long time and companies in Sweden prefer these standards because of their better understanding of Swedish GAAP. Even subsidiaries (part of an international group) operating in Sweden are statutorily bound by the Swedish regulators to prepare financial statements in accordance to Swedish GAAP, while their parent company uses IFRS in the preparation of their consolidated financial reports. However, a small number of unlisted companies use IFRS as their accounting system because they want to compete globally. More precisely we can categorize SMEs in Sweden under K1, K2 and K3 level companies, where K1 are the micro-level companies, K2 are the small and medium level companies, K3 are the privately held large companies. K3 project is parallel to IFRS for SMEs, but it is not yet ready for the use.

The opinions regarding the launch of IFRS for SMEs are not so much diverse in Sweden. The unlisted companies (SMEs) do not have much knowledge and understanding of these standards. These companies would not easily take IFRS for SMEs into their consideration because they already have an existing accounting system which is in accordance to Swedish laws and tax regulations, and has been in use for years; because of which SMEs do not wish to try any new accounting standards which could complicate things for them rather than making them easy. The implementation of IFRS for SMEs would be possible in long-run but cannot possible in short-run because it is too large to be adopted by SMEs, and its implementation and use would require even the smallest companies to have Chief Financial Officer (CFO). This will be an additional expenditure, which nearly all of the companies cannot bear at all. Some difficulties concerning the treatment of untaxed reserves are not clearly explained in IFRS for SMEs. However, in general the proposal has some benefits in term of having global set of accounting standards for all SMEs and financial statements prepared in accordance to these standards can be used across the countries. It provides the stakeholder a platform to compare their company's financial statements not just in Europe but in the whole world. Before July, 2009 several companies employed full IFRS for their accounting treatments; however the use of full-IFRS is somehow very problematic and complex. These problems were solved with the launch of IFRS for SMEs because accounting treatments were simplified to a great extent and disclosure requirements were minimized. As per experts it has been a very positive step to launch a common set of accounting standards for all the SMEs across the world.

In Sweden, globally used accounting standards just like IFRS for SMEs have not been yet considered by the SMEs because in accounting perspective there are a lot of similarities in Swedish GAAP and IFRS such as principles of valuation and classification standards. The SMEs and markets in Sweden are quite satisfied with their national accounting standards therefore right now there are no considerations regarding the adoptability of any new standards like IFRS for SMEs. Majority of the SMEs, which are not globally recognized and have no link with international capital market does not find any solid reasons for adopting IFRS for SMEs. However, according to some expert the Swedish regulation authorities are trying to prepare new standard called K3 project which is very much similar to IFRS for SMEs and the current Swedish GAAP.

Carl Rehnberg regarding the adoptability of IFRS for SMEs said, *"In Sweden International Financial Reporting Standard for Small and Medium-Sized Enterprises would kill almost all small and medium-sized enterprises."* The SMEs in Sweden are not in the favor of these standards at all, in fact majority of the SMEs are ignorant about IFRS for SMEs. Due to the better understanding and use of Swedish GAAP, SMEs are on vast scale hesitant to adopt IFRS for SMEs. According to SMEs these standards are too big to be used, are too costly, and are difficult to understood and adopted. The companies which don't have a certified accountant, the adoption and use of IFRS for SMEs would be a problem for them because without any expert it is difficult to know all the standards in IFRS for SMEs. By the use of IFRS for SMEs, SMEs cannot increase their sales or generate more profits than usual. But the adoptability of IFRS for SMEs by SMEs would surely generate business for accounting and auditing firms as SMEs would seek their services and expertise in this transition towards IFRS for SMEs. As per the expert respondents, SMEs consider IFRS for SMEs to be a complicated set of accounting standards while Swedish GAAP to be much simpler, while in reality it is the opposite way around. It is just that the SMEs are not aware of what lies inside IFRS for SMEs.

5.2. IFRS for SMEs vs. Swedish GAAP

As per theory and the opinion of experts from empirical findings IFRS for SMEs would be preferred due to its quality and comparability but in practical as per the empirical findings gathered from SMEs in Sweden they prefer their own national accounting standards (Swedish GAAP). As mentioned earlier SMEs consider Swedish GAAP to be simpler and understandable, not costly as compared to IFRS for SMEs and they would not able to bear first time adoption cost. They will face difficulties in switching to new standard because from a long time these existing standards have been in use and it is hard to change from an old system into a new one so instantly. SMEs will adopt IFRS for SMEs only if they are asked to do so by external market forces, government regulators or tax authorities. Preference for the use of IFRS for SMEs would also depend upon the size of the SMEs, their future goals and strategies, and how globally they want to grow.

For companies, quality and comparability in their financial statements is a big issue. The genuine issue regarding quality and comparability is the understanding of financial statements i.e. how much users understand the financial statements. More than accounting standards, what can bring quality and comparability to the financial statements is the proficient and skilled accounting personnel, and how carefully they prepare financial statement. As per theory, IFRS for SMEs will definitely bring quality and comparability to the financial statements of SMEs; however in Sweden, the main edge of IFRS for SMEs is that it would be globally comparable but it is wrong to say that these standards bring more quality because the quality is already high as per Swedish GAAP. There are some rules which are not well-matched either with the Swedish law or the tax law in Sweden. SMEs and their owners prefer to think on how to maximize the profits and minimize the costs rather than think about how to bring quality and comparability. As per theoretical framework and the experts opinion IFRS for SMEs would bring quality and comparability to the financial statements.

Large companies have more focus on harmonized accounting standards due to large number of transactions over the borders and their global operations. SMEs do not give more consideration to harmonized accounting standards because they manage business locally with in a country and have local customers so they don't feel the need for such a global set of standards. The harmonized accounting standards will boost market efficiency and decrease cost of capital for those SMEs who want to raise funds internationally because in making decision related to investment in companies, investors would consult their financial statements. Banks and other financial institutions do look into financial reports but they does not rely their investment decisions solely on financial statements, as there are many other factors as well which are taken into consideration before making an investment, for instance, the type of company, its industry, qualities of the owners and their strategies and future goals. Thus, the first part of the view which is about the increase in market efficiency by the use of harmonized accounting standards can be held true to a large extent but the second part regarding the reduction in cost of capital due to harmonized accounting standards cannot be held absolutely true as it depends upon different factors. Experts' opinions are in accordance to what has been stated in the theoretical framework regarding the increase of market efficiency and decrease in cost of capital by the use of harmonized accounting standards.

The financial statements prepared on the basis of IFRS for SMEs are generally based on accrual basis and going concern of the entity. These characteristics are considered to be the basis of Swedish GAAP as well. When companies prepare their financial statement they must take into consideration that assets and liabilities should be recognized in balance sheet when they are receivable or payable instead of being truly received or paid in the form of cash.

From our empirical data it is clear that the Swedish GAAP has the characteristics of understandability, relevance, reliability and comparability; as they are in IFRS for

SMEs. Swedish GAAP standards have been built over time, and are principal-based standards. The users who have adequate knowledge of business and economic activities can easily understand financial information presented in financial statement prepared under Swedish GAAP. This information is normally free from material error or bias and also fulfilling the decision-making needs of users and has great impact on economic decisions of the users. The characteristic of comparability on the global platform could be uncertain, because there are some standards in Swedish GAAP which have been designed as per the Swedish tax laws. IFRS for SMEs have an edge over Swedish GAAP on the basis of comparability; otherwise all the other characteristics like understandability, relevance and reliability are equally present in Swedish GAAP.

Empirical findings suggest that high quality financial reports minimize the information asymmetry and information risk between the firm and the investors, and are the most appropriate method of communication between both the parties. Other than minimizing the information asymmetry, the important factor to be aware of is that what is the level of understanding of the investors or the users of financial statements? For those users who do not know how to read through the financial reports will find it difficult in any way to comprehend the financial information even if they are of high quality. In some cases especially in large businesses, accountants and managers have more information about operations and financial information of a firm as compared to the external owners. This creates information asymmetry between principal (owner) and agent (manager). The high quality financial statements reduce this risk and attract the investors in the market. The financial statements according to IFRS for SMEs have more quality as compared to Swedish GAAP because these standards from global perspective have more understandability, relevance, reliability and comparability. However, according to some interviewees, information risk and information asymmetry is already low as per the use of Swedish GAAP, and companies are supposed to present the financial information in an appropriate way as per the Swedish GAAP. But there are some secrets which they companies does not disclose to its users.

The Swedish GAAP is both the rules-based as well as principles-based accounting standard. The Swedish accounting system is divided into four clusters based on the nature and size of the companies. These are K1, K2, K3 and K4 projects, where K2-project is more of rules-based and the K3-project is more of principles-based set of accounting standards.

5.3. Costs and Benefits of IFRS for SMEs

According to Henrik Bergdahl, it cannot be decided that one accounting system is better than another one, until and unless it has not been implemented and used. It is usual that when something new is being adopted by the companies, it carries certain cost in terms of both time and resources. The first time adoption of IFRS for SMEs will surely cost the SMEs and the empirical findings suggest that for some companies these costs will be very high. In terms of Swedish SMEs it will be very difficult for them especially the small companies to switch from their national standards to IFRS for SMEs, which will cost them both with time and resources. Switching to IFRS for SMEs would require special training for concerned personnel in SMEs to fully understand these standards and apply them in an appropriate way. In most of the cases, the services of experts would be hired for the transition to IFRS for SMEs. For many SMEs it could turn out to be a perpetual cost, because an accountant or CFO will be required on regular basis as part of the company. This will definitely bear cost and time resources of the SMEs.

IFRS for SMEs will be useful in long-term perspective but not in short-term. It is very hard to see immediate benefits from the adoption of IFRS for SMEs but may be after 10 to 15 years the companies would earn profit which will outweigh the initial costs incurred. This is only possible for medium-sized enterprises and not for the micro or small companies because they companies could not bear initial cost incurred and can go bankrupt. On the other hand, according to some interviewees, for SMEs to cover the initial cost incurred from the benefits generated in later stages after adoption of IFRS for SMEs will be a difficult job. The reason of this is that the companies will have to use it on regular basis which will require the company to keep more employees and will cost them on regular basis. It will cost the companies a lot of money the first time they adopt IFRS for SMEs and later it will be a continuing cost for the company. SMEs which have got long-term broad objectives like going for buyouts, mergers and acquisitions, or getting prepared to be listed on the stock exchange would surely generate the benefits from the adoption of IFRS for SMEs. As per experts, benefits from IFRS for SMEs would outweigh the initial costs incurred by the firms.

In transition process majority of SMEs would hire the services of auditors and analysts; while the companies which already have experienced auditors and analysts would not hire any extra services from the outside experts. This in a way depends upon the nature and type of the company. Some companies would need the services of experts for some parts of transition towards IFRS for SMEs while the others would seek services for the whole transition process. In case if they could not hire experts and does the transition themselves then it would increase the chances of errors which would be identified in the later stages by auditors, which would need correction and this would cost the SMEs more time and cost.

Better understanding and knowledge of ethical and legal issues of any business would always increase possible benefits and reduce harms and risks for business. In adoption of IFRS for SMEs the accountants are required to have the knowledge of both ethical and legal aspects along with the knowledge of business and economics. It would be difficult to grasp the standards in IFRS for SME without having knowledge of legal and ethical aspects.

5.4. Corporate Social Responsibility (CSR)

The opinions of the respondents regarding the presentation of financial statements being a type of Corporate Social Responsibility were closely related to what has been mentioned in the theoretical framework. Almost all of the respondents termed it to be CSR based on certain criteria, for instance, it depends upon the size of the firm; as for one-man or family owned firms there are not many users who would require their financial statements, and thus it does not serve any kind of social responsibility for the micro-level firms. Strict accounting standards do require the companies to disclose maximum of the information regarding the firm to the users in society. Financial statements are considered to be a good way of communication between the firm and the investors, which allows the shareholders to better understand the firm and their operations. Even if not being imposed on the firms by any regulators, it is the firms' ethical and moral duty to present the true and transparent picture of the firm along with tax information and other facts about the company to its shareholders and other users. Financial statements along with CSR also increase the credibility of the company. Most of the public-listed companies prepare separate CSR reports for its users other than their annual financial reports.

5.5. Users of Financial Statement of SMEs

The users of financial statement of SMEs are normally based on size of the company. The micro-level firms have few users i.e. only the owner himself and the tax authorities but as the company size grows the number of users also increase. In general, the users of financial statements of SMEs are split up into two categories, which are external users and internal users. External users include lenders, banks, local/regional government, equity companies, and tax authorities (but information other than these statements is also important), financial institution and supplier who sell their product on credit and with the help of financial statements decide the terms of credit policies. While the internal users are users within the company such as board of directors, owners and the staff.

The size of the firm and number of employees has great impact on dependency upon formal financial statements. The medium-sized firm has more employees and has to manage them, and the financial statements are required as a tool to keep track of the operations performed by them and their contribution in terms profits and expenses in the income statement. On the other hand, in small enterprises owners are more active in operations and have close involvement in the management that is why they are less dependent upon formal financial statements. They know what they make, purchase and sell, so they do not have to rely on any kind of formal financial statements. The main purpose of their businesses is how to earn money, and they can do it without the use of any kind of financial information.

It was found in the empirical findings of our study that almost all the respondents agree with the view that IFRS for SMEs would ease the job for banks in making their lending decisions and monitoring their loan agreements. It will help SMEs in raising finances from international banks located across the boundaries by the use of IFRS for SMEs in their financial reporting. Some respondents were of the view that it is not just the financial statements which are relied upon by the banks, other aspects are taken into consideration as well, for example the decisive power of the owners and the future perspectives of the firm. Lending decisions of banks are also affected by the economic situation persistent in a country. Thus, the results of our empirical findings are in accordance what has been stated in theoretical framework regarding the banks' lending decisions.

The views of the respondents in correspondence to the use of financial statements by the tax authorities for the calculation of taxes were mostly the same as mentioned in the theoretical framework. There should be information symmetry between the accountants of a firm and the tax personnel, because the accountants might know much more than what is known to the tax personnel through financial statements. In such cases tax authorities might use their own tax calculation methods which are not based on the financial statements of a company. Tax authorities mostly have their own standardized tax forms which are used by the companies to provide the tax authorities with the information required in those forms. Data is being filled into these tax forms based upon the financial information presented in the financial statements. In many cases these financial reports are sent along with these tax forms to the tax authorities. There is going to be much difference in the tax standards as per IFRS for SMEs and the tax laws in Sweden, and this is what has been mentioned in the theoretical framework as well that as per national tax regulations, the standards in IFRS for SMEs would not comply with these tax regulations. Differences might arise in cases like how to deal with asset item known as un-taxable funds. Un-taxable funds are allowed as per the Swedish GAAP and Swedish tax laws, but there are no such standards provided in IFRS for SMEs for the treatment of un-taxable funds. Due to many such complexities in between IFRS for SMEs and the Swedish tax laws, companies would prefer to use the Swedish GAAP which is in accordance to Swedish tax laws.

5.6. Regulations regarding IFRS for SMEs

IFRS for SMEs should not be declared mandatory by European Commission or be made statutory by the Swedish government or regulators in Sweden. Almost all small and medium-sized enterprises are not willing to adopt these standards because of high costs associated and extra burden of the switching process. If in near future it will be mandatory by European Commission it would toughen the job of all of SMEs in term of cost, time and understandability. It should not be declared obligatory but should be implemented slowly and steadily over a period of 5 to 10 year. European Commission and the state level regulators should take into consideration the cost-benefit analysis of the IFRS for SMEs before making it mandatory over SMEs, because all that can be thought of from the benefits of IFRS for SMEs are quality and comparability while as per empirical findings the costs of implementation are much higher than these benefits.
According to the empirical findings IFRS for SMEs should not be made statutory by the Swedish government or the regulators in Sweden. IFRS for SMEs should be brought slowly and gradually into the market, and confidence should be given to the SMEs that there are benefits in IFRS for SMEs for them, and they should not only take its costs into consideration. Above all awareness should be brought among companies regarding IFRS for SMEs because many companies are not even aware of what it is. Thus, educational and training programs should be directed towards the benefits IFRS for SMEs has got for SMEs. Level of SMEs should be defined for the use of IFRS for SMEs, because IFRS for SMEs would not be beneficial for all the SMEs equally, as in case of very micro-level firms they don’t have any investors or creditor who might use their financial statements. Thus all the respondents were of the same opinion and against the statutory regulations of making IFRS for SMEs mandatory.

5.7. Building New Knowledge

Financial statements serve to be the most efficient source of communicating information by the firm to its stakeholders. The preparation and publication of financial statements is not just limited to the public listed companies; most of the small and medium-sized firms prepare financial statements as well. The preparation of financial statements by SMEs depends upon variety of factors. These factors refer to the geographical location where the SME is operating, external regulations from the government or tax authorities, and as per the requirements of financial market or other users of the SME. In Sweden, SMEs follow Swedish GAAP, which has been in use for more than 100 years and has been constantly developed over time. Swedish GAAP is undergoing a change, and it is being categorized into four different levels, with each level having accounting standards serving the needs of companies in specific level. Level K1, K2 and K3 are for the SMEs operating in Sweden, while K4 is for the public listed companies. K3 is being developed in accordance to IFRS for SMEs, the Swedish laws and the Swedish tax regulations.

Awareness among most of the SMEs in Sweden regarding IFRS for SMEs is negligible. Neither the SMEs know what IFRS for SMEs is all about, nor are they interested to know about it. SMEs in Sweden are satisfied with the use of Swedish GAAP, and their ignorance and hesitance towards IFRS for SMEs shows that they are not voluntarily willing to use IFRS for SMEs as their accounting standards. The main reason for SMEs to stick to Swedish GAAP is that the standards in Swedish GAAP have been designed as per the Swedish laws and especially the Swedish tax regulations. The relation between the firms in Sweden and the tax authorities is very strong, and due to the compatibility of taxation standards in Swedish GAAP with that of Swedish tax laws makes it easier for both the firms and the tax authorities to use and understand the financial statements. Accounting standards in IFRS for SMEs have been simplified to a great extent and have been tailored as per the use and requirements of SMEs, but the SMEs in Sweden still consider it to be a complex book of accounting standards. Many SMEs which operates locally, could not grasp any solid reasons for why they should use IFRS for SMEs, when they do not operate globally, do not have any international links with suppliers, or seek to raise capital or finances from the international financial market.

SMEs in Sweden consider the adoption of IFRS for SMEs to be bearing huge costs for them. To use IFRS for SMEs, SMEs would be required to hire the services of experts in order to complete the transition process of shift towards IFRS for SMEs for them. For most of the SMEs which do not have any accounting personnel or department, for them adoption of IFRS for SMEs will not only bear the initial costs rather they would have to carry these cost on perpetual basis as they would require an accountant who could keep track of all the events and transactions taking place in the daily business operations, and then apply the appropriate accounting treatment on them as per the standards in IFRS for SMEs. For those SMEs which already have accounting personnel or department, adoption of IFRS for SMEs will be a cost for them as well because they would either need to replace their existing accountants with more specialized accountants in IFRS for SMEs, or would require educating their existing accountants with IFRS for SMEs training programs.

IFRS for SMEs would be preferred by those SMEs which have global objectives, want to expand and extend their operations across the borders, and what are their long-term goals. Adoption of IFRS for SMEs would also depend upon the size of the firm, that is the bigger the size of the firm, the more inclined it will be towards the adoption of IFRS for SMEs because of the more benefits it can acquire from its adoption and vice versa.

SMEs which seek raising capital from the banks and other financial institutions in international market would be looking forward to adopt IFRS for SMEs in their financial statements. But this does not in any way mean that banks and financial institutions solely depend on these financial statements regarding their loan decisions as they do take into consideration other factors associated with the business as well. Other SMEs which have got strategic long-term goals like going for buyouts, mergers and acquisitions, or getting prepared to be listed on the stock exchange would be able to benefit from the use of IFRS for SMEs.

Quality and comparability comes along with the application of IFRS for SMEs, but what is important to be considered along with this is that the professionalism of accounting personnel who prepare financial statements is also very important. In case of SMEs, quality and comparability are not the main aspects to be considered by them while preparing their financial statements. Swedish GAAP is considered to be of high quality as well but what it could lack in is the comparability of financial statements on international level. Adoption of IFRS for SMEs would increase the market efficiency by the disclosure and presentation of much of the information into the market; but validating the view that IFRS for SMEs would decrease the cost of capital is doubtful, as increase or decrease in cost of capital depends on many other factors as well.

Both IFRS for SMEs and Swedish GAAP decreases information asymmetry and information risk between the firm and the users, but financial statements prepared as per IFRS for SMEs have more quality as compared to financial statements prepared as per Swedish GAAP. There are certain secrets and information in the companies which is not disclosed by them to their users under any accounting standards. In case of many small businesses owners/managers do not rely on any kind of financial statements because they know the operations and financial figures of their company very well, and for them to take their economic decisions they do not require any formal set of financial reports. Presentation of financial statements to the users as per certain quality accounting standards can be considered as a type of Corporate Social Responsibility, but it cannot be held true for all the SMEs because many small-level SMEs do not have variety of users, as they are mostly run by one man or are family owned. As the standards in IFRS for SMEs are principle-based, an accountant is required to have the knowledge of both ethical and legal aspects along with their knowledge in business and economics.

The users of financial statements of SMEs vary as per the size and type of the company. For small-sized firms, it is mostly the owners themselves and the tax-authorities. But as the size of the company grows the range of users grows as well. For instance, the users of medium-sized SMEs could be the banks, financial institutions, government authorities, regulators, tax authorities, credit-rating agencies, and suppliers etcetera. Financial statements can be used internally with in a company by the owners, board of directors and employees. In Sweden tax authorities are one of the main users of financial statements of SMEs, but they require this data presented in their financial reports on a tax-form which is provided by the tax-authorities to them. On the basis of this financial information extracted from the financial statements is reproduced on the tax forms is used by the tax authorities to calculate taxes for the firms. It is easy to extract financial information from the financial reports prepared as per the Swedish GAAP rather than doing the same from an IFRS for SMEs generated financial reports, because standards in Swedish GAAP has been designed in accordance to Swedish tax laws.

IFRS for SMEs could not be easily made mandatory by either the European Union or the Swedish government/regulators, due to the fact that the range of SMEs is spread over two extremes. Taking any such steps regarding the imposition of these standards on SMEs would almost destroy one extreme of the SMEs which are the micro-level SMEs. As SMEs represents 99% of the economies in Europe, no such regulations would be made which could be harmful for these key representatives of the economy. Cost-benefit analysis from the perspective of SMEs would be required before making IFRS for SMEs mandatory on SMEs.

Chapter 6: Conclusion and Recommendations

6.1. Conclusion:

SMEs in Sweden are mostly ignorant to the launch of IFRS for SMEs, and are not prepared in any way to adopt IFRS for SMEs. Their inclination is towards the existing system of accounting standards, which is the Swedish GAAP. What we realized during the empirical findings was that our understanding which was developed during the preparation of theoretical framework did not match most of the opinions in the market regarding different factors associated with IFRS for SMEs. According to our study of the previous and current literature, we were of the opinion that the SMEs in the market would be very enthusiastic about the launch of IFRS for SMEs, and would be eager to adopt it. But in reality, the picture was totally different and the SMEs in Sweden had no willingness to adopt IFRS for SMEs in their financial reporting. There are no signs yet of making IFRS for SMEs mandatory by either the European Commission or by the regulators in Sweden.

In Sweden, SMEs are following the Swedish GAAP that is undergoing the process of further changes and improvements especially in terms of K3 project which is being designed and prepared in accordance to the guidance from IFRS for SMEs. Swedish GAAP has been in use by the companies in Sweden for around 100 years, and due to its compatibility with the Swedish laws and tax regulations, companies are not easily willing to give upon it and adopt any new set of accounting standards. Majority of the SMEs in Sweden share the same hallucinations regarding the IFRS for SMEs, and they consider it to be a complicated set of accounting standards which would bear a lot of cost and would affect their operations and profitability to a great extent. There is close coordination between the companies and the tax authorities in Sweden, and there are many such accounting treatments as per the Swedish tax laws for events and transactions occurring in businesses, which are different in IFRS for SMEs and could complicate the work for both the company and the tax authority.

As per different definitions, SMEs are spread over an extended range from micro-level firms to medium-sized firm with different number of employees, balance-sheet total or turnover. Making the use of IFRS for SMEs on the complete range of SMEs would not be a favorable decision either from European Commission or from the regulators in Sweden. The micro and small-level SMEs do not find any lucrative reasons for the adoption of IFRS for SMEs. They affirm that there is quality and comparability in IFRS for SMEs along with many other characteristics but these characteristics does not matter to small-sized firm as they are solely operating with the objectives of making more business and earning the maximum profits. Also, most of the SMEs operate locally and does not have any ambitions of going global or raising funds from international market.
Rather for the adoption of IFRS for SMEs would cost companies with a lot of time and resources, which most of the small-sized SMEs could not manage. The first time adoption of IFRS for SMEs would require the hiring of services of auditors and accounting experts for the transition phase. Although SMEs are reluctant to adopt IFRS for SMEs in Sweden, the factors which could determine the adoption of IFRS for SMEs are the size of the firm, their future goals and objectives in terms of how vastly they

wish to expand their operations and how globally they are willing to extend, along with their need of acquiring finances from the international market. On the other hand, banks does not completely rely on the financial statements of the firm in making their lending decisions or deciding upon the cost of capital, they do consider other factors associated with the firm and its owners.

Professionalism and accounting skills of the accounting personnel does matter in bring quality to the financial statements and efficiency in terms of presenting and disclosing the maximum and the most appropriate information and facts about the firm to the market; and this in a way can be termed as Corporate Social Responsibility (CSR). Due to the complexities involved in the application of IFRS for SMEs, an accountant is required to have the ethical and legal knowledge as well. Majority of the owners of small-business does not rely on formal financial statements, and due to their close involvement in the business can make decisions on their own capabilities. As per the size of SMEs, there are different users associated with it, but some common users for the majority of the SMEs could be the owners, management, banks and tax authorities.

Our research study's contribution to the knowledge can be framed in a way that certain factors, which as per the theory were of importance and benefits to the SMEs, were not of much interest to the SMEs in reality. Although, on the many factors the SMEs did respond positively to what has been presented by the theory, but there existed difference of opinion between the theory and the empirical findings on specific issues. These factors have been discussed in detail in the previous chapter under the heading of 'Building new knowledge'. The difference of opinion is presented with reasons which contribute to the existing knowledge in the form of new theories and tested observations/findings. The factors which were subject to analysis and empirical findings in this research study can be grouped in a set which comprises of cost-benefit analysis, taxation, regulations, market efficiency, cost of capital, CSR, and quality and comparability.

6.2. Recommendations:

What IFRS for SMEs lack the most is the awareness regarding these standards. Majority of the SMEs are not even aware of what IFRS for SMEs is, and what is it all about. Launching of new accounting standards would not serve the purpose because companies already have their existing national accounting standards and are contented with its use. Efforts towards bringing the awareness of IFRS for SMEs among the companies should be prioritized. This can be done by arranging seminars, training programs and conferences regarding the awareness of IFRS for SMEs, its uses and the cost-benefit analysis of IFRS for SMEs from the perspective of SMEs. What the SMEs fear most about the IFRS for SMEs are the complexities and costs associated with the adoption of IFRS for SMEs. It should be brought into the knowledge of SMEs that neither IFRS for SMEs is a complex set of accounting standards nor its costs would be so high that companies would not be able to recover from it. Initially, it would be both complicated and would bear some cost of adoption but later on companies could use it in a normal way just like they use their national accounting standards, but with more enhanced characteristics in terms of quality and comparability.

IASB has already started to take steps in terms of making IFRS for SMEs easier to be adopted and used. In this respect IASB has launched the training material for the use of IFRS for SMEs. These training modules have been designed and created in a very simple way and are easy to understand, which could be comprehended by most of the SMEs' accountants and could minimize the extra costs which would be paid to hire the services of expert accountants and auditors. IFRS for SMEs should not be made mandatory by the European Union or the Swedish government/regulators because IFRS for SMEs is still in its very early stages and the majority of the SMEs are not yet ready for adoption of this change. As the SMEs represent the biggest portion of contribution in the economy, any such decisions from the regulators which could be bothersome for the sustainability and economic health of SMEs would be avoided.

6.3. Further Research:

As this study has been carried out in Sweden, the preparation and inclination of SMEs in other European countries towards their adoption of IFRS for SMEs should be assessed as well. This would provide a broader spectrum of knowledge in terms of how does the majority of SMEs across different countries perceive IFRS for SMEs, and how better equipped they are in terms of adopting these new set of accounting standards. Research could also be conducted in Sweden in terms of comparing the Swedish GAAP to that of IFRS for SMEs in terms of what are the differences and similarities in the accounting standards in both of the accounting systems. Research can be conducted on the identification of threshold level of those SMEs which could possible adopt the IFRS for SMEs at an optimum level both in terms of cost and benefits.

References:

Analoui, F. and Karami, A. (2003). *Strategic Management in Small and Medium Enterprises*. 1st edition. London, Great Britain: Thomson Learning.

Aras, G. and Crowther, D. (2008). Developing sustainable reporting standards. *Journal of Applied Accounting Research*. 9 (1). 4-16.

Arey D. and David M. (2008). *Demand For Auditing In Small Firms An Impact On Small Companies In Sweden That Are Not Required By The Legislation To Have Their Accounts Audited.* Master Thesis. Umeå: Umeå University.

Armstrong, C.S., Barth, M.E., Jagolinzer A.D. and Riedl E.J. (2008). Market Reaction to the Adoption of IFRS in Europe. *Harvard Business School Working Papers*. Accessed from: <http://www.hbs.edu/research/pdf/09-032.pdf> [Retrieved: 24-03-2010 at 5pm-7pm]

Bannock, G. (1981). *The Economics of Small Firms: Return from the Wilderness*. UK: WileyBlackwell.

Barker, C., & Pistrang, N. (2005). Quality Criteria under Methodological Pluralism: Implications for Conducting and Evaluating Research. *American Journal of Community Psychology*, 35 (3/4), 201-212.

Bhimani, A. (2008). The role of a crisis in reshaping the role of accounting. *Journal of Accounting and Public Policy*. 27 (6). 444-454.

BFN's reply to IASB's questionnaire. (2010, March). Available at <http://archive.iasb.org.uk/docs/pv-sme/SMEs-CL55.pdf> [Reterived 2010-03-06 at 6pm-7pm]

Bokföringsnämnden, Swedish Accounting Standards Board. (2010, March). BFN in English. Available at <http://www.bfn.se/english.aspx> [Reterived 2010-03-04 at 7pm-8pm]

Bokföringsnämnden. (2008, April). Information om Bokföringsnämndens normgivningsprojekt för årsredovisning och årsbokslut för icke-noterade företag. Bokförnämnden's website <http://www.bfn.se/AKTUELLT/Ny-normgivning.pdf>. [Retrieved 2010-04-01].

Bryman, A. and Bell, E. (2007). "*Business Research Methods.*" 2nd edition. New York, USA: Oxford University Press 2007.

Carmona, S., and Trombetta, M. (2008). On the global acceptance of IAS/IFRS accounting standards: The logic and implications of the principles-based system. *Journal of Accounting & Public Policy*. 27 (6). 455-461.

Chorafas, D. (2006). *International Financial Reporting Standards Fair Value and Corporate Governance*. First Edition. Burlington: Elsevier Ltd.

Collis, J., Jarvis, R. and Skerratt, L. (2001). Size and the value of the audit. *Accounting & Business.* 4 (10). 41-42.

Diener, E., and Grandall, R. (1978). *Ethics in social and behavioral research*. Chicago: University of Chicago Press.

Ekonomifakta. (2010, March). Available at: <http://www.ekonomifakta.se/sv/Fakta/Foretagande/Naringslivet/Naringslivets-struktur/> [Access 2010-03-06 at 5pm-6pm]

Elena, H., Catalina, M.C., Stefana, C.I. and Niculina, A.A. (2009). Some Issues About The Transition From U.S. Generally Accepted Accounting Principles (GAAP) To International Financial Reporting Standards (IFRS). *Annales Universitatis Apulensis Series Oeconomica*. 1 (11).

Elliott, B. and Elliott, J. (2002). *Financial Accounting, Reporting and Analysis. International Edition*. England: Pearson Education.

Epstein, B.J. and Jermakowicz, E.K. (2010). *Wiley IFRS 2010: Interpretation and Application of International Accounting and Financial Reporting Standards 2010*. New Jersey: John Wiley & Sons, Inc.

Erixon, F. (2009). SMEs in Europe: taking stock and looking forward. *Centre for European Studies*. 8. 293-300. (DOI 10.1007/s12290-009-0093-7).

European Commission. (2009). *Commission Staff working document on the implementation of Commission Recommendation of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises.* Brussels: European Commission.

European Commission. (2008). *Putting small businesses first: Europe is good for SMEs, SMEs are good for Europe.* [Booklet]. European Commission.

European Commission. (2005). *New SME definition user guide and model declaration*. EC Enterprise and Industry Publications.

Fitzpatrick, M. and Frank, F. (2009). IFRS for SMEs: The Next Standard for U.S. Private Companies? *Journal of Accountancy*. 208 (6). 50-54.

Gray, I. and Manson, S. (2008). *The Audit Process: Principles, Practices and Cases*. 4th Edition. London: Thomson Learning.

Ghauri P. and Gronhaug K (2005). *Research methods in business studies: a practical guide.* 3rd Edition. New Jersey: Prentice Hall.

Guba E.G. & Lincoln Y.S. (1994). *Competing paradigms in qualitative research.* In N. K. Denzin & Y. S. Lincoln (Eds.), Handbook of qualitative research (pp. 105-117). London: Sage.

Göransson, W. (2008). *The Pain versus The Gain….IFRS "Light" anyone! A qualitative study on the proposed IFRS for SMEs whether it would be suitable for companies in Sweden*. Master Dissertation. Umeå: Umeå University.

Harvey, D. and Walton, P. (1996). *Differential Reporting - An Analysis (SME Foundation)*. London: The Foundation for Manufacturing and Industry.

Hillary, R. (2000). *Small and Medium-Sized Enterprises and the Environment*. UK: Greenleaf Publishing Limited.

Holmes, S., Kent, P. and Downey G. (1991). The Australian differential debate: A survey of practitioners. *Accounting and Business Research*. 21(82). 125-132.

IASB. (2010). *Who we are and what we do.* International Accounting Standards Board (IASB) and IASC Foundation (January 2010).

IASC Foundation Education. (2009). *Training Material for the IFRS for SMEs*. London: IASC Foundation Publications Department.

International Accounting Standards Board. (2009). *International Financial Reporting Standards (IFRS) for Small and Medium-sized Entities (SMEs) by International Accounting Standards Board (IASB)*. London: IASB.

International Accounting Standards Board. (2009). *Basis for Conclusions: IFRS for SMEs. (2009)*. [Booklet]. London: IASB.

International Accounting Standards Board. (2009). *International Financial Reporting Standards (IFRS) for Small and Medium-sized Entities (SMEs) by International Accounting Standards Board (IASB).* London: IASB.

International Accounting Standards Board (IASB). (2010, March). Available from:
<http://www.iasb.org/Current+Projects/IASB+Projects/Small+and+Medium-sized+Entities/Small+and+Medium-sized+Entities.htm> [Reterived 2010-03-04 at 5pm-6pm]

Jaruga, A. and Fijatkowska, J. (2004). Small and medium-sized enterprises in Poland - the case of accounting regulations. *Unpublished research paper*.

Jarvis, R. (2003). Financial Reporting: IFRS and SMEs – A question of definition. *Accountancy*. 132 (1323). 80.

Jarvis, R. and Collis, J. (2003). IFRSs and Differential Reporting. *British Accounting Association Annual Conference of the South Eastern Accounting Group*. 1-15.

John, B. and S. Heales. (2000). Financial reporting Standard for small entities: a fundamental or cosmetic change? *ACCA Occasional Research Paper No. 30*. Available via:

http://www.accaglobal.com/general/activities/research/reports/smallbusiness_research/op-030 [Retrieved March 29th, 2010]

Kekäle, T., De Weerd-Nederhof, P., and Cervai, S., Borelli, M. (2009). "The "dos and don'ts" of writing a journal article". *Journal of workplace learning,* 21 (1), 71-80.

Kent R.A. (2007). *Marketing research: approaches, methods and applications in Europe.* USA: Thomson Learning.

Kotler P. and Lee N. (2005). *Corporate Social Responsibility Doing The Most Good For Your Company And Your Cause*. New Jersey: John Wiley & Sons, Inc.

Lincoln, Y., and Guba, E. (1985). *Naturalistic inquiry*. New York: Sage.

Lippitt, J. & Oliver, B. (1983). Big GAAP, Little GAAP: Financial Reporting in the small business environment. *Journal of Small Business Management*.

Lungu, C. Caraiani, C. & Dascalu, C. (2007). New Directions of Financial Reporting within Global Accounting Standards for Small and Medium-Sized Entities.

Media Center: International Federation of Accountants (IFAC). (2010, March). Available from
<http://www.ifac.org/MediaCenter/?q=node/view/658> [Reterived 2010-03-04 at 5pm-6pm]

Mirza, A. Holt, G. and Orrell M. (2008). *IFRS Practical Implementation Guide and Workbook.* 2nd Edition. New Jersey: John Wiley & Sons, Inc.

Munter, P.H., Anderson, S.R. and Mellentine, J. (2009). Issues In-Depth: A Closer Look at IFRS for SMEs. *KPMG Department of Professional Practice*. 09 (2). 1-17.

Neag, R., Masca, E., & Pascan, I. (2009). Actual Aspects Regarding The IFRS For SME – Opinions, Debates and Future Developments. *Annales Universitatis Apulensis Series Oeconomica, Faculty of Sciences*. 1(11).

Nelson, M.W. (2003). Behavioral evidence on the effects of principles- and rules-based standards (commentary). *Accounting Horizons*. 17. 91–104.

Nicoleta, P.D., Victoria, B., Mariana, F. (2009). Standards, Rules or Principles based accounting regulation. *Journal of Faculty of Economics*, III, 1125-1131.

Organization for Economic Co-operation and Development (OECD). (2006). *The SME Financing Gap (Vol. 1): Theory and Evidence*. France: OECD Publishing.

Pacter, P. *Standards and SMEs: who, what, when and why?* Accounting & business WCOA special edition. 31-33.

Pacter, P. 2004. Will the GAAP widen for SMEs? *Institute of Chartered Accountants in England & Wales, Accountancy*. 133(1325). 118-122.

Paoloni, M., Demartini, P., Moneva, J.M. and Cuellar, B. (1999). Financial reporting by SMEs in Italy and Spain. *Paper presented at the annual congress of the European Accounting Association, Bordeaux, France*.

Riistama V. and Vehmmanen P. (2004). Globally applicable conceptual framework for small and medium-sized entities, in Evans L. and di Pietra R. (2005). *Comment on the IASB discussion paper: preliminary views on accounting standards for small and medium-sized entities*.

Rundfelt, R. 2007. *Accounting Standards for unlisted entities: Do we need special accounting standards for unlisted entities and, if so, what should they look like?*

Saunders M., Lewis P. and Tornhill A. (2009). *"Research Methods for Business".* 5nd edition. England: Pearson Education Limited.

SBA Fact sheet Sweden by European Commission: Enterprise and Industry. (2008)

Scott, M. and Bruce, R. (1987). Five stages of growth in small business. *Long Range Planning*. 20 (3). 45-52

Shortridge, R.T. and Myring, M. (2004). Defining Principles-Based Accounting Standards. *The CPA Journal Online*.
<http://www.nysscpa.org/cpajournal/2004/804/essentials/p34.htm> [Retrieved 23-03-2010 at 5pm-6pm]

Sleigh-Johnson, N., & Shearer, B. (2009). Shortened IFRS, Intended for Smaller Companies, Could Work As Well for Larger Entities. *Journal of Aountancy*. 144 (1395), p 64-65.

Street, D. and Jr. Needles, B. (2009). IFRS: Don't Get Caught Short. *Journal of Accountancy*. 207 (5). 56-57.

Taylor, D.W. (2009). Costs-benefits of adoption of IFRSs in countries with different harmonization histories. *Asian Review of Accounting*. 17 (1). 40-58

Tudor, A.T. and Mutiu, A. (2008). Pro And Contra Opinions Regarding A SME Accounting Standard. *Annales Universitatis Apulensis Series Oeconomica, Faculty of Sciences.* 1(10). 1-4.

Tyrrall, D., Woodward, D. and Rakhimbekova, A. (2007). The relevance of International Financial Reporting Standards to a developing country: Evidence from Kazakhstan. *The International Journal of Accounting*. 42 (1). 82-110.

Wittsiepe, R. (2008). *IFRS for Small and Medium-sized Enterprises: Structuring the Transition Process.* 1st Edition. Wiesbaden: Betriebswirtschaftlicher Verlag.

Appendix I

Interview Guide

Q.1 What kind of accounting standards are followed by Small-and-medium sized companies in Sweden?

Q.2 What is your opinion regarding the launch of International Financial Reporting Standards (IFRS) for SMEs in July, 2009?

Q.3 It has been stated about IFRS for SMEs, that it will bring quality and comparability to the financial statements of SMEs. What is your opinion about it?

Q.4 Did you ever considered a set of accounting standards for SMEs which is globally used just like IFRS?

Q.5 According to you, who are the users of financial statements of SMEs?

Q.6 How do you see the approach of SMEs in Sweden towards their preparedness to adopt IFRS for SMEs?

Q.7 Which accounting standards you would prefer out of IFRS for SMEs and Swedish GAAP?

Q.8 How often SMEs voluntarily wish to use accounting standards in their financial reports?

Q.9 Do you think IFRS for SMEs should be made mandatory by European Commission just like IFRS has been made mandatory for listed companies?

Q.10 Do you agree/disagree that harmonized accounting standards increases market efficiency and reduces cost of raising capital?

Q.11 Is the Swedish GAAP based on accrual basis of accounting and the going concern of an entity?

Q.12 Can you consider the Swedish GAAP to have the characteristics of understandabilty, relevance, reliability and comparability; as they are in IFRS for SMEs?

Q.13 Do you think that the first time adoption of IFRS for SMEs will cost the SMEs both with the time and resources?

Q.14 Do you think that the benefits of IFRS for SMEs in later stages will outweigh the initial costs incurred?

Q.15 Will it be easy for the accounting department/personnel to complete the transition process of the shift towards the IFRS for SMEs by themselves, or will they be hiring the services of auditors and analysts?

Q.16 Do you think that the way in which financial information is presented to the shareholders and other users in accordance to certain specific accounting standards is a type of Corporate Social Responsibility (CSR)?

Q.17 Is the Swedish GAAP, a rule-based accounting system or principles-based accounting system?

Q.18 For the application of IFRS for SMEs an accountant is required to have knowledge of business and economics along with some skills in ethical and legal aspects. What is your opinion about it?

Q.19 It is believed that high quality financial reports minimize the information asymmetry and information risk between the firm and the investors.

Q.20 Do you support the view that small business managers are less dependent upon formal financial statements as they have close involvement in the management?

Q.21 It has been stated that IFRS for SMEs would ease the job for banks in making their lending decisions and monitoring the loan agreement. What is your opinion?

Q.22 Tax authorities need financial statements for the calculation of taxes. Comment!

Q.23 Do you think it will be economically favorable for the SMEs to be imposed with a statutory regulation to use IFRS for SMEs in their financial statements?

Umeå School of Business
Umeå University
SE-901 87 Umeå, Sweden
www.usbe.umu.se