FINANCIAL REPORTING BY SMALL AND MEDIUM SIZED ENTITIES IN MONGOLIA AND THE INTERNATIONAL FINANCIAL REPORTING STANDARD FOR SMALL AND MEDIUM SIZED ENTITIES

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ABSTRACT

This study examines three important aspects of financial reporting practice of Small and Medium sized Entities (SMEs) in developing economy. First, the study investigates the existing reporting practices of SMEs in Mongolia. Second, the study considers the expected impact for Mongolian SMEs of adopting the International Financial Reporting Standard for Small and Medium sized Entities (IFRS for SMEs). Third, the study examines the relationships between the economic characteristics of SMEs and both their reporting practice and the expected impact of adoption of the IFRS for SMEs.

The study adopts a mixed method approach with a quantitative survey questionnaire and qualitative semi-structured interviews. The study developed a survey questionnaire and obtained 102 responses: 67 responses from employee account preparers of SMEs and 35 responses from accounting practitioners of Public Accounting Firms (PAFs) engaged with SMEs. The results of the survey were analysed using a range of non-parametric tests and Ordinary Least Squares (OLS). The qualitative semi-structured interviews were carried out with eight standard-setters, educators and information users and analysed using Nvivo.

Overall, the research findings suggest that in Mongolia there is a low level of compliance with international financial reporting standards. It appears that preparers and users perceive a low level of net benefits from compliance. Surprisingly, the results indicate that the economic characteristics of SMEs do not appear to influence their reporting practice. Adoption of the IFRS for SMEs is expected to increase the level of compliance by SMEs.

TABLE OF CONTENTS

Research Supervisors ii

Acknowledgement iii

Abstract v

List of Tables i

List of Figures iv

List of Acronyms v

Chapter 1. Introduction 1

1.1 Motivations and research objectives of the study 1
1.2 Research methodology 3
1.3 Research contributions 4
1.4 Outline of the Thesis 5

Chapter 2. Background of the study 7

2.1 Introduction 7
2.2 Mongolia as a country 7
2.2.1 Country and economic structure 7
2.2.2 The Mongolian accounting environment 11
2.2.3 The Mongolian taxation enviroment 13
2.3 Development of the IFRS for SMEs 14
2.3.1 Initiative for developing the IFRS for SMEs 15
2.3.2 SME definition 16
2.3.3 Largest working group 17
2.3.4 Publication of the Exposure Draft in languages other than English 17
2.3.5 Field-testing 18
2.3.6 Name changes 18
2.3.7 Final IFRS for SMEs 19
2.4 Summary 21

Chapter 3. Literature review ... 22
3.1 Introduction ... 22
3.2 Information users of SME financial reporting ... 22
3.2.1 Owner-managers ... 25
3.2.2 Lenders and bankers ... 27
3.2.3 Taxation authorities ... 30
3.3 Compliance with reporting standards ... 32
3.3.1 Compliance with international reporting standards ... 34
3.3.2 Economic characteristics of entities ... 34
3.3.2.1 Size of the entity ... 34
3.3.2.2 Type of industry ... 36
3.3.2.3 Accountancy proficiency ... 37
3.3.2.4 Longevity of the entity ... 38
3.3.2.5 Knowledge of English ... 38
3.3.3 Country specific characteristics ... 40
3.3.3.1 Needs of information users ... 40
3.3.3.2 Financial dependence upon international organisations ... 41
3.3.3.3 Training ... 42
3.3.4 Compliance with national reporting standards by SMEs ... 43
3.4 Financial statement preparation cost ... 45
3.5 Differential reporting ... 48
3.5.1 Qualifying criteria ... 49
3.5.2 DR mechanisms ... 49
3.5.3 New Zealand ... 51
3.5.4 United Kingdom ... 53
3.5.5 Canada ... 55
3.5.6 United Nations Conference on Trade and Development ... 56
3.6 Impacts of the IFRS for SME ... 58
3.6.1 Benefits of complying with the IFRS for SMEs ... 58
3.6.1.1 Improved quality of information ... 60
3.6.1.2 Implementation support ... 62
3.6.2 Reporting costs and burden ... 64

3.7 Summary 66

Chapter 4. Research methodology 67

4.1 Introduction 67

4.2 Mixed method approach 67

4.3 Quantitative component 68

4.3.1 Sample selection 68

4.3.2 Question construction 70

4.3.3 Pilot tests 76

4.3.4 Data analysis 77

4.4 Research hypotheses 77

4.5 Qualitative component 81

4.5.1 Sample selection 81

4.5.2 Question construction 82

4.5.3 Data collection 84

4.5.4 Data analysis 84

4.6 Summary 88

Chapter 5. Quantitative analysis 89

5.1 Introduction 89

5.2 Profile of the sample respondents and associated entities 89

5.2.1 Certified Public Accountant (Q B1) 89

5.2.2 Degree in accounting (Q B2/B3) 90

5.2.3 Work experience as an accountant (Q B4) 91

5.2.4 English proficiency (Q B9) 91

5.2.5 Number of employees of the associated entity (Q B5) 92

5.2.6 Industry sector of the associated entity (Q B6) 93

5.2.7 Longevity of the associated entity (Q B7) 94

5.2.8 Annual sales revenue of the associated entity (Q B8) 95

5.3 Uses, cost/burden, and net benefit 96

5.3.1 Purposes, uses, usefulness, and services 97

5.3.1.1 Question 1: Purposes of preparing financial statements 98

5.3.1.1.1 Test of H_1: There is no difference in importance among the purposes for preparing financial statements 100

5.3.1.1.2 Test of H_2: The respondents' views on the purposes for preparing financial statements do not vary with economic characteristics 102
5.3.1.2 Question 2: Importance of external financial statements for internal decision-making 104
5.3.1.2.1 Test of H_3: There is no difference in importance among the uses of external financial statements for internal decision-making.. 105
5.3.1.2.2 Test of H_4: The respondents' views on the importance of the uses do not vary with economic characteristics 105
5.3.1.3 Question 7: Information usefulness 107
5.3.1.3.1 Test of H_5: The respondents' views on importance of the information usefulness do not vary with economic characteristics .. 107
5.3.1.4 Question 10: Importance of the services provided to SMEs by accounting practitioners 108
5.3.1.4.1 Test of H_6: There is no difference in importance among the services provided to SMEs by accounting practitioners 108
5.3.1.4.2 Test of H_7: The respondents' views on importance of the services provided to SMEs by accounting practitioners do not vary with economic characteristics 108
5.3.2 Cost/Burden 109
5.3.2.1 Question 8: Importance of preparation costs in preparation of financial statements 109
5.3.2.1.1 Test of H_8: There is no difference in importance among the costs associated with preparation of financial statements 110
5.3.2.1.2 Test of H_9: The respondents' views on importance of preparation costs do not vary with economic characteristics 111
5.3.2.2 Question 9: Burden components 111
5.3.2.2.1 Test of H_{10}: There is no difference in burdensomeness among the burden components associated with preparation of financial statements 112
5.3.2.2.2 Test of H_{11}: The respondents' views on importance of the burden components do not vary with economic characteristics 113
5.3.2.3 Statutory requirement burden (Questions 11 - 15) 113

5.3.2.4 Question 11: Disclosure requirements 114
5.3.2.4.1 Test of H_{12}: There is no difference in burdensomeness among the disclosure requirements 115
5.3.2.4.2 Test of H_{13}: The respondents' views on burdensomeness of the disclosure requirements do not vary with economic characteristics 116
5.3.2.5 Question 12: Auditing law requirements 118
5.3.2.5.1 Test of H_{14}: There is no difference in importance among the requirements associated with auditing law 119
5.3.2.5.2 Test of H_{15}: The respondents' views on importance of the auditing law requirements do not vary with economic characteristics 119
5.3.2.6 Overall burden (Questions 13, 14, and 15) 120
5.3.2.6.1 Test of H_{16}: There is no difference in burdensomeness among the overall burden associated with complying with requirements 121
5.3.2.6.2 Test of H_{17}: The respondents' views on burdensomeness of the overall burden do not vary with economic characteristics 121
5.3.2.7 Question 16: Reduction of the burden associated with preparation of financial statements 122
5.3.2.7.1 Test of H_{18}: There is no difference in possible ways of reducing the burden associated with preparation of financial statements 123
5.3.2.7.2 Test of H_{19}: The respondents' views on possible ways of reducing the burden associated with preparation of financial statements do not vary with economic characteristics 124
5.3.3 Net benefit 126
5.3.3.1 Question 19: Net benefit of information 126
5.3.3.1.1 Test of H_{20}: The respondents' views on importance of the net benefit do not vary with economic characteristics 126
5.4 Compliance with IFRS 127
5.4.1 Questions 3 and 4: Level of compliance with IFRS 127

5.4.1.1 Test of H_{21}: The respondents' views on the level of compliance with IFRS do not vary with economic characteristics 128
5.4.2 Question 28: Compliance with individual standard 129
5.4.2.1.1 Test of H_{22}: There is no difference in level of compliance among the individual standard 135
5.4.2.1.2 Test of H_{23}: The respondents' views on level of compliance with individual standard do not vary with economic characteristics 140
5.4.3 Question 5: Compliance difficulties 147
5.4.3.1 Test of H_{24}: There is no difference in potential difficulties in complying with IFRS 147
5.4.3.2 Test of H_{25}: The respondents' views on difficulties in complying with IFRS do not vary with economic characteristics 148
5.4.4 Question 6: Reasons for not fully complying with IFRS 149
5.4.4.1 Test of H_{26}: There is no difference in reasons for not fully complying with IFRS 149
5.4.4.2 Test of H_{27}: The respondents' views on reasons for not fully complying with IFRS do not vary with economic characteristics 149
5.5 Impacts of the IFRS for SMEs on SMEs 151
5.5.1 Benefits of information 151
5.5.1.1 Question 25: Types of benefits to users 151
5.5.1.1.1 Test of H_{28}: There is no difference in importance of the types of expected benefits for users from the IFRS for SMEs 152
5.5.1.1.2 Test of H_{29}: The respondents' views on importance of the expected types of benefits of information do not vary with economic characteristics 153
5.5.1.2 Question 27: Overall usefulness to users 155
5.5.1.2.1 Test of H_{30}: The respondents' views on overall usefulness of information to users do not vary with economic characteristics 155
5.5.1.3 Question 18: Benefits to others 156
5.5.1.3.1 Test of H_{31}: There is no difference in importance of the expected benefits to others from the adoption of the IFRS for SMEs 157

5.5.1.3.2 Test of H_{32}: The respondents' views on importance of the expected benefits to others from the adoption of the IFRS for SMEs do not vary with economic characteristics 157
5.5.2 Cost/Burden 158
5.5.2.1 Question 22: Costs of implementation 158
5.5.2.1.1 Test of H_{33}: There is no difference in importance among the costs for implementation for the IFRS for SMEs 159
5.5.2.1.2 Test of H_{34}: The respondents' views on importance of the costs of implementation do not vary with economic characteristics 159
5.5.2.2 Question 17: Reduction of reporting cost 160
5.5.2.2.1 Test of H_{35}: There is no difference in importance among the possible simplifications from adoption of the IFRS for SMEs 161
5.5.2.2.2 Test of H_{36}: The respondents' views on importance of the simplifications do not vary with economic characteristics 162
5.5.2.3 Question 23: Burden reduction from the IFRS for SMEs 162
5.5.2.3.1 Test of H_{37}: The respondents' views on importance of burden reduction do not vary with economic characteristics 163
5.5.3 Net benefit from the IFRS for SMEs 163
5.5.3.1 Question 26: Net benefit for users 163
5.5.3.1.1 Test of H_{38}: The respondents' views on importance of the net benefit for users do not vary with economic characteristics 164
5.5.3.2 Question 24: Net benefit for SMEs 164
5.5.3.2.1 Test of H_{39}: The respondents' views on importance of the net benefit for SMEs do not vary with economic characteristics 165
5.5.4 Compliance with the IFRS for SMEs 165
5.5.4.1 Question 21: Level of compliance with the IFRS for SMEs 166
5.5.4.1.1 Test of H_{40}: The respondents' views on importance of the level of compliance with the IFRS for SMEs do not vary with economic characteristics 166
5.5.4.2 Question 20: Factors to increase compliance 167
5.5.4.2.1 Test of H_{41}: There is no difference in importance among the factors to increase compliance 168

5.5.4.2.2 Test of H_{42}: The respondents' views on importance of the factors to increase compliance do not vary with economic characteristics ... 169
5.6 Summary ... 169

Chapter 6. Qualitative analysis ... 171

6.1 Introduction ... 171
6.2 Standard-setting ... 171
6.2.1 Compliance with IFRS ... 172
6.2.1.1 Level of compliance with IFRS ... 172
6.2.1.2 Factors influencing compliance ... 173
6.2.1.2.1 Training ... 175
6.2.1.2.2 Translation of IFRS ... 176
6.2.2 Accounting sector regulation ... 178
6.2.2.1 Accounting sector regulation ... 178
6.2.2.2 Accounting standards committee ... 178
6.3 Implementation of IFRS ... 179
6.3.1 Current implementation of IFRS ... 179
6.3.1.1 Knowledge about IFRS ... 179
6.3.1.2 Experts ... 180
6.3.2 Future implementation of the IFRS for SMEs ... 181
6.3.2.1 Knowledge about the IFRS for SMEs ... 181
6.3.2.2 Preparedness for adoption ... 181
6.3.2.3 Translation of the IFRS for SMEs ... 182
6.4 Need for the IFRS for SMEs ... 183
6.4.1 Appropriateness of the IFRS for SME ... 183
6.4.2 Need for the IFRS for SMEs ... 183
6.5 Information ... 184
6.5.1 Use of financial information ... 184
6.5.1.1 Usefulness of financial information ... 184
6.5.1.2 Quality of financial information ... 185
6.5.2 X-Balance ... 187
6.6 SME feature ... 188

6.6.1 Size of SMEs ... 189
6.6.2 Business environment ... 190
6.6.3 Lending policy to SMEs ... 191
6.7 Taxation ... 192
6.7.1 Taxation regulation ... 192
6.7.2 Taxation knowledge ... 193
6.8 Summary ... 194

Chapter 7. Discussion and conclusion ... 196

7.1 Uses, cost/burden, and net benefit ... 196
7.1.1 Purposes, uses, usefulness, and services ... 196
7.1.1.1 Question 1: Purposes of preparing financial statements ... 196
7.1.1.2 Question 2: Importance of external financial statements for internal decision-making ... 198
7.1.1.3 Question 7: Information usefulness ... 199
7.1.1.4 Question 10: Importance of the service provided to SMEs by accounting practitioners ... 199
7.1.2 Cost/Burden ... 200
7.1.2.1 Question 8: Preparation cost ... 200
7.1.2.2 Question 9: Burden components ... 201
7.1.2.3 Questions 11-15: Statutory requirement burden ... 201
7.1.2.4 Question 16: Reduction of the burden associated with preparation of financial statements ... 203
7.1.3 Net benefit ... 204
7.1.3.1 Question 19: Net benefit of information ... 204
7.2 Compliance with IFRS ... 204
7.2.1 Questions 3 and 4: Level of compliance with IFRS ... 205
7.2.2 Question 28: Compliance with individual standard ... 205
7.2.3 Question 5: Compliance difficulties ... 206
7.2.4 Question 6: Reasons for not fully complying with IFRS ... 207
7.3 Impacts of the IFRS for SMEs on SMEs ... 207
7.3.1 Benefits of information ... 207
7.3.1.1 Question 25: Types of benefits to users ... 207

7.3.1.2 Question 27: Overall usefulness to users ... 208
7.3.1.3 Question 18: Benefits to others ... 208
7.3.2 Cost/Burden ... 209
7.3.2.1 Question 22: Costs of implementation ... 209
7.3.2.2 Question 17: Reduction of reporting cost ... 210
7.3.2.3 Question 23: Burden reduction from the IFRS for SMEs ... 210
7.3.3 Net benefit ... 211
7.3.3.1 Question 26: Net benefit for users ... 211
7.3.3.2 Question 24: Net benefit for SMEs ... 211
7.3.4 Compliance with the IFRS for SMEs ... 211
7.3.4.1 Question 21: Level of compliance with the IFRS for SMEs ... 212
7.3.4.2 Question 20: Factors to increase compliance ... 212
7.4 Economic characteristics ... 213
7.4.1 Uses, cost/burden, and net benefit ... 213
7.4.2 Compliance with IFRS ... 215
7.4.3 Impacts of the IFRS for SMEs ... 216
7.5 Policy recommendations and implications of research findings ... 217
7.5.1 Uses, cost/burden, and net benefit ... 217
7.5.2 Compliance with IFRS ... 218
7.5.3 Impacts of the IFRS for SMEs ... 218
7.6 Contributions of the study ... 219
7.7 Limitations of the research ... 221
7.8 Suggestions for the further research ... 221

Appendices ... 222

1. Seminar presentation ... 222
2. Questionnaires ... 226
3. Code nodes compared by numbers of items coded ... 245
4. Summary of coding references and coding nodes ... 247
5. Node classification ... 248
6. Tree map: Nodes compared by number of items coded ... 250

Reference List ... 251

LIST OF TABLES

Table 2.1 Quantitative definition of SMEs in Mongolia 10
Table 2.2 Number of employees of SMEs in Mongolia 11
Table 2.3 Proportion of taxation filing in Mongolia 14
Table 3.1 Main users of SMEs financial information 24
Table 3.2 Uses of financial information of SMEs 26
Table 4.1 Survey question by source 72
Table 4.2 List of hypotheses 79
Table 4.3 List of interviews 84
Table 5.1 Certified Public Accountant 90
Table 5.2 Degree in accounting 90
Table 5.3 Work experience as an accountant 91
Table 5.4 English proficiency 92
Table 5.5 Number of employees of the associated entity 93
Table 5.6 Industry sector of the associated entity 94
Table 5.7 Longevity of the associated entity 95
Table 5.8 Annual sales revenue of the associated entity 96
Table 5.9 Descriptive statistics: Purposes of preparing financial statements 99
Table 5.10 Results of Wilcoxon signed-rank test: Purposes of preparing financial statements 101
Table 5.11 Results of OLS: Purposes of preparing financial statements 103
Table 5.12 Descriptive Statistics: Importance of financial statements 104
Table 5.13 Results of Wilcoxon signed-rank test: Importance of financial statements 105
Table 5.14 Results of OLS: Importance of financial statements 106
Table 5.15 Descriptive statistics: Information usefulness 107
Table 5.16 Results of OLS: Information usefulness 107
Table 5.17 Descriptive statistics: Importance of the services 108
Table 5.18 Results of OLS: Importance of the services 109
Table 5.19 Descriptive Statistics: Importance of preparation costs 110
Table 5.20 Results of Wilcoxon signed-rank test: Importance of preparation costs 110
Table 5.21 Results of OLS: Importance of preparation costs 111
Table 5.22 Descriptive Statistics: Burden components 112
Table 5.23 Results of OLS: Burden components 113
Table 5.24 Descriptive statistics: Disclosure requirements 115
Table 5.25 Results of OLS: Disclosure requirements 117

Table 5.26 Descriptive statistics: Auditing law requirements 118
Table 5.27 Results of OLS: Auditing law requirements 119
Table 5.28 Descriptive statistics: Overall burden 120
Table 5.29 Results of Wilcoxon signed-rank test: Overall burden 121
Table 5.30 Results of OLS: Overall burden 122
Table 5.31 Descriptive statistics: Burden reduction 123
Table 5.32 Results of Wilcoxon signed-rank test: Burden reduction 123
Table 5.33 Results of OLS: Burden reduction 125
Table 5.34 Descriptive statistics: Net benefit of information 126
Table 5.35 Results of OLS: Net benefit of information 127
Table 5.36 Descriptive statistics: Level of compliance with IFRS 128
Table 5.37 Results of OLS: Level of compliance with IFRS 129
Table 5.38 Relevance of the individual standard 130
Table 5.39 Descriptive Statistics: Level of compliance with individual standard 132
Table 5.40 (a) Results of Wilcoxon signed-rank test: Level of compliance with individual standard 136
Table 5.41 (a) Results of OLS: Level of compliance with individual standard 142
Table 5.42 Descriptive Statistics: Compliance difficulties 147
Table 5.43 Results of Wilcoxon signed-rank test: Compliance difficulties 148
Table 5.44 Results of OLS: Compliance difficulties 148
Table 5.45 Descriptive statistics: Reasons for not fully complying with IFRS 149
Table 5.46 Results of OLS: Reasons for not fully complying with IFRS 150
Table 5.47 Descriptive statistics: Types of benefits to users 152
Table 5.48 Results of Wilcoxon signed-rank test: Types of benefits to users 153
Table 5.49 Results of OLS: Types of benefits to users 154
Table 5.50 Overall usefulness to users 155
Table 5.51 Results of OLS: Overall usefulness to users 155
Table 5.52 Descriptive statistics: Benefits to others 156
Table 5.53 Results of OLS: Benefits to others 157
Table 5.54 Descriptive statistics: Costs of implementation 158
Table 5.55 Results of Wilcoxon signed-rank test: Costs of implementation 159
Table 5.56 Results of OLS: Costs of implementation 160
Table 5.57 Descriptive statistics: Reduction of reporting cost 160
Table 5.58 Results of Wilcoxon signed-rank test: Reduction of reporting cost 161
Table 5.59 Results of OLS: Reduction of reporting cost 162
Table 5.60 Descriptive statistics: Burden reduction 163

Table 5.61 Results of OLS: Burden reduction 163
Table 5.62 Net benefit for users 164
Table 5.63 Results of OLS: Net benefit for users 164
Table 5.64 Descriptive statistics: Net benefit for SMEs 165
Table 5.65 Results of OLS: Net benefit for SMEs 165
Table 5.66 Level of compliance with the IFRS for SMEs 166
Table 5.67 Results of OLS: Level of compliance with the IFRS for SMEs 167
Table 5.68 Factors to increase compliance 168
Table 5.69 Results of Wilcoxon signed-rank test: Factors to increase compliance 168
Table 5.70 Results of OLS: Factors to increase compliance 169

LIST OF FIGURES

Figure 2.1 Map of the country ... 7
Figure 2.2 Real GDP growth rate ... 8
Figure 2.3 Structure of economy: growing dependence on mining ... 9
Figure 2.4 Mining sector share to total export ... 9
Figure 2.5 SMEs classification by industry in Mongolia ... 11
Figure 2.6 Reasons for non-adoption of the IFRS for SMEs ... 20
Figure 3.1 Benefits of the IFRS for SMEs ... 60
Figure 4.1 Framework for quantitative survey questionnaire ... 71
Figure 4.2 Framework of the study ... 78
Figure 4.3 Framework for adapting semi-structured interviews to interviewees ... 83
Figure 4.4 Interview data analysis approach ... 85
Figure 4.5 Coding structure of the interview data ... 87
Figure 5.1 Uses, cost/burden, and net benefit ... 96
Figure 5.2 Compliance with IFRS ... 127
Figure 5.3 Impacts of the IFRS for SMEs ... 151
Figure 5.4 Summary findings of the empirical analysis ... 170
Figure 6.1 Standard-setting ... 172
Figure 6.2 Implementation of IFRS ... 179
Figure 6.3 Need for the IFRS for SMEs ... 183
Figure 6.4 Information ... 184
Figure 6.5 SME feature ... 189
Figure 6.6 Taxation issue ... 192
Figure 6.7 Summary of the semi-structured interview findings ... 195

LIST OF ACRONYMS

This section lists some of the acronyms used in the thesis.

ADB	Asian Development Bank
A-IFRS	Australian equivalents to International Financial Reporting Standards
AP	Account preparer of SMEs (only applies to tables)
APR	Accounting practitioner of PAFs (only applies to tables)
ASB	Accounting Standards Board
ASRB	Accounting Standards Review Board of New Zealand
DR	Differential Reporting
CCA	Canonical Correlation Analysis
CICA	Canadian Institute of Chartered Accountants
CPA	Certified Public Accountant
ED	Exposure Draft (IFRS for SMEs)
FRA	Financial Reporting Act (New Zealand)
FRSSE	Financial Reporting Standard for Smaller Entities
GAAP	Generally Accepted Accounting Principles
GDP	Gross Domestic Product
IAS	International Accounting Standards
IASB	International Accounting Standard Board
IASC	International Accounting Standards Committee
IASCF	International Accounting Standards Committee Foundation
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standard
IFRS for SMEs	International Financial Reporting Standard for Small and Medium sized Entities
IMF	International Monetary Fund
ISAR	International Standards of Accounting and Reporting
MICPA	Mongolian Institute of Certified Public Accountants

MOF	Ministry of Finance of Mongolia
MTA	Mongolian Taxation Authority
NZICA	New Zealand Institute of Chartered Accountants
OLS	Ordinary Least Squares
PAF	Public Accounting Firm
PEGAAP	Generally Accepted Accounting Principles for Private Enterprises
RDR	Reduced Disclosure Regime
ROSC	Report on the Observance of Standards and Codes
SAICA	South African Institute of Chartered Accountants
SME	Small and Medium sized Entity
SMEGA	Accounting and Financial Guidelines for Small and Medium-sized Enterprises
UNCTAD	United Nations Conference on Trade and Development
USSR	Union of Soviet Socialist Republics
VAT	Value Added Tax
XRB	External Reporting Board

Chapter 1. INTRODUCTION

This chapter provides an introduction to the study. Section 1.1 describes the motivations and research objectives of the study. Section 1.2 provides an overview of the research methodology. Section 1.3 outlines the expected contributions of the study. Section 1.4 concludes this chapter with an overview of the organisation of the thesis.

1.1 Motivations and research objectives of the study

Mongolia gained independence from the Manchu's Qing Dynasty in 1911 but until 1990 operated as a socialist economy heavily dependent on economic and military aid from Russia. Since the fall of the Union of Soviet Socialist Republics (USSR) in 1990, Mongolia has been transitioning to a market economy and in 1993 made compliance with International Financial Reporting Standard (IFRS) mandatory for all business entities. However, Mongolia has only three million people and, in common with other countries of similar population size, the economy is dominated by SMEs. These entities tend to prepare financial reports only for special purposes such as tax returns (World Bank, 2008). Increasing numbers of SMEs, therefore, have reported reluctance to comply with full IFRS because of reporting requirements that are irrelevant to the limited information needs of the users.

Mongolia is currently considering adoption of the IFRS for SMEs. However, there has been only limited research on reporting practice in Mongolia to inform this decision. This study aims to provide information for this decision and to supplement the general international literature on financial reporting by SMEs. Specifically, the study considers three broad areas: (1) it investigates the existing reporting practices of SMEs in Mongolia; (2) considers the expected impact for Mongolian SMEs of adopting the IFRS for SMEs; (3) examines the relationships between the economic characteristics of SMEs and both their reporting practice and the expected impact of adoption of the IFRS for SMEs.

In the global context, research on reporting practice of SMEs has included topics such as compliance with reporting standards (Barker & Noonan, 1996; Dang, 2011); the information users of SME financial reporting (Carsberg, Page, Sindall, & Waring, 1985; Maingot & Zeghal, 2006; Rennie & Senkow, 2009; Sian & Roberts, 2006, 2009; Sinnett & Graziano, 2006); and the need for simplified reporting standards for SMEs (Pacter, 2008; Sealy-Fisher, 2005). Nevertheless, financial reporting by SMEs has received remarkably little attention in academic research and, in particular, no comprehensive study on SME reporting practice has been undertaken in Mongolia.

There has been a growing number of studies that have reported on the increasing burden of financial reporting requirements on SMEs (Friedlob & Plewa, 1992; Jarvis, 2002; John & Healeas, 2000; KPMG, 2007, 2009; Maingot & Zeghal, 2006; Pacter, 2004b; Rennie & Senkow, 2009; Sian & Roberts, 2009; Thrower, 2010; Uhertar, 2008; United Nations Conference on Trade and Development, 2004, 2009; Welsh & White, 1981). Accounting professionals and standard-setters, therefore, believe that SMEs should be subject to reduced requirements. Some developed countries were early to address this issue but the International Accounting Standard Board (IASB) first commenced deliberations on a simplified set of reporting requirements in 2003. This work resulted in the IFRS for SMEs issued in July 2009. Development and adoption of this standard has encouraged empirical examination of the impacts of compliance with full international reporting standards, and the benefits of complying with a simplified reporting standard for SMEs.

While research has begun to examine the impact of the IFRS for SMEs in a range of different jurisdictions, remarkably little work has been done on emerging economies (Coetzee, 2007; Miller, 2010; Pacter, 2011; Pacter & Scott, 2012; PriceWaterHouseCoopers, 2009; Quagli & Paoloni, 2012; Seifert & Lindberg, 2010; Sinnett, 2007; Van Wyk & Rossouw, 2009). Given that entities in developing countries face a different economic environment there is a need to address the impact of adoption of the IFRS for SMEs by these countries. In particular, given the significance of SMEs in the economy, Mongolia should consider the pros and cons of complying with the "new" standard before adopting it. The present study, therefore, aims to assist policy makers and to provide insight into possible future impacts of the IFRS for SMEs in Mongolia.

Few of the prior studies on reporting by SMEs have examined the impact of specific entity characteristics. Size of the entity has been examined in a number of studies (for example Eierle and Haller (2009), and Holmes and Nicholls (1988, 1989)) but other economic characteristics of an entity that could affect the financial reporting practice of SMEs have been largely ignored. The present study addresses this significant deficiency in the literature by considering economic characteristics of entities, such as type of industry, accountancy proficiency of account preparers and accounting practitioners, and longevity of a business.

1.2 Research methodology

The study adopts the mixed method approach with a quantitative survey questionnaire and qualitative semi-structured, in-depth face-to-face interviews. Development of the survey question commenced with a small pilot study on PhD students at Victoria University of Wellington and account preparer employees of SMEs in Mongolia. The feedback obtained resulted in clarification of the questions and restructuring of the questionnaire. The final version of the questionnaire was given to attendees at three seminars held in Ulaanbaatar, Mongolia: two held at the Mongolian Institute of Certified Public Accountants (MICPA) and one at the offices of a local consulting firm (Mongol consulting). The seminars provided an introduction to development and intent of the IFRS for SMEs and were presented by the present author. A total of 102 responses were obtained and the data was analysed using a range of statistical techniques.

In parallel with the survey questionnaire, the author also conducted semi-structured, in-depth face-to-face interviews with eight standard-setters, educators and information users in Ulaanbaatar. The purpose of the interviews was to obtain a more detailed understanding of the reporting practices of SMEs; the factors underlying the survey data; and, where relevant, supplementary information beyond that sought by the questionnaire. The findings from the survey questionnaire and the qualitative semi-structured interviews were integrated to present a comprehensive analysis of the financial reporting practices of SMEs in Mongolia.

1.3 Research contributions

The contributions of this thesis are fourfold. First, Mongolia requires all business entities including SMEs to comply with IFRS. No comprehensive studies have examined financial reporting issues of SMEs in Mongolia. This study extends the research on financial reporting in Mongolia by presenting an in-depth analysis of financial reporting by SMEs.

Second, the majority of studies on SME reporting have adopted either a *quantitative* approach (Aboagye-Otchere & Agbeibor, 2012; Collis & Jarvis, 2000; Dang, 2011; Eierle & Haller, 2009; Fulbier & Gassen, 2010; Holmes, Kent, & Downey, 1991; Mullerova, Pasekova, & Cizevska, 2010; Rennie & Senkow, 2009) or a *qualitative* research design (Albu, Albu, & Fekete, 2010; Bohusova, 2011; Carsberg et al., 1985; Cordery & Baskerville, 2006; Dang, Marriott, & Marriott, 2006; Devi, 2003; Eierle, 2005; Sian & Roberts, 2006, 2008, 2009). In contrast, the present study uses a mixed method approach employing both quantitative and qualitative designs.

Third, this study advances the literature on SME reporting by examining the likely impacts of the newly developed IFRS for SMEs on financial reporting in emerging economies. Although focused on Mongolia, the findings may also prove to be relevant to other developing economies, in particular, former centrally planned and mineral rich economies. The results of the research can provide a basis for policy recommendations on regulations covering financial reporting by SMEs.

Fourth, the study builds on and contributes to the literature by following the practical application of Van Wyk and Rossouw (2009) to gather relevant data. Accessing suitable data samples on SMEs is challenging, particularly in developing countries. This is because up to date comprehensive lists of small entities are not available; the owners of small businesses are often sceptical of the value of academic research, and both mail and web based surveys are not popular and or impractical. Therefore, the present author presented free seminars outlining the development of the IFRS for SMEs. After the presentation, copies of the survey questionnaire were distributed to the attendees. As a result, usable responses were obtained from a total of 102 respondents comprising 67 account preparers of SMEs and 35 accounting practitioners and auditors of PAFs.

The results of the study are of course subject to a number of limitations. In particular, the sample size for both the survey questionnaire and the in-depth interviews. However, given the attendee's links to the MICPA and their willingness to attend the seminars, there is every reason to expect that the respondents to the survey have a keen interest in financial reporting. The responses obtained should therefore reflect the views of well-informed respondents. Similarly, for the subjects of the interviews, as they were deliberately chosen on the basis of their credentials in the field of financial reporting.

1.4 Outline of the Thesis

The thesis is organised into seven chapters. A brief description of each chapter is presented below.

Chapter 1. Introduction

The chapter outlines the motivation for the study, the research objectives, and the research methodology. In addition, the potential research contributions are listed.

Chapter 2. Background

The chapter introduces the background to the study in four areas, including the country and economic structure, the accounting, and the taxation environment of Mongolia, and development of the IFRS for SMEs.

Chapter 3. Literature review

The chapter reviews the relevant literature of the study and focuses primarily on five main areas: who are the information users of SMEs financial statements; why SMEs need to comply with reporting standards; what are the cost for preparing financial statements; why Differential Reporting (DR) is important for SMEs; and, what are the further impacts of the IFRS for SMEs on SMEs.

Chapter 4. Research methodology

The chapter discusses the framework and the hypotheses for the research. The chapter outlines the research design: the mixed method approach of the study. The quantitative component of the study includes the sample selection, question construction, pilot tests and data analysis. The qualitative component of the study includes sample selection, question construction, data collection and data analysis.

Chapter 5. Quantitative analysis

The chapter reports the findings from the survey questionnaire and presents the results of tests of the research hypotheses under three main headings: uses, cost/burden and usefulness; compliance with IFRS; and impacts of the IFRS for SMEs on SMEs.

Chapter 6. Qualitative analysis

The chapter discusses the findings from the semi-structured, in-depth interviews. This chapter provides supplementary insights into the standard-setting and financial reporting practices of Mongolia.

Chapter 7. Discussion and conclusion

This chapter integrates the findings from the quantitative survey questionnaire and the qualitative interviews. The results are discussed in the context of the empirical literature and propose policy recommendations. In addition, the chapter presents the contributions of the study to the literature. The chapter also acknowledges the limitations of the study and identifies areas for future research.

Chapter 2. BACKGROUND OF THE STUDY

2.1 Introduction

This chapter sets out the background to the study. Section 2.2 introduces Mongolia as a country. Section 2.2.1, Section 2.2.2, and Section 2.2.3 discusses the economic structure, the accounting, and the taxation environment of the country. Section 2.3 introduces the development of the IFRS for SMEs and, finally, Section 2.4 summarises the chapter.

2.2 Mongolia as a country

Mongolia has many distinctive features. The following sections provide a summary of the economic structure and the accounting and taxation requirements of the country.

2.2.1 Country and economic structure

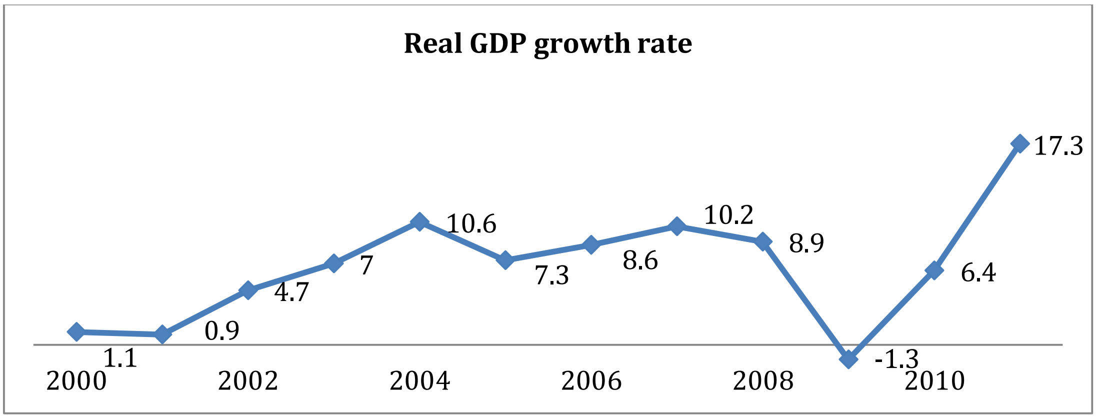
Mongolia is situated in the heart of Northern Asia, between Russia and China and its near neighbour Kazakhstan. After Kazakhstan, Mongolia is the largest landlocked country in the world. Mongolia has a considerable land area (1.56 million square kilometres) and a relatively small population (2.9 million), which gives it the world's lowest population density (National Statistical Office of Mongolia, 2013). About 35 per cent of the population live in the capital and largest city, Ulaanbaatar. The map of the country is shown in Figure 2.1.

Figure 2.1 Map of the country

Source: Geographic guide (2013)

Before 1990, Mongolia was a socialist country living in the economic and social shadow of its northern neighbour, Russia. However, in 1990 after the fall of the USSR, Mongolia changed direction and adopted a new constitution based on a market economy. This established private ownership, political democracy, a two tier banking system, privatisation, and open trade with other countries. Improved agriculture output and increased world prices for minerals have seen Mongolia's Gross Domestic Product (GDP) grow hugely in recent years. Real GDP growth rates are shown in Figure 2.2.

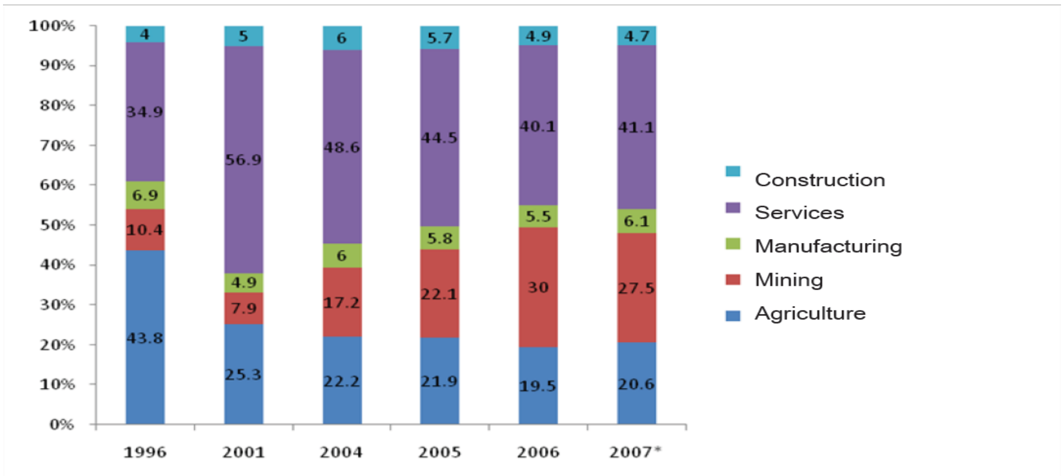
Figure 2.2 Real GDP growth rate



Source: United Nations Economic and Social Commission for Asia and the Pacific (2012)

The main driver of this increase has been the mining sector: minerals (which constituted 30 per cent of the GDP in 2010) (Khashchuluun, 2011). In 2010, with increased world market prices of copper and gold on the global market, GDP of the country reached USD 2 221.5 per capita (Khashchuluun, 2012). The structure of the economy of Mongolia is shown in Figure 2.3.

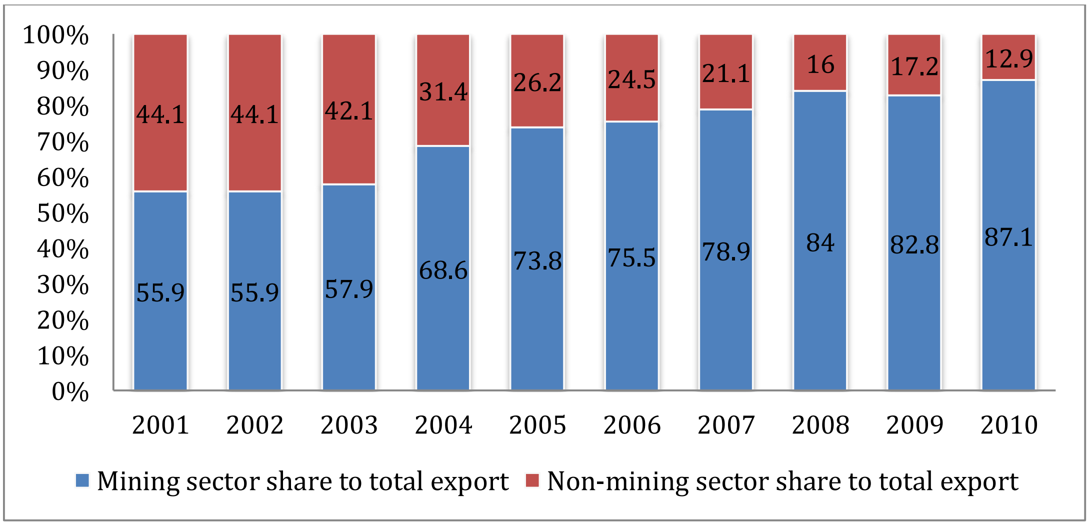
Figure 2.3 Structure of economy: growing dependence on mining



Source: Khashchuluun (2009)

Seventy-six per cent of all exports are made up of four commodities: copper (41.6 per cent), textiles (13.5 per cent), gold (12.1 per cent), and zinc concentrate (9 per cent) (National Statistical Office of Mongolia, 2007). The mining sector share of total exports is illustrated in Figure 2.4. The main imports are machinery and equipment, fuels, food products, industrial consumer goods, chemicals, building equipment, vehicles, and textiles (National Statistical Office of Mongolia, 2007).

Figure 2.4 Mining sector share to total export



Source: Khashchuluun (2011)

The economy of Mongolia is dominated by SMEs, so much so that by the end of 2011, 40 921 business entities were classified as SMEs (Mongolbank, 2011). In July 2007, Mongolia adopted the first SME Act (2007). According to this act, the definition of SMEs varies from sector to sector depending on its economic scale and significance, in particular, number of employees and turnover. Table 2.1 lists the criteria for each sector. SMEs in industry and retail trade sectors are defined as those with fewer than 199 full-time and contracted employees and earns up to 1.5 billion tugrug[1] (USD 0.94 million) in annual sales. However, an SME in the small trade and service sector is defined as one which employs fewer than nine employees and earns 250 million in tugrug (USD 0.16 million) annual sales.

Table 2.1 Quantitative definition of SMEs in Mongolia

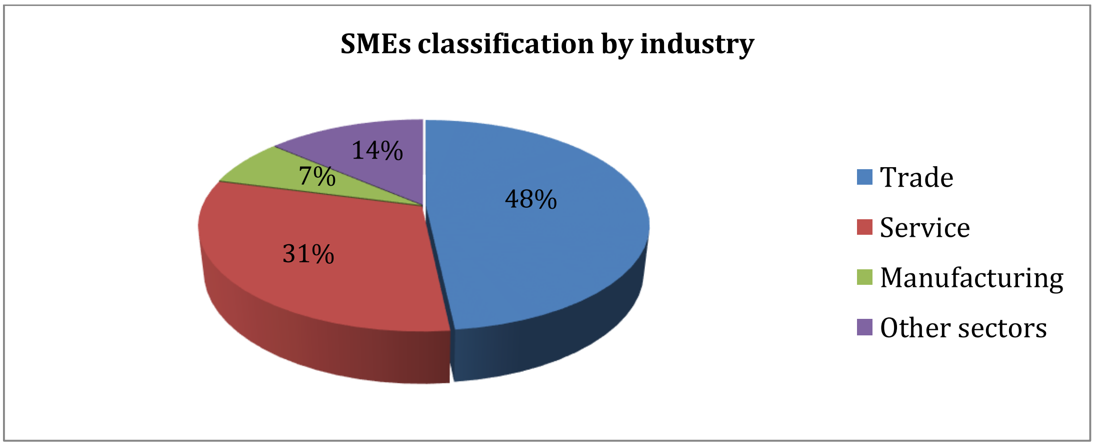
Category by activity		**Number of employees**	**Annual sales revenue** (billion tugrug)	**Annual sales revenue** (million USD)
Industry		199	1.5	0.94
Trade:	Retail	199	1.5	0.94
	Wholesale	149	1.5	0.94
Service		49	1.0	0.63
Small entity		19	0.25	0.16
Small trade, service		9	0.25	0.16

Source: SME Act of Mongolia (2007)

Figure 2.5 presents SMEs classification by industry. Seventy-nine per cent of these entities are in the trade and service sectors and the other SMEs are mainly in the manufacturing and other sectors. Eighty-seven per cent earn less than 50 million tugrug (USD 32 000) in annual sales revenue and less than one per cent report revenue over three billion tugrug (USD 1.9 million) (Asian Development Bank, 2008).

[1] Mongolbank rate at August 27 2013 (1USD=1590 Mongol Tugrug)

Figure 2.5 SMEs classification by industry in Mongolia



Source: Mongolbank (2011)

SMEs make a major contribution to Mongolia in terms of employment. In 2005, SMEs employed nearly 300 000 employees. Employee numbers are outlined in more detail in Table 2.2. The table shows that 85 per cent of total SMEs reported having fewer than ten employees (Mongolbank, 2011). Only 2.9 per cent employ more than 50 employees and thus 97.1 per cent of entities have fewer than 50 employees.

Table 2.2 Number of employees of SMEs in Mongolia

	Number of employees			
	1-9	10-19	20-49	More than 50
Number of entities	34 827	2 823	2 095	1 176
Percentage in total	85.1%	6.9%	5.1%	2.9%

Source: Mongolbank (2011)

2.2.2 The Mongolian accounting environment

Before the 1990s, Mongolian accounting practice was largely determined by the country's centrally planned socialist framework particularly with respect to: property ownership, use of information, and performance measurement. The main function of the socialist accounting system was the collection of statistical information with a view to controlling the use of economic resources (Asian Development Bank, 2005; McGee & Preobragenskaya, 2006).

In the socialist economies the state controlled, managed, and owned all property. Private ownership was not permitted and state agencies were the only users of accounting information. Information users were not profit oriented, and audits were of little interest to them (Bailey, 1995). Bookkeeping was the main practical use of accountancy (McGee & Preobragenskaya, 2006) with the performance of state enterprises being expressed in terms of production numbers. Accountants were required to fill out standard forms with figures relating to output, labour productivity, and the utilisation of physical resources (Bailey, 1995). Neither accountants nor the state were concerned with financial performance indicators such as: profit, profitability, loss, liquidity, solvency, and the matching of costs to revenues (Asian Development Bank, 2005; McGee & Preobragenskaya, 2006).

After 1990, Mongolian accounting practice became geared instead to the market economy. In this respect, Mongolia was quick off the mark compared to the other post-socialist countries such as: Kazakhstan, Kyrgyz Republic, Uzbekistan, and Russia (Asian Development Bank, 2005). The first accounting law was passed by the Mongolian Parliament in 1993. Under this law, all business entities including SMEs were required to prepare financial statements in compliance with IFRS (Law of Mongolia on Accounting, 1993/2001). The law has been amended in 2002, 2003, 2006, 2010 and 2011 but without impact on the requirement for compliance with IFRS.

In a further development, the Ministry of Finance (MOF) of Mongolia, advised by Arthur Anderson, drafted legislation on auditing which the Mongolian Parliament passed as the auditing law in 1997 with subsequent amendments in 2001, 2003, 2005, 2006, 2011 and 2012. The new law determined auditing requirements and the process for granting Certified Public Accountants (CPA) qualifications in Mongolia (Law of Mongolia on Auditing, 1997).

International organisations provided considerable help in implementing these changes, in particular, technical and financial support for accounting education, and the legal framework (Asian Development Bank, 2005). In 1997, for instance, the Asian Development Bank (ADB) trained 100 accountants in IFRS[2]. The ADB also helped the MICPA organise and conduct the first CPA examination based on IFRS (Asian Development Bank, 2005). “Train the trainers” support from international organisations has also played a key role in the development of the Mongolian accounting sector; likewise, the translation of accounting textbooks into Mongolian (Dondog, 2004).

At the time of writing, the MOF was debating whether to adopt the new IFRS for SMEs unchanged (i.e. as the International Standard) or to modify the standard and adopt the result instead as the Ministry’s approved Mongolian National Standard. Studies conducted by international organisations show that the majority of business entities in Mongolia do not comply with IFRS (Asian Development Bank, 2008; Narayan & Reid, 2000; World Bank, 2008). As mentioned earlier, entities tend to prepare financial reports only for special purposes such as tax returns (World Bank, 2008). In addition, an increasing number of SMEs have reported reluctance to comply with full IFRS because of reporting requirements that are irrelevant to the limited information needs of the users of SME reports.

2.2.3 The Mongolian taxation enviroment

Information on the Mongolian taxation regime is available from several sources and this information is revealing when studied as a whole. It has become apparent, for instance, that the amount of tax paid to the government has declined over the years despite an increase in the number of entities filing taxation reports. Table 2.3 below lists the relevant figures extracted from reports to the Mongolian Taxation Authority (MTA) for the years 2004 through to 2007. In summary, they indicate that the number of entities that filed taxation reports has increased; but, the proportion of entities reporting “negative” or “zero” net income has increased. The reasons for this remain unclear but two possible explanations may be offered:

[2] The present study uses “IFRS” to refer both to IASs and IFRSs. IASs were issued by the International Accounting Standards Committee (IASC) from 1973 to 2000. The IASB replaced the IASC in 2001. Since then, the IASB has amended some IASs and has proposed to amend others. The IASB has also replaced some IASs with new IFRSs, and has adopted or proposed new IFRSs on topics for which there was no previous IAS (IAS Plus, 2012b).

either the entities concerned suffered financially during the years in question; or, more and more entities have been under-reporting their income (as a means to evade their tax obligations) possibly facilitated by use of accounting practice other than IFRS.

Table 2.3 Proportion of taxation filing in Mongolia

	2004	**2005**	**2006**	**2007**
Number of filed taxation statements	25 169	27 746	30 579	34 875
Proportion of entities reporting “negative” or “zero” net income	43.6%	43.8%	44.6%	47.4%
Proportion of entities paying taxes	56.4%	56.2%	55.4%	52.6%
Total	100%	100%	100%	100%

Source: Asian Development Bank (2008)

Nergui (2008) has suggested the MTA lacks an appropriate regulatory system to ensure “ordinary taxpayers” are motivated to pay taxes. Taxpayers should be able to trust the authorities to apply tax revenue to proper purposes. These findings suggest Mongolian “Taxation law” may need amendments to ensure compliance with taxation law. In particular, filing zero or negative returns for several taxation periods should result in inspections to test whether the entities concerned have been evading tax. SMEs produced 1.8 per cent of the tax revenue of the annual state budget (Ministry of Food and Agriculture of Mongolia, 2009).

2.3 Development of the IFRS for SMEs

The development of the IFRS for SMEs involved a number of departures from previous practice of the IASB in issuing international reporting standards. This section therefore outlines seven main features of this development of the IFRS for SMEs. These include the initiative for developing the IFRS for SMEs, the SME definition, the largest working group, the publication of the Exposure Draft (ED) in languages other than English, field-testing, name changes, and the final IFRS for SMEs. Each of them is presented below.

2.3.1 Initiative for developing the IFRS for SMEs

Before 2003, the need for a simplified global reporting standard for SMEs had been much debated but not acted upon. In that year, however, the IASB organised a meeting of national accounting standard-setters from forty countries and surveyed them as to their current reporting practices and their opinions regarding the need for separate standards for SMEs (Pacter, 2004b). Two main issues emerged as a result.

First, the respondents[3] to the survey (twenty-nine standard-setters and the European Financial Reporting Advisory Board) believed the IASB needed to develop global reporting standards for SMEs. Twenty of the countries in question reported that small entities within their jurisdictions were legally obliged to prepare financial statements under their respective national Generally Accepted Accounting Principles (GAAP) while only eight reported small entities were exempt. Under these circumstances, it was apparent a simplified DR standard for SMEs would be welcomed.

Second, in any further development of global reporting standards for SMEs the respondents thought the IASB should distinguish between disclosure and presentation requirements (twenty nine of the thirty respondents); and between recognition and measurement principles (twenty four of the thirty respondents) (Pacter, 2004b). These responses were prompted by:

- The prior existence of a full set of IFRS developed to meet the information needs of listed companies;
- The lack of accounting expertise in SMEs;
- The fact that owner-managers and lenders were the main users of financial information from SMEs; and
- Cost benefit issues (Pacter, 2004b).

[3] Countries responding to the IASB were: Australia, Canada, China, Denmark, Europe (European Financial Advisory Group), France, Germany, Hong Kong, Hungary, Indonesia, Iran, Italy, Japan, Korea, Malaysia, Moldova, Netherlands, New Zealand, Norway, Pakistan, Poland, Russia, Singapore, South Africa, Spain, Sri Lanka, Sweden, Thailand, the UK, and the US. Source: (Pacter, 2004b)

Procedures subsequently used by the IASB to develop the IFRS for SMEs differed in a number of ways from those used to create previous standards. This reflected the relative significance of SMEs in global business. These differences are discussed below.

2.3.2 SME definition

One of the first issues facing the IASB was to develop a definition that can capture all the dimensions of an SME in global context. Ninety-nine per cent of all business entities worldwide involves SMEs and it was necessary for this to be taken into account in developing a global standard for SMEs (Pacter, 2011; Pacter & Scott, 2012). However, the defining characteristics of SMEs tend to vary from country to country according to the economic and accounting environment in which they operate and there was no universally agreed definition as to what constitutes an SME. This led in turn to difficulty in defining and applying reporting requirements for these entities. Rennie and Senkow (2009, p. 45) note that:

> How reporting standards should be different, if at all, for companies other than large public companies is often a difficult question to answer because it is not clear whether the focus should be on differences in size (i.e., large or small), differences in type (i.e., public or private), or some combination.

One approach developed since the 1970s defines small entities in terms of qualitative characteristics such as: ownership, organisational structure, market share, entity independence, the activity of the entity, and access to capital markets (Fulbier & Gassen, 2010; John & Healeas, 2000; Sian & Roberts, 2008; Stainbank, 2008). In particular, SMEs are typically owner-managed family type businesses (Collis & Jarvis, 2000; Cordery & Baskerville, 2006), and are strongly affected by political and economic changes due to their simple organisational and business structures (Welsh & White, 1981).

A second approach uses quantitative criteria to define SMEs by size. Measures of size used in this regard include: annual turnover, total assets and the number of employees (Collis & Jarvis, 2002; Cong, 2008; Hall & Young, 1991; Holmes &

Nicholls, 1989; Ismail & King, 2005; McMahon & Davies, 1994; Serrasqueiro & Nunes, 2008). Some authors, such as Sian and Roberts (2006) argue that the number of employees can vary across both industries and countries. Sian and Roberts (2006) thus suggest that entity activity would be a more suitable measure in view of the fact that the number of employees may vary according to the technology used.

There is also a problem in using size of SMEs for cross country comparisons insofar as larger entities in developing countries are often the equivalent of relatively small entities in developed countries (Devi, 2003; Sian & Roberts, 2006). Further problems arise in relation to measurement in countries with emerging economies as small entities may not have accurate accrual based systems for the assessment of turnover.

The IASB's reporting framework for SMEs is based on public accountability and qualitative criteria rather than the size of entities. The IFRS for SMEs states, "SMEs are entities that do not have public accountability, and publish general purpose financial statements for external users" (IASCF, 2009b, p. 10). This approach accepts that qualitative characteristics are appropriate for use when defining SMEs in a global context whereas quantitative characteristics are more appropriate for use in country specific definitions.

2.3.3 Largest working group

As the IASB had no wish to start from scratch, it began by extracting such concepts and principles from existing IFRS as were suited to the needs of SMEs (Pacter, 2004b). This required the use of a much larger working group than had previously been the IASB's practice when developing standards.

2.3.4 Publication of the Exposure Draft in languages other than English

In a further departure from previous practice and in a move aimed at accommodating the diversity of the IFRS's potential audience, the IASB had the ED translated into five languages other than English, namely: Spanish, French, German, Polish and Romanian (IASB, 2008). This step was subsequently mirrored by the range of comments received: 58 per cent came from Europe, 24 per cent from Asia and Oceania, 10 per cent from America; and 8 per cent from Africa (Schutte & Buys, 2011). Comments from accounting practitioners and standard-setters from developing countries however, were conspicuously absent-reflecting perhaps an indifference to the process.

2.3.5 Field-testing

In yet another departure from previous practice, the IFRS was the first IASB reporting standard to be given an international field-test. The goals of this field-test were multiple-to determine the understandability of the ED, the application burden, the appropriateness of topics, the impact of the proposals, the adequacy of implementation guidance and the identification of specific problems in applying the draft (IASCF, 2009b). This field-test was conducted across 20 countries on 116 small entities of which about 35 per cent had ten or fewer full-time employees (IASCF, 2009b). Significant changes were made to the ED in consequence of the field-test findings.

2.3.6 Name changes

The IFRS for SMEs had several name-changes during its five-year development process. Given the size and diversity of the potential audiences, there was a very real possibility of confusion by different standard-setters and their users. The IASB accordingly, gave the matter its considered attention, especially to the last part of the name and the manner in which it defined, or appeared to define, small entities. At first, the IASB employed the term "SMEs" to refer to entities without public accountability. Many commentators, however, were opposed to this because, in their opinion, the term "SMEs" entailed the use of a size criterion which was difficult to specify for different countries (Pacter, 2009). The IASB then tentatively changed the term to "Private Entities" but this also encountered opposition. In some countries, this term referred to entities without public accountability, while in others, it referred to entities that were not in government ownership (IASCF, 2009b).

Likewise, an alternative term "Non-Publicly Accountable Entities" was judged "not a well known" term so eventually the IASB fell back on the term "IFRS for SMEs", as proposed in the original ED (IASB, 2007).

2.3.7 Final IFRS for SMEs

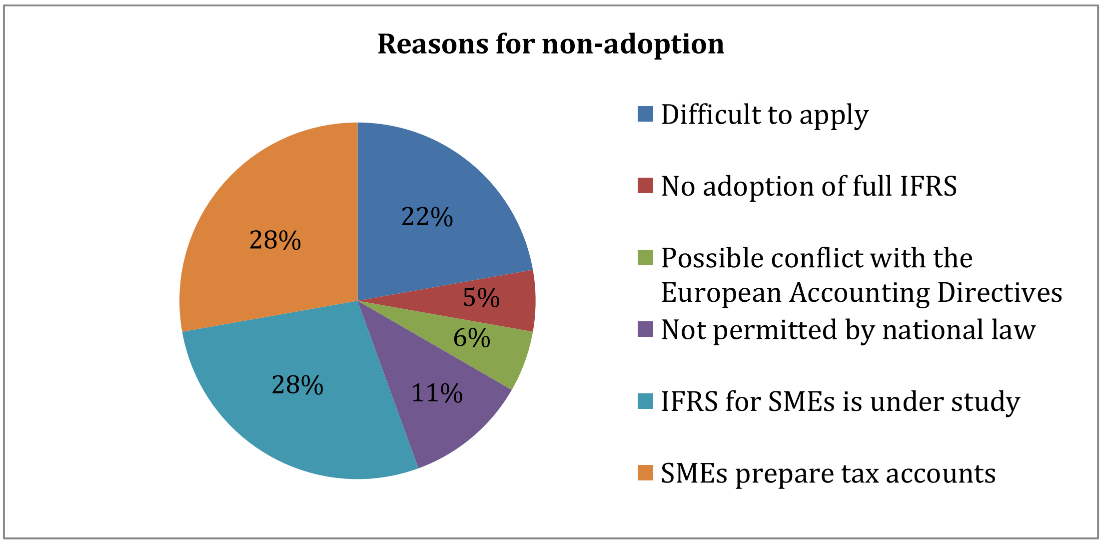
The new standard was issued in July 2009. The new IFRS for SMEs is a self-contained standard of about 230 pages, entirely separate from the full IFRS (of approximately 3000 pages), which allowed it to be adopted by any country regardless of whether or not that country had adopted the full set of IFRS. The IASB also developed comprehensive training materials published in a number of languages (IASB, 2009) and worked with international development agencies to provide instructors for regional workshops to "train the trainers."

In September 2011, a meeting of the IASB was held to consider feedback on the first two years of the standard's adoption and implementation. Attendees were surveyed by means of a questionnaire designed to ascertain which countries had or not had adopted the standard and their reasons for doing so (IASB, 2011b). Thirty countries responded. Eight countries, namely: Sierra Leone, South Africa, Trinidad and Tobago, Argentina, Bahamas, Brazil, Cambodia and Singapore, reported they had adopted the IFRS for SMEs without modification. In addition, Hong Kong adopted the standard with only a few minor modifications (a change to the name of the standard and some changes to Section 29 "Income Tax"). These responses indicated that early adopters of the IFRS for SMEs were mainly from developing countries most of which lacked existing DR regimes for SMEs. The remaining twenty-one respondents reported their countries had not adopted the IFRS for SMEs at the time of the meeting. The main reasons for this non-adoption were: (see Figure 2.6 below)

- the standard was difficult to apply (22 per cent);
- the standard was currently under review to gauge its applicability and suitability (28 per cent); and
- SMEs were preparing financial information for tax purposes only rather than for a wider range of users (28 per cent).

These results suggested that the IASB needed to consider how the application of the IFRS for SMEs could in future be simplified especially for users in developing countries.

Figure 2.6 Reasons for non-adoption of the IFRS for SMEs



Source: IASB (2011b)

In 2012, following up the above, the IASB issued an additional "Request for information" on 26 June, 2012 with the intention of conducting a more comprehensive review to consider future amendments to the IFRS for SMEs. The IASB received 89 comment letters regarding the "Request for information." These "public comments" were duly considered by the SME Implementation Group and subsequently, in February 2013, the Group developed recommendations for possible amendments to the IFRS for SMEs (IASB, 2013). Based on these recommendations, the IASB proposed 57 amendments to the IFRS for SMEs and developed the "ED Proposed amendments to the IFRS for SMEs." These amendments were designed to improve understanding of the IFRS for SMEs and to clarify guidance concerning requirements for compliance (IASB, 2013). At the time of writing, the IASB planned to continue inviting comment letters on its proposals until March 3 2014; as a result, the IASB did not expect to issue the final amendments to the IFRS for SMEs until late 2014.

In addition, the IASB has developed guidance for micro-entities by extracting from the IFRS for SMEs those requirements that are relevant to these entities (IFRS Foundation and the IASB, 2013a). The guidance also includes illustrative examples in a few areas to assist a micro-entity to apply the principles in the IFRS for SMEs (IFRS Foundation and the IASB, 2013a).

2.4 Summary

This chapter provides the background for this study. Mongolia is a large landlocked country with a relatively small population. The economy is dominated by SMEs. The definition of SMEs varies from sector to sector depending on its economic scale and significance in the country. The first accounting law was passed by the parliament in 1993 requiring all business entities to prepare financial statements in compliance with IFRS. However, compliance with this legislative requirement has been low.

SMEs play a significant role in the global economy. Globally, there is, however no universally agreed definition and both quantitative and qualitative criterion are used to define SMEs. SMEs are estimated to represent 99 per cent of all global business entities. The IASB has therefore developed the IFRS for SMEs. After a five-year development process with consultation of SMEs worldwide, the IASB issued the new reporting standard in 2009. The development process included several departures from previous IASB practice. The standard is intended for entities that are not publicly accountable and prepare general purpose financial statements. It is left to individual countries to define the criteria for requirement to prepare general purpose financial statements.

Chapter 3. LITERATURE REVIEW

3.1 Introduction

This chapter reviews the prior studies on financial reporting by SMEs. Section 3.2 identifies the principal information users of SME financial reports namely, owner-managers, lenders and bankers, and taxation authorities. Section 3.3 considers compliance with the reporting standards relevant to SMEs and examines the factors influencing the level of compliance. Section 3.4 analyses the cost of preparing financial statements. Section 3.5 reviews DR as a means of reducing for SMEs the burden of financial reporting. Section 3.5 also discusses the qualifying criteria, DR mechanisms, and DR practices in different jurisdictions. Section 3.6 considers the impact of the IFRS for SMEs on SMEs; and finally, Section 3.7 presents a summary of the chapter.

3.2 Information users of SME financial reporting

Ninety-nine per cent of all business entities worldwide are SMEs (Pacter, 2011) so not surprisingly they play an important role in the global economy (Jarvis, 2002; Sian & Roberts, 2006). Notwithstanding this however, little is known about why SMEs prepare financial statements. More specifically, it is not entirely clear who benefits from the financial statements of SMEs; what the needs of these users are; and whether or not these needs differ from the users of the reports of large entities. The IASB view on these matters is provided in the IFRS for SMEs (IASCF, 2009a, p. 12):

> The objective of financial statements of a small or medium sized entity is to provide information about the financial position, performance and cash flows of the entity that is useful for economic decision-making by a broad range of users who are not in a position to demand reports tailored to meet their particular information needs.

SMEs, in other words, prepare financial statements with the principal objective of providing users with information useful for decision-making. This section discusses who benefits from this information. A survey of the literature suggests these users may be divided into two main groups according to whether they are “internal” or “external”.

Internal users consist of owner-managers and managers of SMEs (Carsberg et al., 1985; Page, 1984; Perry, 2007; Sian & Roberts, 2006, 2009). External users, by contrast, consist of: lenders (including banks), current and potential external shareholders, government agencies, taxation authorities, suppliers, customers potential acquirers of the entity and credit rating agencies (Barker & Noonan, 1996; Bunea, Sacarin, & Minu, 2012; Carsberg et al., 1985; Collis & Jarvis, 2002; Devi, 2003; Epstein & Jermakowicz, 2007; Friedlob & Plewa, 1992; IASCF, 2009b; Jarvis, 2002; Maingot & Zeghal, 2006; Ministry of Economic Development of New Zealand, 2002; O'Keeffe, 2008; Reid & Smith, 2007; Sealy-Fisher, 2005).

Table 3.1 summarises the details from the aforementioned studies regarding the users of SME financial information. The numbers in the columns numerically rank the relative importance of different users within the context examined by the study. It will be observed that the relative importance of different information users compared in this fashion varies considerably from country to country. Overall, however, the results from these studies suggest there are three main categories of users: owner-managers; lenders and bankers; and taxation authorities. Other parties make use of financial reports but to nowhere near the same extent. In the following discussion, therefore the analysis will be confined to just these three categories.

Table 3.1 Main users of SMEs financial information[4]

Examined Country	Authors	Owner managers	Management	Lender (banks)	Government agencies: Taxation	Government agencies: Other	Other users
Canada	Maingot and Zeghal (2006)	3		2	1	-	-
Canada	Rennie and Senkow (2009)	2		1	3	4	customers
Ireland	Barker and Noonan (1996)	1		2	3	-	suppliers
United Kingdom	Page (1984)	1		3	2	-	-
United Kingdom	Sian and Roberts (2009)	1		3	2	-	-
United States	Deloitte (2009a)	3	1	2			other (not specified)
Europe[5]	MAZARS (2008)	3		1	2		suppliers, customers
South Africa	Van Wyk and Rossouw (2009)	3		2	1	-	4
Bahrain	Joshi and Ramadhan (2002)	-		1		-	partners
Vietnam	Dang, Marriott and Marriott (2006)	-		3	1	2	other creditors
Turkey	Atik (2010)	3		1	2		audit firms, partners
Russia	McGee and Preobragenskaya (2006)	-		-	1		-
Romania	Bunea, et al. (2012)		2	3	1		
Cross-country	Sian and Roberts (2006)	2		1	3		grant awarding bodies
United Kingdom and Kenya	Sian and Roberts (2008)						
	- the UK				1		
	- Kenya	3		2	1		

[4] Ranked from 1 to 4 in decreasing order of importance

[5] Study includes six European countries: France, Germany, Italy, the Netherlands, Spain, and the UK.

3.2.1 Owner-managers

Owner-managers are the main and sometimes the only internal users of the financial statements of SMEs (Barker & Noonan, 1996; Collis & Jarvis, 2000; Page, 1984; Rennie & Senkow, 2009; Sian & Roberts, 2009). Owner-managers of SMEs are distinguished from owners of large entities by issues of stewardship, business strategy, and financial literacy, and this colours their use of financial statements.

The stewardship function is one of the key points of difference between owner-managers of SMEs and owners of large entities. Owners of large entities are significantly concerned with stewardship: that is with the relationship between management and governance of entities. They want to know how the resources entrusted to management are utilised and grown and whether or not matters relating to them are honestly reported to shareholders. These issues do not arise in SMEs where the roles of owner and managers are often occupied by the same person or members of the same family (Carsberg et al., 1985; Collis & Jarvis, 2000; Jarvis & Collis, 2003).

In contrast to owners of large entities, owner-managers of SMEs are often more concerned with maintaining their independence and quality of life. They focus on the survival and stability of their businesses rather than the growth potential, often preferring to keep the business small and just profitable enough to handle their immediate needs (Collis & Jarvis, 2000; Sian & Roberts, 2006, 2009). This leads them to adopt business strategies rather different to those of large entities. Owner-managers of SMEs tend to use financial information to determine their salaries, director's fees, dividends, and borrowing requirements, make performance comparisons and conduct future planning (Barker & Noonan, 1996; Collis & Jarvis, 2000; Sian & Roberts, 2009).

Table 3.2 summarises the findings of seven studies in relation to the different uses of financial information and the manner in which they are ranked in different contexts. For example, for the UK, Sian and Roberts (2009) show that the order of importance for the uses of financial statements is: confirming the business performance of the current year; calculating owner's pay; improving business performance; obtaining financial sources; managing cash flow and planning future growth.

Table 3.2 Uses of financial information of SMEs

<table>
<tr><th>Country</th><th>Author</th><th>Uses of financial information</th><th>Importance</th></tr>
<tr><td>Ireland</td><td>Barker and Noonan (1996)</td><td>- borrowing
- directors' pay
- dividend decisions
- capital expenditure
- cash management</td><td>1
2
3
4
5</td></tr>
<tr><td rowspan="3">United Kingdom</td><td>Carsberg, et al. (1985)</td><td>- directors' pay/bonuses/dividends
- capital expenditure
- borrowing
- cash management
- pricing</td><td>1
2
3
4
5</td></tr>
<tr><td>Collis and Jarvis (2000)</td><td>- directors' pay/bonuses/dividends
- performance comparison
- borrowing
- long-term planning
- employees' pay/bonuses/dividends</td><td>1
2
3
4
5</td></tr>
<tr><td>Sian and Roberts (2009)</td><td>- confirming business performance
- directors' pay/bonuses/dividends
- performance improvement
- borrowing
- cash management
- long-term planning/growth</td><td>1
2
3
4
5
6</td></tr>
<tr><td>Vietnam</td><td>Dang, et al. (2006)</td><td>- government compliance (taxation, statistics collection, other administrative purpose)</td><td>84.5 % of respondents agree</td></tr>
<tr><td>New Zealand</td><td>Cui, et al. (2007)</td><td>- performance comparison
- financial decision-making
- completion of annual tax reconciliation</td><td>not quantified</td></tr>
<tr><td>Turkey</td><td>Atik (2010)</td><td>- budget preparation
- strategy planning
- borrowing
- performance comparison/evaluation
- investment decision
- new product planning
- pricing</td><td>1
2
3
4
5
6
7</td></tr>
</table>

SMEs frequently lack the resources and financial ability to prepare financial statements and interpret results so their efforts to utilise the information are often limited. This is offset by their significantly lower need for financial information (Cui et al., 2007; McMahon, 1988; Sian & Roberts, 2009). The first difficulty may be overcome to some extent by having external accounting practitioners prepare financial statements (Collis & Jarvis, 2000, 2002; Holmes &

Nicholls, 1988; Sian & Roberts, 2008, 2009). In the UK, Collis and Jarvis (2000), for instance, found that more than 80 per cent from a total sample of 385 small entities hired external accounting practitioners for this purpose. In particular, account preparation advice on the tax return and audit of the accounts were ranked as the most important services. Similarly, Sian and Roberts (2009) also found that small owner-managed entities from the UK used external accountants in varying roles: 51 per cent to prepare financial statements; 30 per cent to prepare taxation and Value Added Tax (VAT) information; and 18 per cent to run the accounting system.

The second difficulty noted above may also be overcome by having external accounting practitioners explain the financial performance of the entity to owner-managers. Unfortunately, however, success in this regard is often limited by lack of financial literacy and accounting awareness on the part of owner-managers. This means in turn that owner-managers often fail to fully understand the financial performance of their business and their potential for growth. This finding suggests that cash flow statements, given their simple basis, may have high importance for SMEs.

3.2.2 Lenders and bankers

Various studies have reported lenders, and in particular banks, to be among the principal external users of SMEs' financial information (Atik, 2010; Joshi & Ramadhan, 2002; Rennie & Senkow, 2009; Sian & Roberts, 2006; United Nations Conference on Trade and Development, 2009). Banks are the main source of finance for SMEs and to tap into them SMEs commonly prepare financial reports for "borrowing" purposes. SMEs, however, have limited financial resources in relation to large entities so in setting lending requirements banks often necessarily focus on the ability of SMEs to repay loans rather than the profitability of the purposes for which the loans are sought. SMEs are also more credit dependent and more vulnerable as a result to liquidity squeezes, cash flow problems, payment delays and tight bank credit (Chowdhury, 2011). Banks therefore seek assurance on these matters in the financial statements of SMEs and often seek personal guarantees from the owner-manager to secure the loans

(Allee & Yohn, 2009; Barker & Noonan, 1996; Collis & Jarvis, 2002; IFAC & Banker, 2009; Pacter, 2004a; Sian & Roberts, 2009).

The focus on ability to repay loans necessitates tightened lending requirements for borrowers, in particular during periods of recession. The International Federation of Accountants (IFAC) in 2009 initiated a survey with "The Banker" magazine of 559 commercial banks from 99 different countries (IFAC & Banker, 2009). This study reported that SMEs were finding it increasingly difficult to borrow during the financial recession due to more stringent lending requirements, such as higher collateral and lending fees, a greater insistence on personal guarantees and a longer loan-process duration (Zecchini, 2009). These tightened lending conditions led SMEs to seek sources of informal finance. In Greece, Petrakis and Eleftheriou (2009), for example, have found that if a lending shortfall arises, SMEs issue commercial papers such as post-dated cheques and bills of exchange, and resort to trade among themselves to substitute for bank lending. Government, therefore, needs to pay attention to lending by SMEs during recession and loan shortage periods as appropriate lending conditions could increase the external financing capability of SMEs and thus maintain economic growth of the country.

Lenders require not only financial assurance regarding loans but also "non-financial" information in support of loan applications. There are two main non-financial factors that may bear on the lenders' decision to approve a loan. These are: the accountancy knowledge of the preparers of the application and the professional relationship of SMEs with lenders.

The accountancy knowledge of preparers has an impact on the quality of a loan application. The preparation of loan applications with associated financial statements is critically dependent upon the financial and accountancy knowledge of account preparers. More particularly it suggests the need to hire external accounting practitioners should the entity have no in-house accountants of its own. Unfortunately, if the external accounting practitioners lack ongoing business with and operational knowledge of the entity in question this is likely to introduce still further problems.

The professional relationship with lenders also has a significant impact on the success of loan applications. There is evidence that micro-entities from the UK, employing fewer than ten people, produce insufficient financial information for the decision-making purposes of lenders (Sian & Roberts, 2008). This means that lenders need to request other types of information from borrowers in order to ascertain their financial capacity. Such information can include feasible business plans and a borrower's loan history, in particular a record of having successfully paid back earlier loans on time.

The professional relationship of SMEs with the lenders can also be interpreted differently in developing countries. According to Chand et al. (2006), SMEs from developing countries have fewer formal banking arrangements than in developed countries. Therefore, what is elsewhere called a "professional" relationship with the lender is often understood as a "personal" relationship in a developing country. Because SMEs cannot always provide a reliable source of information to the lenders, it leads lenders to seek more "personal" guarantees, which sometimes make it difficult for borrowers. In Mongolia, for example, compared with other external users, lenders have always sought additional financial information of entities because of their demanding lending requirements (Battsetseg, 2008). Some anecdotal evidence suggests that owners of SMEs in Mongolia are required to submit a copy of their personal savings record with their loan applications. In general, it would be useful to ask what additional information SMEs need to provide with loan applications. The existing literature has tended to neglect this issue and this is one of the issues addressed in this study in the interviews in Mongolia.

3.2.3 Taxation authorities

A number of studies have also reported taxation authorities to be one of the main external users of SME financial statements. Taxation authorities use SME financial statements as the starting point for assessing taxable income (Sian & Roberts, 2006; United Nations Conference on Trade and Development, 2009). Some studies in this area have gone so far as to state that statutory taxation filing requirements are the principal reason for preparing SME financial statements. Owner-managers also use the information concerned but it is generated in the first instance for "taxation" purposes. Various studies have supported this finding: Holmes and Nicholls (1989), for instance, with regard to Australia; Floropoulos and Moschidis (2004) for Greece; Maingot and Zeghal (2006) for Canada; McGee and Preobragenskaya (2006) for Russia; Van Wyk and Rossouw (2009) for South Africa; World Bank (2009) for Belarus, Sian and Roberts (2009) for the UK; and Dang, et al. (2006) and Dang (2011) for Vietnam.

These findings suggest the SMEs in question perceive little other benefit to be had from the preparation of financial statements and that this perception is reinforced by the fact that taxation filing requirements are thought to be one of the main contributors to small entity reporting costs. SMEs prepare most of the financial information required for internal use but to meet the statutory requirements of taxation they often outsource the work to external accounting practitioners who charge for the service. Holmes and Nicholls (1989), for instance, reported that in Australia while "non-statutory information" such as ratio analyses, industry trends and break-even analyses were commonly prepared internally, taxation returns were mainly prepared by external accounting practitioners.

This insulates SMEs from errors made in the course of preparing reports to meet the statutory requirements of taxation and also relieves them of the burden of training their staff to perform this function. These comments, however, apply only to SMEs from developed countries such as Australia. In developing countries, in particular, post-socialist countries, the situation is somewhat different. In the latter case, account preparers and accounting practitioners are known to have difficulty in understanding market based accounting and appear to be concerned with the reduction of reporting costs such as bookkeeping rather than with the quality of information they prepare. The World Bank (2009, p. 20) reports with regard to Belarus, for instance:

> Often, the tax numbers are simply inserted into a standard chart of accounts to produce the general purpose financial statements. One reason for this is that entities are required to present their financial statements while submitting annual tax returns, and many believe that, if the information in the financial statements differs from that in the tax return, the tax authorities would consider this as suspicious or even illegal.

The World Bank, in the Report on the Observance of Standards and Codes (ROSC), has found similar scenarios in other post-socialist countries such as Georgia and Mongolia (World Bank, 2007a, 2008). These findings suggest accounting practitioners from post-socialist countries need extra training in order to understand the differences between the taxation filing requirements and the financial reporting requirements of their respective countries.

Further problems arise from the need to prepare several financial statements. Small entities, in particular, entities from developing countries, generally prepare different sets of financial statements for different purposes. Sian and Roberts (2008, p. 47) report their interview findings for Kenya as follows:

> In fact most companies used to do that—have what I call two or three sets of accounts and even other big companies I know they do that. They have one for the bank that's going to paint a picture, they have another one for tax purposes and another one for internal.

In order words, entities prepare one set of financial statements to meet statutory filing requirements for the taxation authorities, possibly in order to limit the payment of tax, and another set is prepared for lenders, posting positive net income to obtain financing, and yet another set for internal decision-making and evaluation of the real performance of the entity.

Other government bodies beside taxation authorities are known to make use of SMEs' financial statements particularly in developing countries, for example, Mongolia, Romania, Russia, various South Pacific countries, and Vietnam (Albu, Bunea, Calu, & Girbina, 2011; Chand et al., 2006; Dang et al., 2006; McGee & Preobragenskaya, 2006; World Bank, 2008). Dang, et al. (2006), for example, found that SMEs from Vietnam prepare their financial statements only to meet the government compliance requirements such as taxation, statistical data collection and other regulations. Not much is known about this subject, however, for most of the studies concerned refer to the government bodies in question under the blanket heading of other "government agencies" which tells us nothing about their specific needs for information nor how they use such information. Further research is needed to examine this area and to determine in particular whether or not government agencies in developing countries have similar needs and uses for financial information as government agencies in developed countries.

Recognition of the main beneficiaries of financial statements prepared by SMEs raises a further issue, namely: how are the needs of information users to be met? Literature argues that compliance with IFRS can produce decision useful financial information for a broad range of users (Aljifri & Khasharmeh, 2006; Chatham, 2008; Joshi & Ramadhan, 2002; Zeghal & Mhedhbi, 2006). The next section, therefore, discusses why compliance with reporting standards is important and what factors impact on the level of compliance with reporting standards.

3.3 Compliance with reporting standards

Given that financial reports are the chief source of financial information used by company decision-makers, the question at this point is: what is it that makes such information useful? One answer to this question is provided by the IASB.

According to the IASB (2011a, p. 2):

> If financial information is to be useful, it must be relevant (ie must have predictive value and confirmatory value, based on the nature or magnitude, or both, of the item to which the information relates in the context of an individual entity's financial report) and faithfully represent what it purports to represent (ie information must be complete, neutral and free from error).

A further concern is the scope of such information. Different decision-makers have different objectives and different requirements for information all of which need to be taken into account when compiling financial reports.

Finally, there is the matter of comparability. Bohusova (2011) notes that financial information from different countries can only be compared if the countries in question comply with the same reporting standards and that comparability is desirable as it may encourage an increase in international investment and trade.

International reporting standards recognise these matters and are designed to facilitate the provision of the required information and allow the transmission of this information between sources and users (Aljifri & Khasharmeh, 2006; Bohusova, 2011; Joshi & Ramadhan, 2002). Two further issues emerge, however, with the introduction of standards. One of these is concerned with the actual standards adopted and the other, with the question of compliance.

With regard to the former, standards drawn up by the IASB are of particular interest as they provide an international reporting language that lets all users understand the financial information of their business and potentially allows them to have access to finance at an international level. Some countries, however, believe compliance with IFRS is not the only way of providing high quality financial information. These countries prefer their own home-grown national reporting standards while others allow compliance with both national and international standards.

It has long been noted, however, that standards are not of themselves sufficient for there is still the problem of ensuring compliance. Some studies have examined compliance with reporting standards by large listed companies (Goodwin & Ahmed, 2006; Street & Gray, 2002). Studies on compliance by SMEs however, and in particular SMEs in developing countries, are few in number (Dang, 2011; World Bank, 2007b, 2008). They are also complicated by a "one size fits all approach" that imposes an obligation on SMEs to comply with the reporting requirements set for large companies rather than SMEs.

3.3.1 Compliance with international reporting standards

Compliance with IFRS provides an international reporting language which facilitates all users of given financial information having the same understanding of the information. This provides high quality information for the users, facilitates easier access to foreign investment and makes it easier for multinational companies to conduct their business at an international level (Aljifri & Khasharmeh, 2006; Joshi & Ramadhan, 2002). The end result is that compliance with IFRS produces comparable and more reliable financial information (Chatham, 2008; Zeghal & Mhedhbi, 2006). However, compliance with IFRS varies as results of entity specific and country specific characteristics.

3.3.2 Economic characteristics of entities

These characteristics refer to the capacity of a firm to adopt, comply with and implement IFRS. More particularly, these characteristics include the size of the entity, type of industry, accountancy proficiency of the account preparers, longevity of the entity, and English knowledge of account preparers. Each of these characteristics will now be considered in turn.

3.3.2.1 Size of the entity

Various studies have found that the size of an entity has an impact on the extent of compliance with international reporting standards (Aljifri & Khasharmeh, 2006; Dumontier & Raffournier, 1998; Eierle, 2008). In United Arab Emirates and Switzerland, for instance, small entities have been found less likely to voluntarily comply with IFRS (Aljifri & Khasharmeh, 2006; Dumontier & Raffournier, 1998).

This result is perhaps not surprising, given the fact that relative to large entities, small entities have fewer resources to implement international standards. In Austria, it has been found that small entities are less likely to disclose financial information because owner-managers and accounting practitioners of these entities cannot see the advantage of doing so (Eierle, 2008). Small entities also have less public demand to comply with IFRS because compared with large companies they have fewer information users (Eierle, 2008) to put pressure on the firm to implement new standards in the first place (Aljifri & Khasharmeh, 2006).

For Croatia, Mosnja-Skare (2008) examined the compliance of SMEs with IFRS[6] in detail and found that size[7] of the entity had an impact on compliance with these reporting requirements. The author found that small entities were less compliant than medium sized entities with "Statement of cash flows[8]," "Accounting for government grants and disclosure of government assistance," "Related party disclosures," "The effects of changes in foreign exchange rates," and "Intangible assets." The result suggests that for small entities, compliance with the IFRS significantly depends on the relevance of the standard to the entity. Obviously, there are requirements which are not relevant to small entities because, as mentioned earlier, the IFRS are developed to meet the needs of users of publicly listed large entities, not for small entities.

In Australia, Goodwin and Ahmed (2006), in a study based on 135 listed companies found that size of the entity has a significant impact on compliance with the Australian equivalents to IFRS (A-IFRS). Compliance with A-IFRS increased net income and equity of smaller listed companies because of tax benefit and deferred tax assets from tax losses. On the other hand, for large companies compliance increased liabilities and decreased equity. The study

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[6] The study examined a set of 15 IASs requirements of "Level 2" guidelines issued by the United Nations Conference on Trade and Development (2004).

[7] The size of the entity is measured by annual turnover and number of employees in this study.

[8] This finding neglects the importance of cash flow statements for SMEs which is odd.

found that compliance with A-IFRS did not have any material impact on total assets but it increased total liabilities for all sampled companies. Overall, the study concluded that compliance with A-IFRS had not been onerous for smaller listed companies compared with large companies.

3.3.2.2 Type of industry

A number of studies from different countries have found that type of industry has an impact on the level of compliance. Street and Gray (2002), for example, examined key factors associated with the level of compliance with IFRS: required disclosures; and measurement and presentation practices for companies that use IFRS. The study used the 1998 annual financial statements from various countries; and found that entities from the commerce [9] and transportation industries have a higher level of compliance with disclosure requirements of IFRS than those from other industries. This result could be explained by the fact that both the commerce and transportation industries were engaged in more international business activities than other types of industries and these activities supplied them with strong incentives to comply with the disclosure requirements of IFRS.

Different types of industry can also influence the level of compliance in preparing different types of information. Holmes and Nicholls (1988) found for Australia, for instance, that entities in the manufacturing, wholesale, finance and service sectors are more likely to prepare financial[10] and management[11] information than entities from the transport, construction, retail and service sectors. Entities

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[9] According to United Nations Statistical Division commerce industry is under "G" category of Wholesale and retail trade (United Nations Statistics Division, 2012).

[10] Financial information includes statutory information such as the tax return, statutory accounts, balance sheet and profit or loss.

[11] Management information includes budget and addition information such as cash flow for internal use, ratio analysis, manufacturing statement, inter-firm comparison, industry trends, source and application of funds, break-even analysis, cash flow statement, production reports and job costing reports.

from the latter sectors prepared only such information as is required by statutory purposes.

Allee and Yohn (2009) and Aljifri and Khasharmeh (2006), on the other hand, did not find any significant relationship between the preparation and use of financial statements and the types of industry in entities from the USA and the United Arab Emirates respectively. These results require further examination as to whether or not the type of industry affects the level of compliance with reporting standards, in particular IFRS, by SMEs.

3.3.2.3 Accountancy proficiency

The financial reporting qualifications and experience of owner-managers and account preparers are often referred to as “accounting proficiency,” a term which covers bachelor and master degrees in accounting, CPA certification and practical experience.

Account preparers of SMEs tend to lack the accounting knowledge of those in larger entities (Eierle & Haller, 2009) and this has implications for compliance. Entities employing account preparers with higher accountancy proficiency are known to comply with IFRS more than those with less qualified account preparers. In Australia, for instance, Holmes and Nicholls (1988) found that owner-managers of small entities with university qualifications were more likely to prepare financial and management information. Owner-managers with only trade qualifications, on the other hand, were more likely to prepare just statutory information.

Local customs, however, can cause exceptions. In Bahrain, for example, Joshi and Ramadhan (2002) found that 86 per cent of their sample stated that account preparers of SMEs have the ability to prepare financial statements that comply with IFRS. This is consistent with the voluntary adoption of IFRS by a majority of small entities in order to improve the usefulness of financial information and to make it comparable with financial information from elsewhere.

Finally, familiarity with IFRS makes a difference. Accounting proficiency is by itself insufficient for account preparers who must also have some knowledge and competence in the actual use of IFRS (Abd-Elsalam & Weetman, 2003; Floropoulos & Moschidis, 2004). For Greece, for instance, Floropoulos and Moschidis (2004) found that while experienced and qualified account preparers were familiar with reporting standards, those in SMEs lacked the capacity to apply IFRS.

3.3.2.4 Longevity of the entity

Only a few studies have examined the impact of business longevity on the level of compliance with reporting standards. In New Zealand, Owusu-Ansah (2005) found that the age of the entity was the most important factor contributing to the level of compliance with mandatory disclosure requirements. According to the author, older entities are likely to disclose a wider range of information than newer entities because older entities have stabilised their business environment (Owusu-Ansah, 2005).

However, a study by Holmes and Nicholls (1988) found that in Australia financial and management information is more likely to be prepared by small entities with less than ten years of age. It is thus important to examine whether or not there are significant differences in complying with reporting standards and preparing financial statements between young newly established, and old stabilised entities.

3.3.2.5 Knowledge of English

Account preparers and accounting practitioners' proficiency in the use of English language is also known to contribute to higher compliance. In the United Arab Emirates, for instance, Aljifri and Khasharmeh (2006) found the use of English to have been a "robust factor" in the compliance with IFRS: 87 per cent of responding entities disclosed financial information in English; while 95 per cent of entities[12], both listed and unlisted, complied with IFRS. The reasons given for

[12] Sample selected from Commercial Directory of Chamber of Commerce and Industry.

this use of English and the correspondingly high level of adoption of IFRS included: the ability to attract foreign investment; and the benefits of using the same reporting language as foreign partners.

IFRS, however were created for developed countries and were published, at least initially, only in English. In non-English speaking developing countries, therefore, understandable and reliable translations of IFRS are an essential prerequisite for widespread compliance. Abd-Elsalam and Weetman (2003, p. 67), for instance, in relation to Egypt, have observed that "Familiarisation with new legislation is problematic when the authoritative source material is not available in the local language."

In developing countries in other words, the dearth of materials translated into local languages, is a barrier to the implementation of international standards. Similar findings have been reported in other studies. World Bank (2007b), for example, in a ROSC, attributes delays to the adoption and implementation of IFRS in Kazakhstan, to the absence of accurate translations and the lack of English knowledge on the part of accounting professionals. Post-socialist countries such as Belarus, Georgia, Latvia, and Mongolia have encountered similar frustrations (World Bank, 2005, 2007a, 2008, 2009). In Georgia, for instance, a lack of an official translation has imposed a "time-lag" on implementation (World Bank, 2007a). Tyrrall, et al. (2007) also have reported in a study on Kazakhstan that the majority of account preparers used "unofficial" Russian translations of IFRS, which have hindered rather than helped the implementation of IFRS.

It has been observed that developing countries are greatly in need of technical support from developed countries. Some authors, notably Abd-Elsalam and Weetman (2003), mentioned the immature capital markets of developing countries in this regard: the lack of expertise, and the low level of accounting development. High quality translations of international standards might be added to the list at this stage for in the light of the World Bank studies discussed above they appear to be an essential precondition for any increase in compliance with IFRS.

3.3.3 Country specific characteristics

The second group of factors, affecting the level of compliance with IFRS consists of those related to country specific characteristics. These can be further divided into three sub-groups: needs of users, financial dependence on international organisations; and training in application of IFRS. Each of these sub-groups will be considered in turn.

3.3.3.1 Needs of information users

In general, the level of compliance with IFRS is highly dependent on the needs of users both national and international. In situations where there is limited demand for quality information from users, there is commonly a low level of compliance. This has been confirmed in a number of studies carried out in post-socialist countries such as: Romania, Vietnam, Russia, and Belarus (Albu et al., 2011; Dang, 2011; McGee & Preobragenskaya, 2006; World Bank, 2009). In Russia, for example, McGee and Preobragenskaya (2006, p. 31) found that:

> One reason for the low compliance rate is attributable to the fact that the majority of users of financial information does not [… do not] care about and are […is] not concerned with IFRS [sic]. Accountants are aware of their audience (users of financial statements) and prepare financial statements based on what their audience wants and expects.

Likewise, in Belarus the World Bank (2009) found that entities comply with IFRS only because of tax legislation.

Needs of foreign information users also show a significant impact on the level of compliance with IFRS. Large companies that are listed outside their countries, for example, are more compliant with IFRS. Two studies have examined this issue on a global basis (Dumontier & Raffournier, 1998; Street & Gray, 2002) and these studies have both noted the role played by the big audit companies in this regard. Street and Gray (2002), for instance, found that companies listed outside the home country and/or in the US and audited by the Big 5+2 relied solely on the latter's procedures to meet the disclosure requirements of IFRS. Street and Gray (2002) also found that compliance with the measurement and presentation requirements of IFRS was higher for those audited by the big 5+2. Similarly, Dumontier and Raffournier (1998) have reported that big audit companies actively encouraged their clients to comply with IFRS as part of the process they use to strengthen their clients' reputation.

3.3.3.2 Financial dependence upon international organisations

Developing countries rely heavily on international organisations such as the World Bank, the International Monetary Fund (IMF) and the ADB. These international organisations in turn require compliance with IFRS as a prerequisite for funding and apply a great deal of pressure on the government of the country (Albu et al., 2011; Tyrrall et al., 2007). As a result, the government requires entities to comply with IFRS. In practice however, the level of compliance with IFRS is low and the quality of information prepared by entities is poor. Accordingly, entities from these countries only "appear" to comply with IFRS (McGee & Preobragenskaya, 2006; Tyrrall et al., 2007). Requirements in some developing countries, in other words, are governed by funding needs of the country rather than accounting needs (Tyrrall et al., 2007).

Even when this is not the case there is a failure in developing countries to appreciate the benefits of compliance with IFRS (World Bank, 2007b, 2008). In Mongolia, the World Bank (2008, p. 6) suggests "Most entities in Mongolia do not prepare financial statements in compliance with IFRS because it is too costly and too difficult, particularly for SMEs." This is consistent with the results of the MOF nationwide review assessment which showed that only 49 per cent (18 658 entities) of entities had "full"[13] compliance, 37 per cent of entities (14 241 entities) had "half" compliance and 14 per cent of entities (5 418 entities) did not prepare financial statements in compliance with IFRS in Mongolia (Odgarig, 2011). In addition, the report noted that compliance with IFRS was lower in entities from rural areas compared with entities operating in the cities.

[13] According to MOF, entities with "full" compliance with IFRS refers to entities achieving more than 90 per cent compliance in their accounting reports, preparing financial statements with full disclosures and disclosing accounting policies.

3.3.3.3 Training

Since entities wishing to apply IFRS must have access to accountants with the relevant skills, the training of accountants in these skills in any given country obviously has some bearing on the level of compliance. There is considerable interest in the training of accounting practitioners to use IFRS. For example, the results of studies of SMEs in the Czech Republic and the Ukraine (Mullerova, Pasekova, & Cizevska, 2010) and Vietnam (Dang, 2011), suggest that standard-setters in such countries need to pay considerable attention to the training of practitioners should they wish to fully implement IFRS. Enlistment of professional support from countries that have already adopted IFRS would be useful. In the absence of trained professionals, developing countries simply lack the ability to properly implement IFRS. For example, the World Bank (2007a, p. 4) reports with regard to Georgia: "The current process is limited to quick scans of financial statements and audit opinions by the regulatory authorities." Similarly, in Kazakhstan, the World Bank (2007b, p. vi):

> Audited IFRS financial statements generally appeared to comply with IFRS, but a number of significant non-compliance issues were noted, leading the ROSC team to question the capacity of preparers and auditors. In addition, regulatory bodies lack the resources to efficiently control preparation of financial reports in accordance with IFRS.

Tyrrall, et al. (2007) suggest that non-compliance also reflects the lack of suitable translations of IFRS. In Kazakhstan, for instance, the lack of official translations of IFRS into Russian and Kazakh have caused severe problems in compliance with IFRS because standard-setters and educators were required not only to translate the standards but also to develop methodological recommendations and interpretations of the accounting concepts used in market based accounting (Tyrrall et al., 2007). McGee and Preobragenskaya (2006) stated that the majority of Russian accountants encountered difficulties when complying with IFRS because of the unfamiliar market accounting concepts such as "materiality," "event after the balance sheet date," "segment information" and "deferred taxes." A similar finding was reached by the World Bank (2008) in Mongolia.

Abd-Elsalam and Weetman (2003) found that the official Arabic translation of IFRS had a positive impact on the level of compliance with reporting standards in Egypt. This is because the official translation of the international reporting standards into the local language improved familiarity with the standards by both users and account preparers. These findings suggest that developing countries not only lack the trained professionals including auditors but also the regulatory bodies themselves lack the resources to control the actual reporting practices of entities.

3.3.4 Compliance with national reporting standards by SMEs

Until the IASB issued the IFRS for SMEs in July 2009, there was no international reporting standard for SMEs but some countries such as Canada, New Zealand and the UK (as discussed in Section 3.5), had already developed specific national reporting standards for SMEs. This means that literature concerning compliance up until 2009, focused mainly on national specific reporting standards for SMEs. In addition, the studies addressing compliance with reporting standards by SMEs are very limited in number. Therefore, this section reports what factors impact on compliance with national reporting standards for SMEs, only in Ireland and Vietnam.

In Ireland, based on the responses of 240 registered accounting practitioners working with SMEs, Barker and Noonan (1996) examine the problems of complying with accounting standards. The study found that standards relating to leasing, pensions and foreign exchange are regularly used, while standards related to complex financial instruments, group accounts, and research and development are seldom, if ever, used. In terms of applicability of the existing reporting standard for small entities, Financial Reporting Standard for Smaller Entities (FRSSE), the study found that small entities are less likely to apply "Lessee accounting," "Capital instruments," "Mergers in acquisitions," "Hyperinflation," "Issuer call options," and "Employee share ownership plan trusts" (Barker & Noonan, 1996). This suggests that many of the requirements of accounting standards lack relevance to the reporting needs of SMEs.

Before 2005, in Ireland all companies including SMEs were required to comply with national reporting standards. Since 2005, all listed companies are required to prepare their financial statements under IFRS and other entities are permitted to apply IFRS, Irish GAAP and FRSSE[14] (IAS Plus, 2012a). After publication of the IFRS for SMEs, the Institute of Chartered Accountants of Ireland decided that Irish and UK GAAP would be replaced by a three-tiered approach, whereby companies would apply one of the following (IAS Plus, 2012a):

- EU-endorsed IFRSs — for 'publicly accountable' entities
- IFRS for SMEs — for non-publicly accountable entities
- FRSSE — optional for 'small' entities.

These options would allow entities to comply with the least burdensome reporting standards. This approach may be an appropriate option for the transition from national reporting standards to international reporting standards. However, should entities continue using the FRSSE then, in the long run, they might face problems complying with national reporting standards due to increasing worldwide adoption of the IFRS for SMEs. Therefore, if it best suits the reporting needs of small entities in Ireland then these entities could gain benefit from application of the IFRS for SMEs rather than the FRSSE.

In Vietnam, the use of IFRS is not permitted. All entities, including SMEs, are required instead to comply with national reporting standards (Dang, 2011; Deloitte, 2009b; Ibarra & Suez-Sales, 2011). In 1995, the Ministry of Finance of Vietnam established a new accounting standard. This was the Enterprise Accounting System, which is more like a bookkeeping manual than a set of accounting standards and principles. The Enterprise Accounting System appears to meet the information needs of government and related agencies but not other entities (Yang & Nguyen, 2003).

Dang, et al. (2006) found that the use of financial information by national users is far greater than that by international users. Reporting regimes employing the

[14] This standard was developed by the UK Accounting Standards Board (ASB).

national standard for SMEs were perceived to lack transparency, which left international users wary and reluctant to transact with these entities. Such regimes may limit the future growth of SMEs. More specifically, because Vietnam has enjoyed the highest level of economic growth in the world over the past ten years and because many companies have become global in outlook it has become increasingly necessary to adopt international reporting standards (Dang, 2011; Dang et al., 2006; Deloitte, 2009b; Ibarra & Suez-Sales, 2011).

3.4 Financial statement preparation cost

The main rationale for developing DR for SMEs is the reduction of reporting costs without an associated reduction in benefits. Different entities incur different financial reporting costs when complying with their country's reporting requirements (Institute of Chartered Accountants of New Zealand, 1994). Compliance with statutory reporting requirements is not cost-free for any entity and small entities in particular must carry relatively higher preparation costs in order to achieve compliance (Eierle & Haller, 2009; Evans et al., 2005; Friedlob & Plewa, 1992; Page, 1984; Sian & Roberts, 2006). In some instances the costs of preparing financial reports exceeds the benefits of the information produced (Barker & Noonan, 1996; Evans et al., 2005). SMEs simply lack the economies of scale to absorb extra costs and frequently they lack the necessary resources such as professional accountants to prepare financial statements themselves.

Barker and Noonan (1996) report that the requirement to comply with accounting standards and company law was regarded by small companies as too great a burden. The burden of preparation costs is particularly strong for SMEs in Mongolia as the accounting law does not make any allowance for size of the entity (World Bank, 2008).

Reporting cost are often difficult to identify (Brown, 1990). The literature suggests there are four main types of cost involved. These are: the direct costs of preparing financial information; audit cost; opportunity cost; and information system cost (Barker & Noonan, 1996; Carsberg et al., 1985; Collis & Jarvis, 2000; Sian & Roberts, 2006, 2008).

Direct costs include fees for bookkeeping services, printing costs, publishing costs and filing costs (Barker & Noonan, 1996; Eierle & Haller, 2009; Friedlob & Plewa, 1992; Maingot & Zeghal, 2006; Sian & Roberts, 2006, 2009). The most significant of these for SMEs are the bookkeeping costs. Owner-managers often lack sufficient knowledge to prepare their own financial reports so they have to hire external accounting practitioners on a part-time basis (Carsberg et al., 1985; Collis & Jarvis, 2002; Maingot & Zeghal, 2006; Sian & Roberts, 2008, 2009).

Auditing cost has also been recognised as a significant financial imposition on SMEs especially when auditing is part of the statutory requirements. In Ireland, Barker and Noonan (1996) found that audit of annual accounts[15] was ranked by SMEs as the second most expensive element, after account preparation, of the total service fee paid to accounting firms. Therefore, the study suggested that the best way to reduce the burden of financial reporting is to remove the requirement for audit. Similarly, Sian and Roberts (2006) found that many smaller entities prepare their financial statements only for taxation purposes and thus the audit requirement only imposes a burden on those entities. This finding is in line with Rennie and Senkow (2009) who found that entities in Canada have an audit only to meet the requirements of lending agreements, or to become a public company. A similar finding was reached by Deloitte (2009a) in small private companies from the USA. These results suggest that SMEs perceive only limited benefits from the audit of their financial statements.

However, the notion that auditing is only a burden for SMEs has not found universal support. Using a sample of 385 small entities from the UK (where the annual turnover threshold for small company audit exemption was £350 000), Collis and Jarvis (2000) found that the majority of the sample companies, with an average turnover of £1.3 million, did not perceive the audit requirement to be a burden. Sixty-three per cent of owner-managers reported that they would continue having an audit even if audits became voluntary. The authors concluded that the reason for this is that audits provide independent verification and

[15] The audit exemption in Ireland applies for entities with an annual turnover of up to £100 000 from the audit requirement (Barker and Noonan, 1996).

confirmation of the financial position and results of the entity. This result suggests the usefulness of the audit is thought by some to extend beyond simply meeting statutory requirements. Collis and Jarvis (2000, p. 65) put the matter in the following way:

> The auditors' report is mainly perceived as improving the credibility and quality of the information, and providing a check on internal books and records. Thus, the role of the audit report can be described as increasing the extent to which users can rely on the information contained in the accounts. However, the benefits attached to the statutory audit receive little attention in the current deregulatory debate, which focuses mainly on saving costs.

The audit report is perceived by some to be useful as it can provide affirmation that the financial statements report the actual results and financial position of the business.

Opportunity cost associated with the preparation of financial statements, refers to the burden of the work required to comply with reporting standards. If the reporting requirements for SMEs increase then this causes those entities to miss other profitable opportunities for the use of their limited resources (Carsberg et al., 1985; Page, 1984). According to Carsberg, et al. (1985), the extra work necessary to comply with the requirements on preparation of financial statements means that smaller entities may forego an increase in their profits because of the reporting requirements taking up valuable time. According to Collis and Jarvis (2000), the opportunity cost of time spent on compliance is high and is the main cost of financial reporting in small entities from the UK. SMEs need simple and less burdensome reporting requirements than large companies. The literature pays scant attention to this subject and gives no thought as to how to identify and measure opportunity costs. It appears however, that the main component of opportunity costs in this regard, is the scarce management time spent in preparing financial statements (Collis & Jarvis, 2000).

Information system cost, the last of the four listed costs, has not received extensive examination. In Vietnam, information system cost was considered one of the significant costs for preparing financial statement (Dang, 2011). Based on a survey of owner-managers of small entities, Collis and Jarvis (2000) found that the level of computerisation of the accounting system of small entities was common in the UK. Of the 385 sample entities, 57 per cent stated that their accounting system was "fully" computerised and 25 per cent stated "partly" computerised. Only 17 per cent reported that their accounting system was manual. However, in a later study of the accounting practitioners of accounting firms who worked closely with SMEs and micro-entities, Sian and Roberts (2008) found that the use of accounting software in the UK was quite low. One of the interviewees reported that only one third of their SMEs clients used a computer package for reporting purposes. This result suggests that the use of accounting software for reporting purpose is low even in developed countries.

Some studies have considered ways of reducing reporting costs for SMEs. Maingot and Zeghal (2006), for instance, found that *computerisation*, *develop special standard for SMEs*, *reduce regulation*, *reduce number of accounting standards*, and *remove audit requirements* were ranked more important ways to reduce the reporting burden in Canada, while *complete exemption* was considered the least important way of reducing the burden imposed on SMEs. Research on SMEs in the Czech Republic suggests a need for a *special standard* in order to achieve high quality in financial reporting (Mullerova, Pasekova, & Hyblova, 2010).

3.5 Differential reporting

The growing concern with the reporting issues of SMEs has led in recent years to an increased interest in the development of ways and means for relieving SMEs of their reporting burden. DR is a system devised by governments and accounting authorities for this purpose. The following two sections discuss alternative approaches to setting the qualifying criteria for DR and DR mechanisms. Examples are then provided of the different approaches to DR.

3.5.1 Qualifying criteria

The debate in the literature on DR deals with various issues. At its most general level the debate in the literature on DR has two main foci. One of these has centred on the criteria used to qualify small entities for DR; and the other on the actual mechanisms employed by DR. The criteria used to qualify small entities for DR may be either qualitative or quantitative. Qualitative criteria are concerned with the legal structure of small entities: whether or not they have a separation between ownership and management; and whether or not they are public accountable. Quantitative criteria, by contrast, are concerned with the statistical character of small entities: the number of employees, for instance, or the level of annual turnover. Policy-makers find quantitative criteria particularly useful for once they are adopted, cut-offs can be set for each category of entities to control the number of entities falling within that category. Different jurisdictions use either qualitative or quantitative criteria and some use a combination of both.

3.5.2 DR mechanisms

The actual mechanisms used to effect DR can be divided into two broad approaches. These may be labelled the “integral” approach and the “distinct” approach (Devi, 2003; Hong Kong Society of Accountants, 2002). The integral approach retains the framework of accounting standards used by larger entities but adapts it by exempting qualifying smaller entities from some of its reporting requirements. This approach has been adopted in Hong Kong, Malaysia, and New Zealand.

The integral approach has some qualities that appeal to policy-makers. Baskerville and Simpkins (1997, p. 14), for instance, stated with respect to New Zealand that “…[the] (DR framework) allows large closely held entities to be eligible for exemptions, allows measurement of elements to be included in some exemptions...”. This suggests the integral approach can be applied to entities of any size with its application restricted by only the country specific criteria for qualifying entities. Using the integral approach means account preparers and accounting practitioners both need to know only one set of reporting standards and need have only one template on their computers all of which adds greatly to practitioners' efficiency.

The distinct approach by contrast, both reduces and creates an independent set of reporting standards designed to address the specific reporting requirements imposed on qualifying SMEs (Devi, 2003; Shannon, 1992). This is the approach adopted in the UK and Sri Lanka. Discussion of the distinct approach have been labelled the "Big GAAP" and the "Little GAAP" debate in the literature (Jarvis & Collis, 2003) with debate perhaps being the operative word for the ideas concerned are far from settled. Supporters argue that separate reporting standards provide compact and convenient criteria that meet the needs of both preparers and information users (Hong Kong Society of Accountants, 2002). In practice, however, application of the distinct approach has not always been wholly successful. The Swedish Accounting Standards Board, for example, tried the distinct approach but concluded that entities lacked the financial resources and accounting literacy to comply with IFRS even when standards were simplified; information users had no interest in the information produced; and simplification failed to present the small entities concerned with clear and comprehensive choices (Swedish Accounting Standards Board, 2004).

Part of the problem with the distinct approach is to be found in the difficulty of systematically addressing all the relevant issues. In this regard, Devi (2003) notes that:

> Whilst it is acknowledged that the distinct approach may be less desirable than the integral, it is only because the integral approach appears to be the result of assessing all existing standards. Some view the distinct approach as a form of "cherry picking" and the approach is susceptible to being criticised as "arbitrary".

In regards to the distinct approach, the Hong Kong Society of Accountants (2002) states that standard-setters need to devote significant resources to the development or revision of accounting standards and these resources are not always available.

Part of the problem with the distinct approach is also to be found in its lack of internal flexibility. John and Healeas (2000) note in this connection that the distinct approach requires modification every time standard-setters introduce a new standard or raise another issue. In the integral approach, by contrast, it is only necessary to accept or reject the revision according to the qualifying criteria adopted in the country in question. These considerations suggest that the distinct approach is not an appropriate option for developing countries or in countries at any rate that lack the necessary financial resources and professional expertise to develop the separate standards. In these countries the integral approach is more suitable for its flexibility, its relatively lower cost, and its built in harmonisation with IFRS (Devi, 2003).

In the following sections, the development and application of DR will be discussed in some detail for New Zealand, United Kingdom, Canada, and United Nations Conference on Trade and Development (UNCTAD). Each of these cases presents a different solution to the DR problem.

3.5.3 New Zealand

In 1994, 85 per cent of a total of the 260 000 businesses in New Zealand were micro-entities employing fewer than five employees (Institute of Chartered Accountants of New Zealand, 1994). This overwhelming preponderance of small businesses stimulated investigation into reporting and reporting needs and eventually led New Zealand to become an early adopter of DR, using the integral approach. Many other countries have since followed New Zealand's lead.

When first deployed in 1994, the New Zealand framework allowed a few exemptions from NZ GAAP, comprising a number of disclosure exemptions and a few measurement treatments based on qualitative and quantitative aspects of the entity (Institute of Chartered Accountants of New Zealand, 1994). This framework has subsequently been reviewed and modified on a number of occasions (Financial Reporting Standards Board of the New Zealand Institute of Chartered Accountants, 2007).

In its 2007 iteration the New Zealand system of DR defines qualifying entities as those entities having no public accountability and not exceeding any of two of the following criteria:

a) total income of NZD 20 million;
b) total assets of NZD 10 million;
c) fifty employees (Financial Reporting Standards Board of the New Zealand Institute of Chartered Accountants, 2007).

In middle of 2011, the External Reporting Board (XRB) endorsed the decision of the ASRB to apply multi-tiers reporting approach for "*for-profit-entities*" and "*public benefit entities*" (External Reporting Board, 2012). The XRB issued a Standard XRB A1 to establish which accounting standard apply to which entities (Van Zijl & Bradbury, 2014). The new multi-tiers approach includes four tiers for "*for-profit-entities*":

Tier 1 (full NZ IFRS): entities that are publicly accountable and for-profit sector entities that are large[16];

Tier 2 NZ IFRS Reduced Disclosure Regime: entities that are not publicly accountable and for-profit public sector entities that are not large[17], which elect to be in Tier 2.

Tier 3 New IFRS DR: entities that are not publicly accountable and either (a) all of its owners are members of the entity's governing body, or (b) are not large[18] which elect to be in Tier 3.

Tier 4: *Old GAAP*: entities that are not publicly accountable, are not required to file financial statements, and are not large[19] which elect to be in Tier 4.

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[16] A for-profit public sector entity is large for the purposes paragraph 7 if it has total expenses over NZD30 million (External Reporting Board, 2012);

[17] The entity is not large as defined in previous footnote;

[18] A for-profit entity is large for the purposes of paragraph 20 if it exceeds any two of the following:
(a) total income of NZD 20 million;
(b) total assets of NZD10 million; and
(c) 50 employees (External Reporting Board, 2012);

[19] A for-profit entity is large for the purposes of paragraph 28 if it exceeds any two of the following:
(a) total revenue of NZD 20 million;
(b) total assets of NZD 10 million; and
(c) 50 employees (External Reporting Board, 2012);

According to Van Zijl and Bradbury (2014), Tiers 3 and 4 are the entities that previously applied the NZ IFRS DR or Old GAAP[20].

The New Zealand government has removed the statutory obligation for SMEs (with annual revenue less than NZD 30 million and total assets less than NZD 60 million) to prepare financial statements under the Financial Reporting Act (FRA). However, these entities will be required to continue to prepare financial statements to meet the specific needs of users such as the taxation authority and banks. This means these entities will prepare special purpose financial statements rather than general purpose financial statements. According to the NZICA this proposal received overall support during the consultation process. At the time of writing, the New Zealand Inland Revenue Department has issued a discussion paper proposing guidelines for the preparation of special purpose financial statements for taxation purposes and the NZICA is working on guidelines for the preparation of special purpose financial statements for other applications. These changes will significantly reduce the reporting burden of qualifying SMEs in New Zealand.

3.5.4 United Kingdom

United Kingdom standard-setters have debated "Big GAAP and Little GAAP" since the middle of the 1980s. In the early 90s, the Accounting Standards Board (ASB) established a working group to address the reporting needs of smaller entities and set criteria for the exemption of certain types of entities from accounting standards. The result in 1994 was a consultative document proposing an exempt company regime (Accounting Standards Board, 2008).

Subsequently the ASB also published Accounting simplifications (1995) and Designed to fit (1995). The reception to these documents indicated general support for the development of a specific reporting standard for small entities. In 1997, the ASB published the FRSSE, which was subsequently updated in 1998 and again in 1999, 2000, 2002, and 2005 (John & Healeas, 2000). The FRSSE reflect

[20] SSAPs and FRSs

the distinct approach and was designed to allow smaller entities to comply with simplified accounting requirements and disclosures modified to meet their needs (Accounting Standard Board, 2012). The FRSSE also allowed smaller entities to practice DR by exempting them from irrelevant disclosure requirements (Sian & Roberts, 2009). In its original form however, the FRSSE still stipulated 50 disclosure requirements for the qualifying SMEs.

The reception to the FRSSE has been mixed. Some authors have argued that the FRSSE has provided only cosmetic changes without significantly reducing the reporting costs of small entities. The reduction of the total collected standards document from 700 pages to 76 pages was an excellent initiative according to John and Healeas (2000) but the changes made were only superficial because small entities were not scaled-down versions of larger entities. According to John and Healeas (2000) key representatives from the ASB, audit firms, and Chambers of Commerce had found the FRSSE to be a “heavy” regulatory regime for small entities.

Even though small entities were allowed to prepare abbreviated accounts under the FRSSE, they were still required to prepare full financial statements under the Companies Act 1985 unless the entities qualified for exemption under the provisions for small entities. These conflicting requirements had a negative impact on reporting practice as small entities desired compliance with the Companies Act rather than with the accounting standards embodied in the FRSSE (Taylor, 2009). The inevitable result was a failure of the FRSSE to reduce reporting costs for small entities (John & Healeas, 2000).

Reid and Smith (2008) have found that small entities that adopt the FRSSE believe that DR provides greater benefits than costs by taking advantage of the reduced disclosure requirements. Non-adopters of the FRSSE, however, believe that reporting costs outweigh the benefits. Researchers found that training on the FRSSE for accounting practitioners is necessary for compliance (Reid & Smith, 2008). This finding suggests that significant training is necessary for account preparers of SMEs even though the FRSSE is a simplified version of the reporting requirements.

3.5.5 Canada

In 1999, the Canadian Accounting Standards Board (AcSB) stated that the existing reporting requirements for small entities were burdensome and in need of simplification to meet the needs of some of these entities. Accounting practitioners supported DR as it would reduce compliance costs and the time taken for preparation of financial statements. Based on these views, the AcSB introduced the first DR scheme for non-publicly accountable entities in 2002.

In 2006, the AcSB's decision to adopt IFRS for listed companies required reconsideration of the accounting standards for private entities (Canadian Institute of Chartered Accountants, 2010). In 2007, the AcSB issued an Invitation to Comment on a Discussion Paper to address the needs of users and an appropriate approach for the development of reporting standards for private entities (Canadian Institute of Chartered Accountants, 2010). Based on the comments received, the AcSB decided to develop a "Made in Canada" financial reporting standard for private entities. As a result, in December 2009, the AcSB released a new accounting standard, the Generally Accepted Accounting Principles for Private Enterprises (PEGAAP), which includes "recognition and measurement principles" and simplified "reporting options" for private entities (Grant Thornton, 2010).

This "Made in Canada" accounting standard for private entities used Canadian GAAP as a starting point because this was the approach that received the strongest support from stakeholders (Accounting Standards Board, 2010). Thus, the country adopted the distinct approach for development of the new reporting standard for private entities. Any private entity can use this accounting standard as there is no size test or other criteria for qualification.

The AcSB gave the reasons for not adopting a size test as follows (Accounting Standards Board, 2010, p. 5):

> (a) all private enterprises are distinguishable from publicly accountable enterprises on the basis of accountability; and (b) the public policy issue regarding economic significance, which has resulted in large private enterprises publishing their financial statements in certain other jurisdictions, does not appear to be relevant in Canada.

The KPMG (2009) survey reported that 67 per cent of business entities and 57 per cent of information users of the total of 607 respondents supported the proposed DR options for private entities. Assurance for financial statements was a key reason for this finding. Audited financial statements were regarded as necessary to satisfy the needs of information users, in particular lenders. Rennie and Senkow (2009) in a study on financial reporting by applied entities found that while DR reduced the costs of preparation and audit of financial statements by amounts vary from 25 per cent to 50 per cent, nevertheless even DR still leaves these entities with a significant burden.

3.5.6 United Nations Conference on Trade and Development

The difficulties experienced by SMEs in complying with both national and international reporting standards were noted in July 2000 by the United Nations[21]. In an effort to moderate these difficulties, International Standards of Accounting and Reporting (ISAR) proposed a "three-tiered" DR framework using the distinct approach (United Nations Conference on Trade and Development, 2004).

Each tier of this framework has a different set of guidelines based on a different set of reporting standards (United Nations Conference on Trade and Development, 2004). Level 1 guidelines are designed to meet the needs of

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[21] Seventeenth Session of the Intergovernmental Working Group of Experts on ISAR of the UNCTAD.

publicly accountable entities; Level 2 guidelines are designed to meet the needs of entities which do not have public accountability; and Level 3 guidelines are designed to meet the needs of the very smallest of entities known as micro-entities.

Level 2 guidelines were developed by ISAR from a single set of requirements for the most frequent transactions of the entities concerned based on IFRS applicable in 2002. ISAR labelled these guidelines the "Accounting and Financial Guidelines for Small and Medium-sized Enterprises" (SMEGA). In effect SMEGA is a simplified version of IFRS (Sian & Roberts, 2009) intended for the preparation of general purpose financial statements for SMEs and designed to be appropriate for use in any country including those with a transitional economy (United Nations Conference on Trade and Development, 2004). Entities that do not wish to adopt these guidelines can choose instead to comply with IFRS.

In addition, ISAR recognised that micro-entities also need to have their own reduced set of reporting standards rather than having to rely on the reporting standards for SMEs. In this regard it has been suggested by United Nations Conference on Trade and Development (2009) that construction of reporting requirements for micro-entities should ideally start from scratch with a realistic consideration of the needs of preparers and users and should reflect actual reporting practices of small entities. ISAR has developed Level 3 guidelines with these principles in mind. This framework has been seen as important in the literature (Devi, 2003; Mosnja-Skare, 2008) for it not only recognises the relevance of the stage to which economies have been developed but also the size of entities. While the literature however, has acknowledged the existence of these guidelines there have to date been no studies examining their impact on financial reporting in practice, except the study conducted by Mosnja-Skare (2008) from Croatia who concluded that micro-entities are more likely to accept either the Level 3 Guidelines or the IFRS for SMEs rather than IFRS.

The IFRS for SMEs is applicable to SMEs that do not have public accountability and the IASB left individual countries the option to set a size limit for application of the standard. However, as mentioned earlier, the IASB has developed guidance for micro-entities by extracting from the IFRS for SMEs those requirements that are relevant to these entities (IFRS Foundation and the IASB, 2013a).

3.6 Impacts of the IFRS for SME

The IFRS for SMEs, standard was published in July 2009. By July 2013, over 80 countries had either already adopted the IFRS for SMEs or were planning to adopt (IFRS Foundation and the IASB, 2013b). This switch provided new opportunities for an examination of the effects of IFRS on different kinds of entities in different jurisdictions. The IASB (2012, p. 2) states the main objective of the IFRS for SMEs is to be: "… a set of high quality financial reporting principles that is tailored for the capabilities of smaller businesses and for the needs of those who use small company financial statements."

The IFRS for SMEs aims to provide financial reporting principles that are suitable for both SMEs and for users of SMEs' financial information. There has been some doubt however, as to whether these objectives have been met in practice. Two questions need to be asked in order to clarity this issue:

a) First, what are the benefits of complying with the IFRS for SMEs; and
b) Second, what are the costs and burden of complying with the IFRS for SMEs;

These two questions will be dealt with in some detail in the following sections. Before doing so however, it should be noted that some of the studies cited were published before the publication of the IFRS for SMEs. This reflects the fact that the IFRS for SMEs was five years in development and was preceded by an ED, which allowed interested parties to comment on its contents before publication. This permitted investigators to examine the impact of the IFRS for SMEs both before and after its release.

3.6.1 Benefits of complying with the IFRS for SMEs

Globalisation of the world economy has necessitated the development and implementation of a comparable and understandable reporting language suitable for use by all entities including SMEs. The IFRS for SMEs has met this requirement by providing a common set of standards for SMEs (IASB, 2012; Pacter, 2011). However, it is important to determine who benefits from compliance with the IFRS for SMEs; and precisely how they benefit.

(a) Beneficiaries from compliance with the IFRS for SMEs

The main beneficiaries of the standard could be the SMEs in transitional and developing economies, where there was a requirement to comply with a full set of IFRS (following Work Bank directions) or the SMEs have users in other jurisdictions (Bohusova, 2011; Deaconu, Buiga, & Strouhal, 2012). The standard-setters of these countries also benefit as they are relieved from developing reporting standards of their own (Pacter, 2009).

There remains some doubt as to the need for the IFRS for SMEs. In Ghana, for instance, Aboagye-Otchere and Agbeibor (2012) found that 92 per cent of a sample micro-entities and 81 per cent of SMEs reported only limited need to provide internationally comparable financial information of the kind prepared by the IFRS for SMEs. In Germany, Eierle and Haller (2009) found that foreign customers and suppliers made little use of financial information from SMEs and thus SMEs had little reason to supply such information.

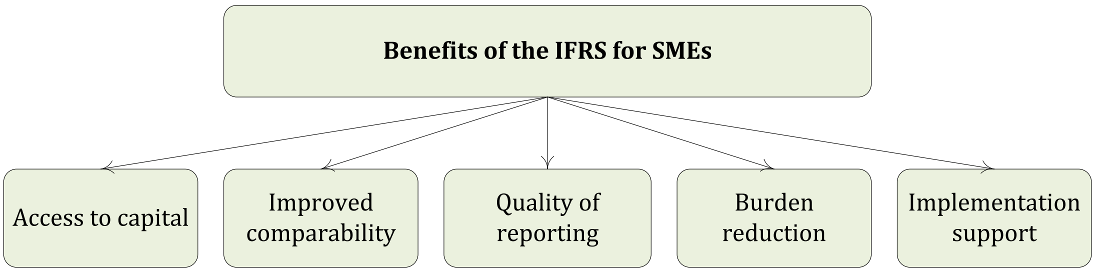
Quagli and Paoloni (2012) found that only 25 per cent of respondents thought that the IFRS for SMEs was suitable for use within Europe while 68 per cent thought the IFRS for SMEs was not suitable. According to Quagli and Paoloni (2012) a high level of compliance may in fact not be attainable in Europe because the standard's complexity limits both its comparability and utility. These finding were consistent with those of Deaconu, et al. (2012) [22] who found that respondents from Europe were less likely to adopt the IFRS for SMEs because of the social, cultural and political diversity of member states.

[22] The study was based on the content analysis of the 131 responses from the 162 comment letters from 45 countries to the ED for the IFRS for SMEs.

(b) Types of benefits accruing from the compliance with the IFRS for SMEs

Different commentators view the benefits of the IFRS for SMEs in different ways. According to the IASB (2012) and Pacter (2011), the IFRS for SMEs provides five main benefits, namely: access to financial markets, information comparability, quality of reporting, burden reduction, and implementation support. This is shown in Figure 3.1.

Figure 3.1 Benefits of the IFRS for SMEs



Source: Pacter (2011)

Evans, et al. (2005), by contrast, report three main benefits, namely: better support for the wider adoption of IFRS, improved comparability of financial statements, and reduced reporting costs in a global context. To facilitate discussion the present study suggests these two classifications of the benefits of the IFRS for SMEs can be modified as follows:

1) Improved quality of information
2) Implementation support
3) Reduction of reporting burden

The first two benefits of this proposed classification will now be considered in more detail. The third, reduction of reporting costs is covered in Section 3.6.2.

3.6.1.1 Improved quality of information

Supporters of the IFRS for SMEs have argued that the standard provides better quality information than national standards. More specifically, the standard improves the comparability of financial information, which in turn enables entities to participate in international markets (Bertoni & Rosa, 2013; Bohusova, 2011; European Commission, 2005). Pacter (2011) has argued that improved access to capital both in national and international markets is the most important benefit of having a common set of reporting standards for SMEs. Because it is a global standard, the IFRS for SMEs, allows SMEs to choose the best financial options from both the local and the international markets (Arsoy & Sipahi, 2007; Bohusova, 2011; European Commission, 2005).

MAZARS (2008), for instance, in a study of six European countries found that the new IFRS for SMEs allows entities to prepare relevant financial statements for third parties, manage and communicate with greater ease, improve comparability with competitors, reduce financing costs, ease access to import and export transactions and facilitate negotiations for the sale of the company. Arsoy and Sipahi (2007) also found that for Turkey respondents perceived the main advantages to adopting the IFRS for SMEs to be the potential for improvement of the quality of information prepared by SMEs, increased comparability of financial reports.

Information quality however, is dependent on the relevance of the standard to the reporting entities in question. Aboagye-Otchere and Agbeibor (2012) found that more than two-thirds of the accounting issues addressed in the IFRS for SMEs were considered to be of "little" or "no relevance" to small entities in Ghana. This has been the focus of much investigation and indeed, it is because of the irrelevance of full IFRS (Lungu, Caraiani, & Dascalu, 2007) that the IFRS for SMEs was brought into being in the first place (IASB, 2011a).

After publication of the IFRS for SMEs, the relevance of the standard to small entities was studied at length in various countries. In South Africa, Schutte and Buys (2011), for instance, using the technique of content analysis found that 70 per cent of the requirements of the IFRS for SMEs were ranked as having either high or moderate importance, indicating that the new standard would be of relevance in South Africa. Balance sheets, income statements, and financial statement presentation were found to be the most essential requirements of the IFRS for SMEs while sections on financial assets and liabilities, property, plant and equipment, income taxes, revenue and equity, were also found to be of high relevance. SMEs however, did not prepare consolidated financial statements because they had extremely limited transactions in business combinations, related party disclosures, joint ventures, and associates.

3.6.1.2 Implementation support

Issue of the IFRS for SMEs has been accompanied by extensive training support from the IASB. The IASB was of the opinion that training was the key to successful implementation and to this end, the IFRS Foundation and the IASB took a number of steps to prepare the way for implementation.

First, and in order to break down the language barrier to proper understanding of the standard, the IASB had the IFRS for SMEs translated into 20 languages besides English including Mongolian[23]. These translations could be accessed free of charge via the IFRS Foundation and the IASB website[24].

Second, when the IFRS for SMEs was released, the IASB made available implementation guidance, sample financial statements and presentation and disclosure checklists (IASB, 2012). The IASB also appointed an implementation group to provide support to entities and users and to make recommendations to the IASB should be standard require amendment.

Third, the IFRS Foundation developed 35 stand-alone training modules: one for each section of the IFRS for SMEs. These modules were again free to download this time from the IFRS website[25] and they were translated into four languages besides English, namely Arabic, Russian, Spanish and Turkish. Users, trainers, and preparers were encouraged by the IASB to print out these modules, distribute them in training programmes, or post them to websites as required so long as such activity conformed with non-commercial use. Hussain, Chand and

[23] http://www.ifrs.org/IFRS-for-SMEs/Pages/IFRS-for-SMEs-and-related-material.aspx#mon

[24] http://www.ifrs.org/IFRS-for-SMEs/Pages/IFRS-for-SMEs.aspx

[25] http://www.ifrs.org/IFRS-for-SMEs/Pages/Training-material.aspx

Rani (2012, p. 109), in Fiji, for instance stated that "Fiji Institute of Accountants relied on IASB for education and training materials, as it did not have enough funding and expertise to develop them by itself".

Fourth, the IFRS Foundation and the IASB have conducted regional three-day "train the trainers" workshops worldwide. To date, 30 workshops have been held mainly in developing countries such as Malaysia, India, Tanzania, Egypt, Brazil, Finland, Austria, Panama, Kazakhstan (Almaty and twice in Astana), Singapore, Turkey, The Gambia, The Federation of Saint Kitts and Nevis, Belarus, Ukraine, Argentina, Myanmar, UAE (in Dubai and Abu Dhabi), Bosnia Herzegovina, Kenya, Barbados, Chile, Cameroon, Bangladesh, Mongolia[26], Zambia, and Sri Lanka (IFRS Foundation and the IASB, 2013c). These workshops have provided a common educational framework for accounting practitioners and given them the opportunity to work in cross border situations (Bohusova, 2011). IASB workshops have been sponsored by a variety of organisations including: the World Bank, the Confederation of Asia Pacific Accountants, local Institutes of Certified Public Accountants and host country Ministries of Finance.

The literature also provides evidence that implementation costs impede the adoption of the IFRS for SMEs in some developing countries. In Fiji, for instance, Hussain, et al. (2012) found that the costs to train accounting practitioners, update information systems, and hire professionals to assist in the transition hinder the implementation of the IFRS for SMEs even though compliance is required by law. Similarly, in Kenya, Mage (2010) found that none of the sample entities (50 SMEs in the hospitality industry) complied with the IFRS for SMEs even though the council of the Institute of Certified Public Accountants of Kenya had approved the use of the IFRS for SMEs in 2009. According to Mage (2010), the main reasons for the lack of adoption and compliance with the standard were unwillingness to accept principles based accounting standards, cost and benefit

[26] On 24 -27 July 2012, the World Bank together with the MOF organised the first "train the trainers" workshop in Ulaanbaatar, Mongolia. Training material used by the workshop facilitators was prepared by the IFRS Foundation education staff and was translated into Mongolian for this workshop.

tradeoffs, lack of training, and uncertainly as to whether information users would accept financial statements based on the IFRS for SMEs.

The initial implementation also could be costly for SMEs because of the differences between national reporting requirements and those of the IFRS for SMEs (Albu, et al. (2010) (Romania) and Arsoy and Sipahi (2007) (Turkey). Albu, et al. (2010), for example, have found that implementation was particularly difficult in transitional economies such as Romania because of insufficient guidance and the tax driven nature of the national accounting regime.

3.6.2 Reporting costs and burden

The literature suggests the reporting burden for SMEs can be reduced by "easing" the reporting requirements (Barker & Noonan, 1996; Carsberg et al., 1985; John & Healeas, 2000; Sian & Roberts, 2009). According to Evans, et al. (2005) and Pacter (2011) this "easing" approach can be achieved by omitting irrelevant topics from IFRS, and by including only simpler accounting policy choices, reducing disclosure requirements and, most importantly, introducing modified recognition and measurement principles for SMEs. Such modifications reduced the total size of the standard by more than 85 per cent (Pacter, 2011).

South Africa formally adopted the ED without changes in October 2007 naming it the "Statement of GAAP for SMEs" (Schutte & Buys, 2011; Van Wyk & Rossouw, 2009). South Africa was the first country to adopt the IFRS for SMEs. The main reason for this early adoption, according to Van Wyk and Rossouw (2009), was to reduce the reporting burden placed on SMEs. Just prior to the adoption of the ED, Van Wyk and Rossouw (2009) conducted a survey among 242 accounting practitioners involved with South African SMEs. The results indicated that 45 per cent of the respondents expected the proposed standard to reduce costs by saving time and effort for the preparers of financial information. A further 29 per cent expected moderate change while 26 per cent expected no change or remained uncertain as to the effects of the IFRS for SMEs. Van Wyk and Rossouw (2009) noted that responding practitioners[27] with micro-entity clients (employing fewer than ten employees) did not see the proposed standard as being suitable for their clients.

South Africa subsequently experienced problems with the early adoption of the ED. Two months after the adoption, the South African Institute of Chartered Accountants (SAICA) noted that three key issues needed to be addressed by the IASB before the issuance of the final standard. More specifically SAICA noted that the ED needed: (a) to be further simplified; (b) to clearly state which entities could apply the standard; and (c) to be simplified and made more relevant to the requirements of accounting practitioners and SME information users (Van Wyk & Rossouw, 2009).

[27] 84 per cent had clients employing fewer than five employees.

3.7 Summary

This chapter reviews the prior studies on financial reporting by SMEs. The studies find that the main information users of SME financial statements are owner-managers, lenders and bankers and taxation authorities. Information users of SMEs have special characteristics compared with information users of large entities. For example, owner-managers of SMEs may be more concerned with maintaining their independence, survival and stability of their business rather than achieving growth. In addition, SMEs have limited financial resources in relation to large entities. Therefore, in setting lending requirements, lenders necessarily focus on the ability of SMEs for repayment rather than the profitability of proposed projects. The studies also suggest that the taxation filing requirement is one of the main drivers of small entity reporting costs. This is mainly because SMEs often have to hire external accounting practitioners.

The principal objective of preparing financial statements for SMEs is to provide users with information useful for decision-making. In doing so, SMEs need to comply with reporting standards. In practice, however, SMEs experience difficulties complying with either national or international reporting standards. Concern for relieving SMEs of their reporting burden prompted the national standard-setters of some countries such as New Zealand, the UK, Canada, and also the UNCTAD to develop a DR framework for SMEs. These DR frameworks, however, vary in their requirements and the SMEs of many countries have been left without relevant guidance. Therefore, the IASB developed the IFRS for SMEs.

At the time of writing, only a few studies have addressed the benefit and cost impacts of the IFRS for SMEs on SMEs. Nevertheless, the IASB has already recognised that the standard does not meet the reporting issues facing micro-entities. The IASB has thus developed guidance that identifies the requirements of the standard that are applicable to these entities.

Chapter 4. RESEARCH METHODOLOGY

4.1 Introduction

This chapter outlines the research methodology used in the study. Section 4.2 describes the mixed method approach of the study. Section 4.3 presents the quantitative component of the study including the sample selection, question construction, pilot tests, and proposed data analysis. Section 4.4 describes the research hypotheses. Section 4.5 presents the qualitative component of the study including the sample selection, question construction, data collection, and proposed data analysis. Section 4.6 summarises the chapter.

4.2 Mixed method approach

Ideally, the study required detailed information on the entire population of SMEs in Mongolia or a representative sample of these entities. However, such information is not available at either the population or sample level, and therefore it was decided to survey individuals associated with the preparation of financial information for SMEs. The author adopted the mixed method approach combining a quantitative survey with a series of qualitative semi-structured in-depth interviews. This approach was first used in the social sciences in the 1960s and has since become increasingly popular (Johnson, Onwuegbuzie, & Turner, 2007; Tashakkori & Teddlie, 1998). For example, Johnson, et al. (2007, p. 121) reported that:

> Mixed methods research refers to the use of data collection methods that collect both quantitative and qualitative data. Mixed methods research acknowledges that all methods have inherent biases and weaknesses; that using a mixed method approach increases the likelihood that the sum of the data collected will be richer, more meaningful, and ultimately more useful in answering the research questions.

The present author regards the mixed method approach as appropriate for this study as it provides rich data (Johnson et al., 2007), utilises same-time data collection and paired data analysis (Tashakkori & Teddlie, 1998). Curran and Blackburn (2001) note that the mixed method approach has became a well-known research method for small entity research. This mixed approach is useful for the investigation of financial reporting practices, standard-setting and implementation processes of reporting standards as the quantitative survey results and qualitative accounts of perceptions of interested stakeholders are likely to be mutually reinforcing and corroborating.

4.3 Quantitative component

This section describes various aspects of the quantitative component of the study, including the selection of the sample used for the survey; the construction of the survey questions; pilot tests; and proposed analysis of the data.

4.3.1 Sample selection

In the initial stage of this study, the present author conducted an exploratory analysis of financial statements for over 100 business entities obtained from the MOF of Mongolia. The result of this analysis indicated that financial reporting data for business entities is incomplete and unreliable, confirming the conclusions of the reports of the ADB (2008) and the World Bank (2008). Furthermore, there are no publicly available lists giving contact details for SMEs. Therefore, the author decided to use the mailing list of the MICPA to target account preparers[28] and accounting practitioners[29] associated with SMEs rather than target business entities. These individuals were invited to attend a seminar on the IFRS for SMEs and participate in a survey. The main rationale for selecting these respondents was that through their day-to-day involvement in the preparation and audit of the financial statements of SMEs, they would be knowledgeable on all aspects of financial reporting by SMEs (Van Wyk & Rossouw, 2009).

[28] In this study account preparers refers to accountants employed by SMEs. Account preparers of SMEs were specified as AP in tables.

[29] In this study accounting practitioners refers to accountants who work for PAFs which provide financial report services and/or audit of financial reports for at least one SME. Accounting practitioners of PAFs were specified as APR in tables.

Curran and Blackburn (2001) in a review of research on SMEs have listed the difficulties of accessing suitable samples within this context: recently updated lists of small entities are hard to come by; owner-managers of small businesses are often too busy to fill in questionnaires; and even if not busy, are often sceptical of the value of such research. These difficulties were very much present in the case of Mongolia. Up to date publicly available lists of the contact details (physical address, telephone and email) of small businesses do not exist. In any case, informal comment by experienced researchers in Mongolia indicates that mail and web-based surveys have very low response rates. The present author therefore, decided to follow the approach of Van Wyk and Rossouw (2009)[30] who having encountered similar sample selection problems in South Africa, distributed questionnaires at accounting conferences for SMEs.

The author presented three free seminars to account preparers and accounting practitioners on the topic of the new IFRS for SMEs and at the conclusion of the seminars the attendees completed the survey questionnaire. This approach ensured that the respondents were knowledgeable on financial reporting issues and, in particular, had appropriate familiarity with the IFRS for SMEs. Although the standard was at that time already available translated into Mongolian, it had not been adopted in Mongolia and thus there was still limited familiarity with the standard. In fact, the *Certified Public Accountant* newspaper published by the MICPA had not previously covered the standard and the author's seminars were the first public seminars on the topic. Two seminars were hosted by the MICPA and the third seminar was hosted by the business consulting firm "Mongol consulting". The seminars were held on 30 June, 1 July, and 5 August 2011 in Ulaanbaatar, Mongolia. The first and third seminars were attended by account preparers and the second by accounting practitioners.

Each seminar started with an introduction on the new IFRS for SMEs that was sufficiently detailed to ensure attendees gained a fundamental understanding of

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[30] These authors presented various accounting update seminars including the IFRS for SME in South Africa. Questionnaire of the study were completed by delegates of these seminars in various region of South Africa.

the development and content of the new standard. A copy of this presentation is at Appendix 1 of the present study. During the presentations, the author carefully refrained from expressing any personal views on the standard so as to avoid biasing the responses to the questionnaire. After the presentation, copies of the questionnaire were distributed to the attendees. The MICPA provided two credit points towards continuing professional development requirements to all participating members at the first two seminars. Each respondent spent about 25 minutes answering the questionnaire. Usable responses were obtained from a total of 67 account preparers and 35 accounting practitioners.

The total sample of 102 respondents, while relatively small, is nevertheless likely to have provided a good indication of informed views held within the Mongolian accounting profession on financial reporting issues of SMEs. The respondents were from sixteen different industries and there was wide variation in entity type, including size, longevity, and the accountancy proficiency and experience of the respondents.

4.3.2 Question construction

The data generated by the survey was intended to provide the basis for addressing the key concerns of the study – reporting practices of SMEs, the impact of adoption of the IFRS for SMEs, and the economic characteristics of these practices. Accordingly, the survey covered the following topics:

(1) Background of the respondents and associated entities;
(2) Perceptions of uses, cost/burden, and net benefit of financial reporting by SMEs;
(3) Compliance with IFRS;
(4) Expected impacts of adoption of the IFRS for SMEs in Mongolia.

The sequence of questions in the questionnaire was intended to maintain flow but also provide some variety to induce alertness for respondents. The grouping of the survey questions with the survey topics listed above is shown in Figure 4.1 and the survey questions are shown in Table 4.1.

Figure 4.1 Framework for quantitative survey questionnaire

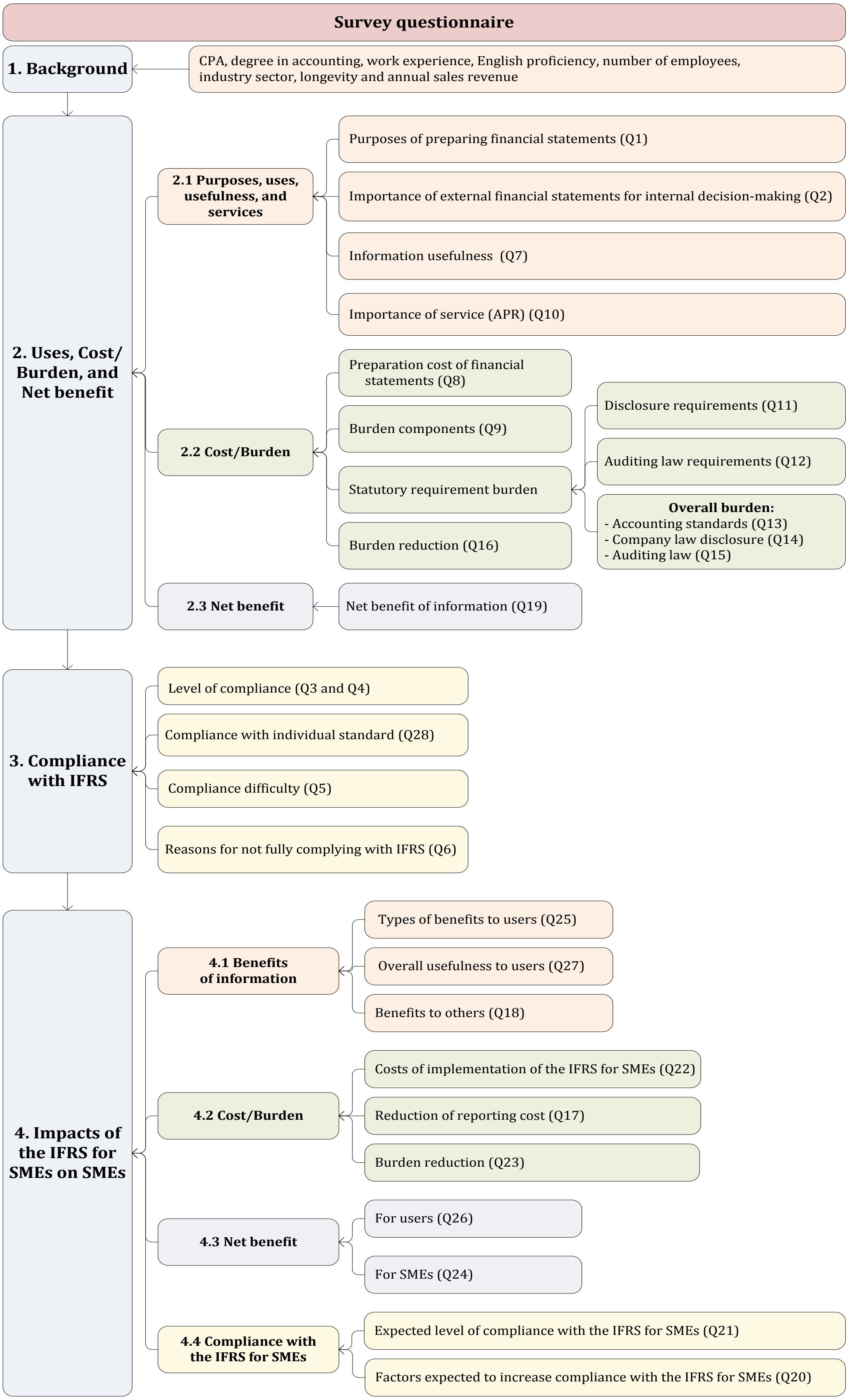


Table 4.1 Survey question by source

Question number	List of items	Number of items	Main source
Part 1.	**Background of respondents and associated entities**		
Q B1 Q B2/3 Q B4 Q B5 Q B6 Q B7 Q B8 Q B9	- CPA certification - Degree in accounting - Work experience - Number of employees - Industry sector - Longevity of the entity - Annual sales revenue - English proficiency		
Part 2.	**Uses, Cost/Burden, and Net benefit**		
	2.1 Purposes, uses, usefulness, and services		
Q1	Purposes of preparing financial statements - Taxation - Borrowing - Decision-making - Planning - Review of performance - Paying dividends - Good internal control - Information to owners/shareholders - Information to customers - Information to users - Compliance with regulation - Other (specify)	12 items	Carsberg, et al. (1985), Collis and Jarvis (2000), Maingot and Zeghal (2006), Dang, et al. (2006), Sian and Roberts (2009), Rennie and Senkow (2009), Atik (2010)
Q2	Importance of external financial statements for internal decision-making - Planning - Cash management - Capital expenditure - Pricing - Staff pay - Directors pay - Other (specify)	7 items	Carsberg, et al. (1985), Collis and Jarvis (2000), Sian and Roberts (2009), Atik (2010)
Q7	Information usefulness	1 item	Present author
Q10 (APR)	Importance of the services - Account preparation - Tax return advice - VAT work - Information for lenders - Other (specify)	5 items	Collis and Jarvis (2000), Sian and Roberts (2009)

2.2 Cost/Burden			
Q8	Importance of preparation costs in preparation of financial statements - Information system cost - Preparation cost - Audit cost - Opportunity cost of time spend on compliance - Other (specify)	5 items	Barker and Noonan (1996), Collis and Jarvis (2000), Dang (2011)
Q9	Burden components - Bookkeeping - Accounting law requirements - Company law requirements - SME Act requirements - Other (specify)	5 items	Barker and Noonan (1996), World Bank (2008)
Statutory requirement burden			
Q11	Disclosure requirements - Short-term cash flows and obligations - Liquidity and solvency - Information on measurement uncertainties - Information about an entity's accounting policy choices - Disaggregations of some of the amounts reported - Other disclosures - Other (specify)	7 items	IASCF (2009b)
Q12	Auditing law requirements - Auditing requirements - Need for perceived independence - Tight year-end deadline - Other (specify)	4 items	Auditing law (1997), World Bank (2008), Narayan and Reid (2000)
Q13-Q15	Overall burden: - Burden of accounting standards (Q13) - Burden of company law disclosure (Q14) - Burden of auditing law (Q15)	1 item (each)	Present author
Q16	Burden reduction - Promote technology - Reduce disclosure - Reduce number of accounting standards - Develop standard for SMEs - Reduce legal requirements - Audit exemption - Complete exemption - Other (specify)	8 items	Maingot and Zeghal (2006), Mullerova, Pasekova and Hyblova (2010)
2.3 Net benefit			
Q19	Net benefit of information	1 item	Present author

Part 3.	**Compliance with IFRS**		
Q3	Level of compliance with IFRS	1 item	World Bank (2008)
Q4 (APR)	Level of compliance with IFRS	1 item	World Bank (2008)
Q28	Compliance with individual standard	43 items	Present author
Q5	Compliance difficulties - Keeping up to date with standards - Poor translation of IFRS to Mongolian - Lack of qualified staff - Too costly - Other (specify)	5 items	McGee and Preobragenskaya (2006), Tyrrall, et al. (2007), World Bank (2008)
Q6 (if not comply)	Reasons for not fully complying with IFRS - IFRS is not understandable - Information produced by IFRS is not relevant - Lack of qualified staff - Nobody values IFRS - Other (specify)	5 items	McGee and Preobragenskaya (2006), Present author
Part 4.	**Impacts of the IFRS for SMEs**		
	4.1 Benefits of information		
Q25	Types of benefits to users: - Improved information relevance - Increased faithful representation - Improved comparability - Improved verifiability - Increased timeliness - Increased understandability	6 items	MAZARS (2008) Pacter (2011), Bertoni and Rosa (2013)
Q27	Overall usefulness to users	1 item	Pacter (2011)
Q18	Benefits to others - Produce more useful financial information for decision-making - Reduce preparation costs for SMEs - Opportunity costs - Reduce cost for the national regulators - Improve reporting quality - Other (specify)	6 items	Arsoy and Sipahi (2007), MAZARS (2008), Van Wyk and Rossouw (2009)
	4.2 Cost/Burden		
Q22	Costs of implementation - Training costs - Information system costs - Other implementation costs - Other (specify)	4 items	Albu, et al., (2010), Mage (2010), Hussain, et al. (2012)

Q17	Reduction of reporting cost - One choice of accounting treatment - Simplified disclosure - Simplified principles for recognition and measurement - Simplified required presentation - Other (specify)	5 items	Pacter (2009), IASCF (2009b), Bohusova (2011)
Q23	Burden reduction	1 item	Van Wyk and Rossouw (2009)
4.3 Net benefit from the IFRS for SMEs			
Q26	Net benefit for users	1 item	Present author
Q24	Net benefit for SMEs	1 item	Present author
4.4 Compliance with the IFRS for SMEs			
Q21	Expected level of compliance with the IFRS for SMEs	1 item	Present author
Q20	Factors to increase compliance with the IFRS for SMEs - Reduce the financial reporting burden on SMEs - More specific recognition and measurement principles - More useful financial statements for decision-making (client) - Enhance quality of financial information for external users - Other (specify)	5 items	Present author

Various sources were drawn on to construct the questions including studies on SME reporting issues by: Atik (2010), Carsberg, et al. (1985), Collis and Jarvis (2000), Maingot and Zeghal (2006), Pacter (2009, 2011), Rennie and Senkow (2009), Sian and Roberts (2009) and World Bank (2008). All questions were initially drafted and tested in English and then translated into Mongolian for further testing.

Where appropriate the survey questions requested responses on a Likert scale. A Likert scale provides the best measures of a variable because it offers respondents a wide range of response alternatives to make "relative judgements" compared with absolute agreements with the question (Gray, Williamson, Karp, & Dalphin, 2007). An odd-numbered Likert scale reduces the likelihood of having response bias by providing respondents an option for a "neutral" response (Croasmun & Ostrom, 2011). Researchers commonly use a five-point or seven-point scales with similar results for each scale (Dawes, 2008). For the sake of simplicity, the author chose to use a five-point scale.

4.3.3 Pilot tests

The questionnaire was twice tested prior to application. First, a pilot was conducted with four PhD students from the School of Accounting and Commercial Law, Victoria University of Wellington, with the objective of determining whether the questions could easily be understood; and whether the questions themselves were in fact the appropriate ones to be asked of account preparers and accounting practitioners. Difficulties identified at this stage were subsequently resolved with improvements incorporated into revised versions of the questionnaire.

The second pilot was conducted with account preparers from Mongolia both to confirm comprehension and appropriateness of the amended questions with real respondents and to obtain a feel for the management of data flow and processing requirements. The author at this point was resident in Wellington, New Zealand, while the test subjects were in Ulaanbaatar, Mongolia. Therefore, some means other than personal contact had to be followed to deliver the questionnaire and collect the results from the test subjects. To this end, the author used Qualtrics software to develop an online survey using the questionnaire (translated into Mongolian) and it was distributed to fourteen account preparers in Mongolia as an attachment to emails. The draft survey was accompanied by a summary of the development and content of the IFRS for SMEs.

Ten of the targeted fourteen subjects returned fully completed forms with respondents taking on average 35 minutes to complete the survey. The responses and comments from this second pilot were used to further improve the structure of the instrument and simplify the requirements and questions. In part, this was driven by a need to reduce the time that it would take to complete the questionnaire. Two versions of the questionnaire were prepared – one for account preparers, the other for accounting practitioners. The questionnaires differed only in respect of making the wording of the instructions for each questions applicable to the respondent groups. Copies of the final versions of the questionnaire are included in Appendix 2 of the present study.

4.3.4 Data analysis

The present author used the Qualtrics survey application tool to develop the questionnaire and to enter the responses received into electronic form for statistical analysis using SPSS (Version 19).

Analysis of the data generated by the survey involves:

1. Reporting the results of the background questions on the respondents and their associated entities. This includes statistical comparison of the profiles of account preparers and accounting practitioners with focus on academic credentials, work experience, English proficiency and the type of associated entity in terms of number of employees, industry, longevity and revenue.
2. Consistent with the literature survey and the key concerns of the study, reporting the results of the substantive survey questions and conducting relevant hypothesis tests. This is detailed in the next section.

4.4 Research hypotheses

Using the framework shown in Figure 4.1 analysis of the survey's substantive questions involves reporting on the results of each question and conducting hypothesis tests regarding (1) where relevant, the relative importance or importance of the components of the question, and (2) the influence of the "economic characteristics" of reporting practice of SMEs – the accountant profile and the economic characteristics of the associated entity. This is illustrated in Figure 4.2 and Table 4.2 lists the hypotheses.

Figure 4.2 Framework of the study

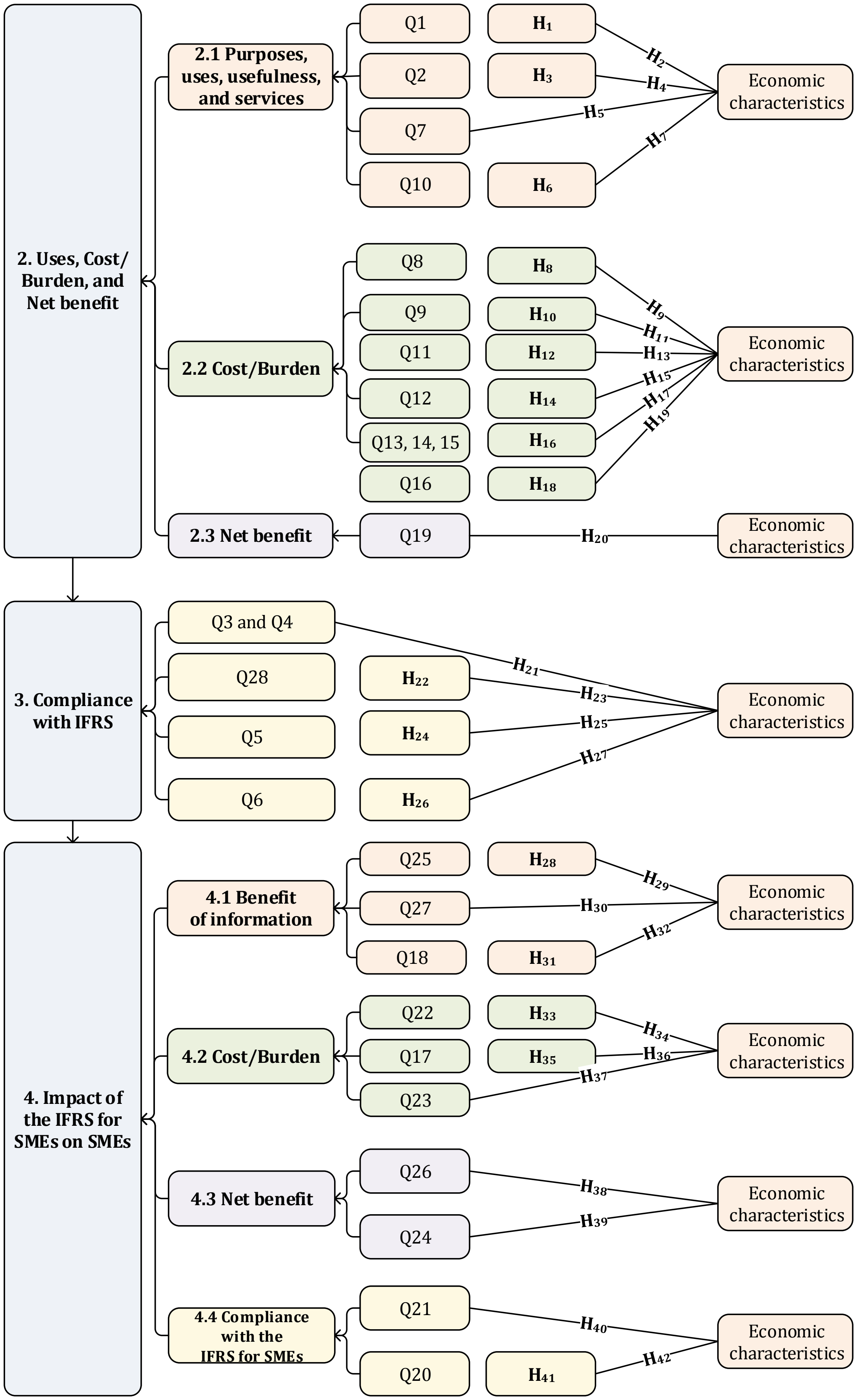


Table 4.2 List of hypotheses

Questions	Q	H	Hypotheses
			1. Uses, cost/burden, and net benefit
1.1 Purposes, uses, usefulness, and services	Q1	H_1	There is no difference in importance among the purposes for preparing financial statements
		H_2	The respondents' views on the purposes for preparing financial statements do not vary with economic characteristics
	Q2	H_3	There is no difference in importance among the uses of external financial statements for internal decision-making
		H_4	The respondents' views on the importance of the uses do not vary with economic characteristics
	Q7	H_5	The respondents' views on importance of the information usefulness do not vary with economic characteristics
	Q10	H_6	There is no difference in importance among the services provided to SMEs by accounting practitioners
		H_7	The respondents' views on the importance of the services provided to SMEs by accounting practitioners do not vary with economic characteristics
1.2 Cost/Burden	Q8	H_8	There is no difference in importance among the costs associated with preparation of financial statements
		H_9	The respondents' views on importance of preparation costs do not vary with economic characteristics
	Q9	H_{10}	There is no difference in burdensomeness among the burden components associated with preparation of financial statements
		H_{11}	The respondents' views on importance of the burden components do not vary with economic characteristics
	Q11	H_{12}	There is no difference in burdensomeness among the disclosure requirements
		H_{13}	The respondents' views on burdensomeness of the disclosure requirements do not vary with economic characteristics
	Q12	H_{14}	There is no difference in importance among the requirements associated with auditing law
		H_{15}	The respondents' views on importance of the auditing law requirements do not vary with economic characteristics
	Q13-Q15	H_{16}	There is no difference in burdensomeness among the overall burden associated with complying with requirements
		H_{17}	The respondents' views on burdensomeness of the overall burden do not vary with economic characteristics
	Q16	H_{18}	There is no difference in possible ways of reducing the burden associated with preparation of financial statements
		H_{19}	The respondents' views on possible ways of reducing the burden associated with preparation of financial statements do not vary with economic characteristics
1.3 Net benefit	Q19	H_{20}	The respondents' views on importance of the net benefit do not vary with economic characteristics

2. Compliance with IFRS			
Compliance with IFRS	Q3-Q4	H_{21}	The respondents' views on the level of compliance with IFRS do not vary with economic characteristics
	Q28	H_{22}	There is no difference in level of compliance among the individual standard
		H_{23}	The respondents' views on level of compliance with individual standard do not vary with economic characteristics
	Q5	H_{24}	There is no difference in potential difficulties in complying with IFRS
		H_{25}	The respondents' views on difficulties in complying with IFRS do not vary with economic characteristics
	Q6	H_{26}	There is no difference in reasons for not fully complying with IFRS
		H_{27}	The respondents' views on reasons for not fully complying with IFRS do not vary with economic characteristics
3. Impacts of the IFRS for SMEs on SMEs			
3.1 Benefits of information	Q25	H_{28}	There is no difference in importance of the types of expected benefits for users from the IFRS for SMEs
		H_{29}	The respondents' views on importance of the expected types of benefits of information do not vary with economic characteristics
	Q27	H_{30}	The respondents' views on overall usefulness of information to users do not vary with economic characteristics
	Q18	H_{31}	There is no difference in importance of the expected benefits to others from the adoption of the IFRS for SMEs
		H_{32}	The respondents' views on importance of the expected benefits to others from the adoption of the IFRS for SMEs do not vary with economic characteristics
3.2 Cost/ Burden	Q22	H_{33}	There is no difference in importance among the costs for implementation for the IFRS for SMEs
		H_{34}	The respondents' views on importance of the costs of implementation do not vary with economic characteristics
	Q17	H_{35}	There is no difference in importance among the possible simplifications from adoption of the IFRS for SMEs
		H_{36}	The respondents' views on importance of the simplifications do not vary with economic characteristics
	Q23	H_{37}	The respondents' views on importance of burden reduction do not vary with economic characteristics
3.3 Net benefit	Q26	H_{38}	The respondents' views on importance of the net benefit for users do not vary with economic characteristics
	Q24	H_{39}	The respondents' views on importance of the net benefit for SMEs do not vary with economic characteristics
3.4 Compliance with the IFRS for SMEs	Q21	H_{40}	The respondents' views on importance of the level of compliance with the IFRS for SMEs do not vary with economic characteristics
	Q20	H_{41}	There is no difference in importance among the factors to increase compliance
		H_{42}	The respondents' views on importance of the factors to increase compliance do not vary with economic characteristics

4.5 Qualitative component

The qualitative component of the research was intended to complement the quantitative component and, to this end, it was conducted with a number of specific objectives in mind. More particularly, it was carried out to:

a) obtain a more detailed understanding of the SMEs under study;
b) examine the factors underlying the data collected by the questionnaire; and
c) provide supplementary and (possibly) further information concerning the findings of the survey.

The research tool chosen for this purpose was the semi-structured in-depth interview: a tool much favoured elsewhere in the social sciences for the flexibility it gives to the interviewer and the accuracy of the responses it elicits (Judd, Smith and Kidder (1991), Gray, Williamson, Karp and Dalphin (2007) and Punch (2005)). The following discussion of the interviews used for the present study proceeds by examining in sequence: sample selection; question construction; data collection; and finally, data analysis.

4.5.1 Sample selection

Again, as with the quantitative component of the study, research on the qualitative component was conducted using a purposive sample. In this case however, and to fit in with the semi-structured in-depth interview approach, key interviewees were sought out. Individuals of prime interest in this regard were representative persons associated with standard-setting, representatives of training organisations, and representatives of the main external users of SME financial statements. After a careful consideration of possible candidates, nine were eventually selected as potential interviewees. Those interviewed were:

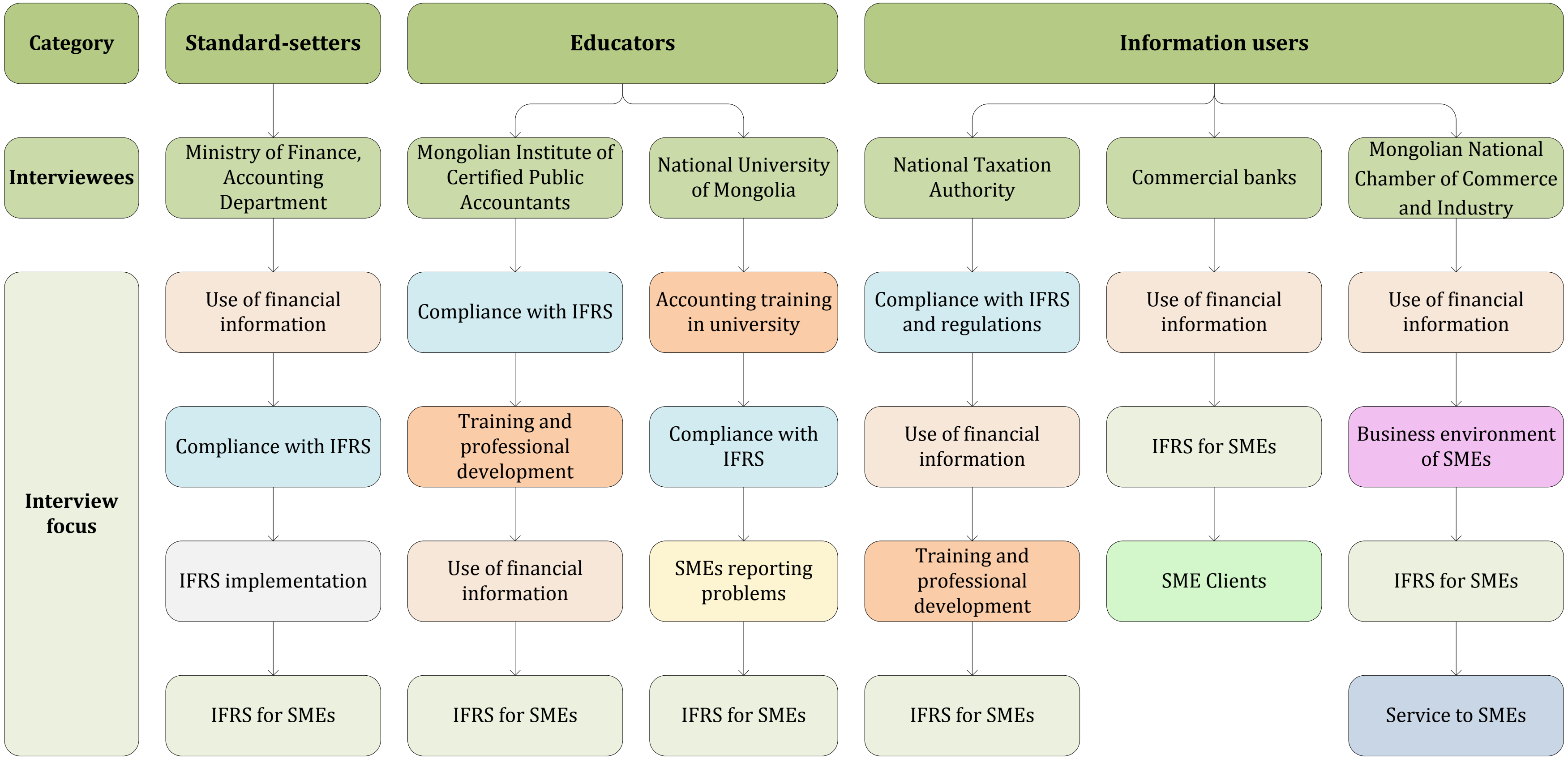
- a deputy of the Accounting Department of the MOF;
- a manager of the Accounting Methodology Department of the MICPA;
- an accounting professor from the National University of Mongolia (NUM);
- a specialist from the SME Development Division of the Mongolian Chamber of Commerce and Industry;
- two taxation inspectors from the MTA;
- three senior executives of lender banks.

4.5.2 Question construction

The central element of the semi-structured in-depth interview approach used in the present study was a flexible set of questions: flexible in the sense that they could be modified to suit the circumstances of an interview; and different questions or groups of questions could be used for different interviewees. The questions developed for this purpose were mostly based on those employed by Tyrrall, et al. (2007) in their essentially similar study on Kazakhstan. Mongolia and Kazakhstan previously both had a socialist economy and related reporting environment and thus faced similar problems in making the transition to market economies in the 1990s. It seemed reasonable therefore, to assume that the questions developed for research on the relevance of IFRS in Kazakhstan could be modified and applied in Mongolia. Following an approach by the present author, Professor David Tyrral provided further advice directly on the questions and suitable strategies for conducting the interviews. This advice was willingly given by Professor David Tyrral and was very gratefully received.

Once a list of questions had been prepared and grouped, interviews were framed to match the participants. That is, the questions for each interview were then selected and tailored to tap into each interviewee's specialised knowledge. Figure 4.3 summarises this process by listing changes in interview focus to match interviewees.

Figure 4.3 Framework for adapting semi-structured interviews to interviewees



4.5.3 Data collection

The author initially contacted nine potential candidates by either telephone or email and gave each a brief account of the purpose of the study and the ethical approval gained for the research. Candidates were then invited to participate. Eight of the candidates contacted agreed to participate and mutually convenient appointment date/time were agreed to. At this point, they became participants. Table 4.3 lists the details in tabular form.

Table 4.3 List of interviews

	Category	Code	Duration	Date
1	Regulator (standard-setter)	INT 1	52 min	June 23 2011
2	Representative of National Chamber of Commerce and Industry	INT 2	36 min	July 8 2011
3	Representative of the MICPA	INT 3	82 min	June 7 2011
4	Professor (University)	INT 4	17 min	June 21 2011
5	User (Taxation Authority)	INT 5	38 min	August 3 2011
6	User (Taxation Authority)	INT 6	20 min	August 18 2011
7	User (Bank)	INT 7	40 min	June 13 2011
8	User (Bank)	INT 8	50 min	August 11 2011

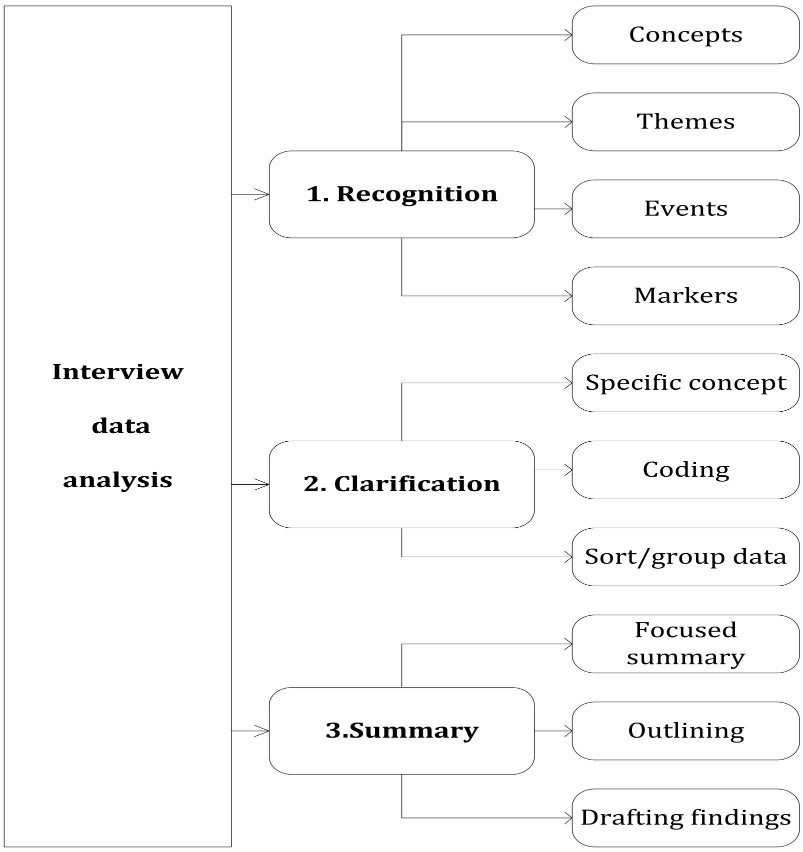
All interviews were conducted face to face in Mongolian and, with one exception, were recorded, transcribed, and subsequently translated into English for analysis and citation purposes. The one exception was one of the bank senior executive did not want to be recorded but agreed to the author taking notes. The interviews included a concluding question in the IFRS for SMEs. This prompted five of the interviewees to ask the author to provide a brief introduction on the standard and the variation in country responses to issue of the standard.

4.5.4 Data analysis

The study used the approach of Rubin and Rubin (2005) to analyse the data from the interviews. This approach is illustrated in Figure 4.4. Analysis began with the recognition of concepts, themes, occurrences, and markers within the data in order to identify ideas, summary statements, and events related to the research problems. Classification of the data by this approach made it possible for the author to clarify specific concepts, requirements, and legislative issues identified during the interviews. After the interviews, the author re-contacted INT 3 and INT 7 (see Table 4.3) for further clarification as required. This clarification also helped the author to gain full understanding of the responses obtained from the interviews.

Data was then coded and entered into the qualitative analysis software NVivo (Version 9) according to whether it dealt with: (1) Standard-setting; (2) Implementation; (3) Need of the IFRS for SMEs; (4) Information; (5) SME features; or (6) Taxation. This labelling of concepts permitted the author to further explore themes emerging from the interviews. NVivo was used for this purpose not as a vehicle for direct reporting but because it provided a convenient set of tools whereby the data could be further managed, queried, modelled and thus reported on (Bazeley, 2011; Lavery, 2010). It also allowed the results of interviews to be presented in visual fashion, which facilitated subsequent interpretation.

Figure 4.4 Interview data analysis approach

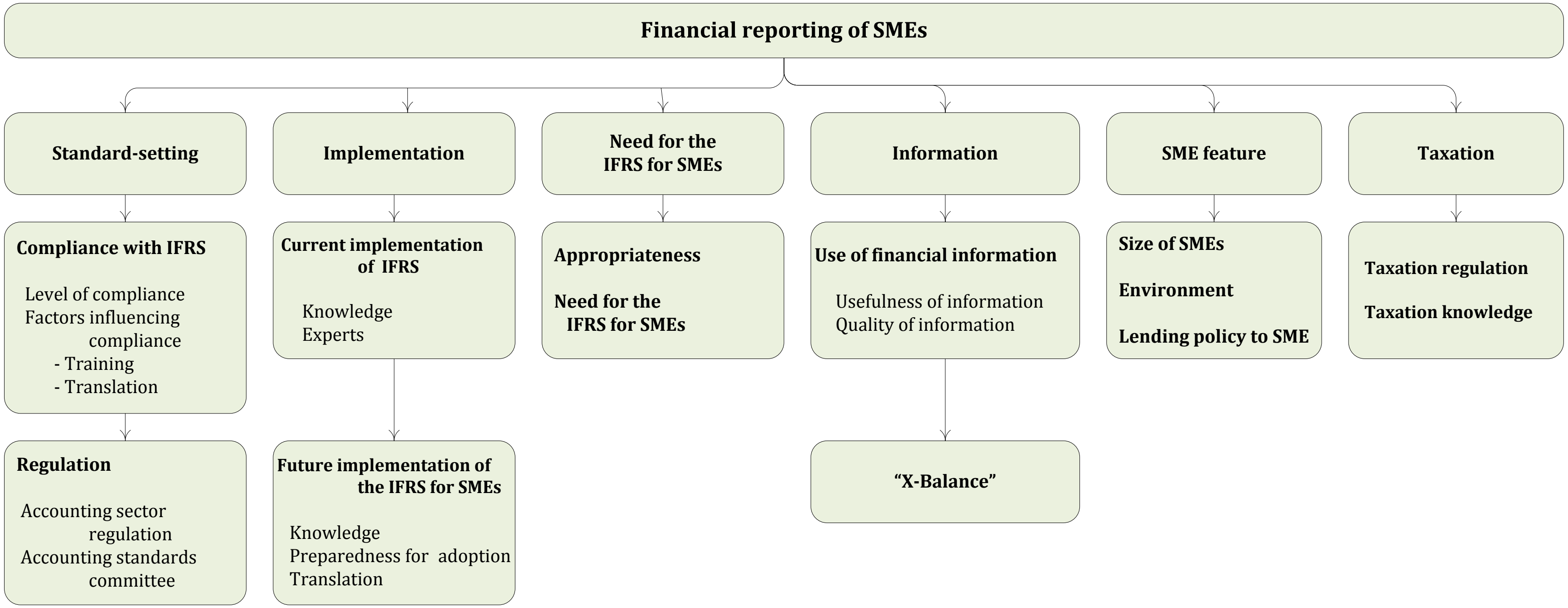


Source: Adapted from Rubin and Rubin (2005)

Result summaries for each code were prepared based on the findings of the prior stages. The structure of the coded interview data is shown in Figure 4.5.

The code nodes and references of the interview data are reported in Appendix 3, Appendix 4, Appendix 5, and Appendix 6. The code summary assists the researcher to see which themes or ideas occur most frequently (Lavery, 2010).

Figure 4.5 Coding structure of the interview data



4.6 Summary

This chapter discusses the research methodology used in the study. The chapter presents the reasons and advantages of adopting the mixed method approach for this study. The mixed method approach is appropriate to investigation of standard-setting and implementation processes for financial reporting standards.

The data for the quantitative component of the study were collected by survey questionnaire administered at free IFRS seminars presented in Ulaanbaatar, Mongolia. The seminars provided an introduction to the development and intent of the IFRS for SMEs and were presented by the present author. The survey questionnaire was given to attendees at these seminars: two held at the MICPA and one at a local consulting firm (Mongol consulting). A total of 102 responses were obtained and the data was analysed using a range of statistical techniques. The research hypotheses were presented in three main areas: uses, cost/burden and net benefit; compliance with IFRS; and impacts of the IFRS for SMEs on SMEs.

The study used semi-structured in-depth, face-to-face interviews with eight standard-setters, educators and information users in Ulaanbaatar. The purpose of the interviews was to obtain a more detailed understanding of the reporting practices of SMEs; the factors underlying the survey data; and, where relevant, supplementary information beyond that sought in the questionnaire.

The findings from the survey questionnaire and the qualitative semi-structured interviews together can present a comprehensive analysis of the financial reporting practices of SMEs in Mongolia. The results of the application of this research methodology are presented in the Chapter 5 and Chapter 6 respectively.

Chapter 5. QUANTITATIVE ANALYSIS

5.1 Introduction

This chapter presents the findings and analysis of the survey questionnaire. Section 5.2 reports the profile of the respondents and their associated entities. Sections 5.3 to 5.5 report on the substantive sections of the questionnaire, in turn: (1) uses, cost/burden, and net benefit, (2) compliance with IFRS, and (3) impacts of the IFRS for SMEs on SMEs. Section 5.6 concludes the chapter.

5.2 Profile of the sample respondents and associated entities

Usable responses were obtained from 67 account preparers and 35 accounting practitioners. The profile of the sample respondents and their associated entities was drawn up using the respondents' answers to the first nine questions of the survey – Questions B1 to B9[31] – as listed in Table 4.1 (see Chapter 4).

5.2.1 Certified Public Accountant (Q B1)

Slightly more than half of the respondents (52 per cent) had a Mongolian CPA title (see Table 5.1). This meant that the respondents had taken the CPA examination in Mongolia and had met the two main requirements outlined in Article 12, Auditing law (1997) (Qualification of Candidates for CPA Examination). These requirements are that the respondent has:

- a Bachelor degree in accounting or equivalent degree or training from universities, institutes and colleges; and
- at least two years work experience as an accountant.

[31] The background questions are abbreviated as Q Bx in this section.

Table 5.1 also shows that 52.2 per cent of the account preparers and 51.4 per cent of the accounting practitioners held CPA certification. Using a Mann Whitney U test, the difference between the two groups was not significant[32].

Table 5.1 Certified Public Accountant

Group	Count	Yes	No	Total
AP	Count	35	32	67
	(%)	52.2%	47.8%	100%
APR	Count	18	17	35
	(%)	51.4%	48.6%	34.3%
Total	Count	53	49	102
	(% of Total)	52.0%	48.0%	100%
Significance of difference		0.077 (0.938)[33]		

5.2.2 Degree in accounting (Q B2/B3)

Table 5.2 shows that 82.4 per cent of the respondents had a degree in accounting. The table also shows that 76.1 per cent of the account preparers and 94.3 per cent of the accounting practitioners held a degree in accounting. The higher percentage of accounting practitioners holding a degree in accounting is significant at the 5 per cent level. This accords with the higher level of qualification expected for members of PAFs.

Table 5.2 Degree in accounting

Group	Count	Yes	No	Total
AP	Count	51	16	67
	(%)	76.1%	23.9%	100%
APR	Count	33	2	35
	(%)	94.3%	5.7%	100%
Total	Count	84	18	102
	(% of Total)	82.4%	17.6%	100%
Significance of difference		2.274**(0.023)[34]		

[32] Tests of group differences employ the non-parametric counterpart of the independent t-test, namely Mann Whitney U test. Robertson, Shema, Mundfrom and Holmas (1995, p. 675) pointed out that:

> For individual items scores with paired data, neither the parametric paired t-test nor the non-parametric signed rank test may be appropriate due to the non-normality of data, high frequency of ties, and their emphasis on a measure of central tendency for the data.

[33] This gives the z and p values.

[34] In reporting significance, the tables in this chapter show the test statistics and superscripts (***), (**) and (*) to indicate significance at the 1%, 5%, and 10% levels respectively.

For the cases in which respondents did not have an accounting degree a follow up question (Q B3) was asked concerning other degrees held. Fifteen of the 18 respondents had a different degree: seven in finance; three in economics; three a double degree in engineering and economics; one a double degree in economics and mathematics; and one a double degree in economics and statistics. These results show that most of the respondents without an accounting degree had a business degree but that a small number did not have a degree.

5.2.3 Work experience as an accountant (Q B4)

Table 5.3 shows that only 7.8 per cent of respondents had less than one year's work experience as an accountant; the majority (72.5 per cent) had worked as accountants for one to 12 years; while 10.8 per cent had more than 20 years work experience. An average the respondents had 7.45 years of work experience as an accountant. The distributions for preparers and accounting practitioners were similar and the difference was not statistically significant.

Table 5.3 Work experience as an accountant

Group	Count	Years						Total
		Less than 1	1-3	4-7	8-12	12-20	More than 20	
AP	Count	7	18	16	13	6	7	67
	(%)	10.4%	26.9%	23.9%	19.4%	9.0%	10.4%	100%
APR	Count	1	12	8	7	3	4	35
	(%)	2.9%	34.3%	22.9%	20.0%	8.6%	11.4%	100%
Count		8	30	24	20	9	11	102
(% of Total)		7.8%	29.4%	23.5%	19.6%	8.8%	10.8%	100%
Mean (AP)			7.36					
Mean (APR)			7.61					
Mean (Total)			7.45					
Significance of difference			0.322 (0.748)					

5.2.4 English proficiency (Q B9)

Table 5.4 shows that 49.5 per cent of respondents believed that their English was at an "intermediate" level while only 7.9 per cent of respondents considered their English to be at an "advanced" level. On average, the respondents had a mean rating of 2.19 for English proficiency. The distributions for account preparers and accounting practitioners were similar and the difference between the groups was not significant (see Table 5.4). The results in general suggest that the respondents' knowledge of English is such that it is doubtful that they are capable of interpreting and applying accounting standards written in English.

Table 5.4 English proficiency

Group	Count	Levels				
		Beginner	Inter-mediate	Upper inter-mediate	Advanced	**Total**
AP	Count	14	33	14	5	66
	(%)	21.2%	50.0%	21.2%	7.6%	100%
APR	Count	6	17	9	3	35
	(%)	17.1%	48.6%	25.7%	8.6%	100%
Count		20	50	23	8	101
% of Total		19.8%	49.5%	22.8%	7.9%	100%
Mean (AP)			2.15			
Mean (APR)			2.26			
Mean (Total)			2.19			
Significance of difference			0.632 (0.528)			

Respondents were asked to indicate their English proficiency because it was known to be a factor affecting financial reporting practice (see Chapter 3 of the present work, and also Abd-Elsalam and Weetman (2003), Aljifri and Khasharmeh (2006), and World Bank (2007b)).

5.2.5 Number of employees of the associated entity (Q B5)

Account preparers were asked to report the number of employees in the firm they worked for. An indication of the number of employees in SMEs serviced by PAFs was obtained by asking the accounting practitioners to give the number of employees in an SME serviced by their firm and with which their firm had a long established relationship. Table 5.5 shows that 67.6 per cent of respondents were associated with entities having fewer than 50 employees. 30.3 per cent of respondents were associated with entities employing fewer than ten employees; while at the other end of the scale 20.6 per cent of respondents were associated with entities employing more than 100 employees. The mean number of employees in associated entities was 39.72. However, Table 5.5 also shows that the account preparers tended to be associated with larger entities than the accounting practitioners and the difference was statistically significant at 5 per cent level.

Table 5.5 Number of employees of the associated entity

Group	Count	Number of employees						Total
		Less than 5	5 - 10	11 - 20	21 - 50	51 -100	More than 100	
AP	Count	9	5	15	13	10	15	67
	(%)	13.4%	7.5%	22.4%	19.4%	14.9%	22.4%	100%
APR	Count	9	8	7	3	2	6	35
	(%)	25.7%	22.9%	20.0%	8.6%	5.7%	17.1%	100%
Count		18	13	22	16	12	21	102
(% of Total)		17.6%	12.7%	21.6%	15.7%	11.8%	20.6%	100%
Mean (AP)			44.83					
Mean (APR)			29.93					
Mean (Total)			39.72					
Significance of difference			2.378** (0.017)					

5.2.6 Industry sector of the associated entity (Q B6)

The account preparers were asked to state the industry category of the firm they worked for. Similarly to Q B5, accounting practitioners were asked to state the industry category of an SME their firm had a long established relationship with. Table 5.6 shows that most of the responses fell into one or more of the specific industries nominated in the question but there were also 19 responses for the category *other*. The latter included trade unions, ecology research, and computer maintenance but most of the responses were not specific.

The account preparers were mainly associated with *manufacturing* and *other*, while accounting practitioners were mainly associated with the *finance and insurance* sectors. A Chi-square test ($p=0.03<0.05$) for difference between the two distributions was statistically significant at the 5 per cent level.

A total of 101 respondents answered this question generating 121 responses across the industry categories. One respondent did not identify the industry sector of the entity; thirteen respondents reported more than one industry sector; ten respondents reported two; two respondents reported three; and one respondent reported seven different industrial sectors respectively.

Table 5.6 Industry sector of the associated entity

Industries[35]	AP	APR	Total
Agriculture, forest, fishing, hunting	4	1	5
Communication	2	1	3
Construction	4	5	9
Culture	2	0	2
Education	5	1	6
Electricity, water supply	1	2	3
Finance, insurance	7	13	20
Health	3	1	4
Hotel, cafe, restaurant	1	2	3
Manufacturing	16	3	19
Mining	7	3	10
Other	15	4	19
Property, business service	2	3	5
Retail sale	1	2	3
Transport	2	1	3
Wholesale trade	7	0	7
Total	**79**	**42**	**121**

5.2.7 Longevity of the associated entity (Q B7)

Account preparers were asked to report the longevity of their entity in the firm they worked for. Similar to the previous questions, an indication of the longevity of SMEs serviced by PAFs was obtained by asking the accounting practitioners to give the longevity of an entity serviced by their firm and with which their firm had a long established relationship.

Table 5.7 shows that 26.5 per cent of the respondents were associated with entities that had been in existence for less than two years. 54.9 per cent of respondents were associated with entities that had existed for 5 years or less, while 14.7 per cent of respondents are associated with entities that had been in existence for 14 years or more. The mean longevity of the entities was 6.2 years.

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[35] Note: In order to move from the small numbers of entities appearing in the industry categories reported in Table 5.6, the categories were grouped into the principal sector groups in Mongolia, as follows:

- Consumer goods, services and communication sector (21 entities) includes *agriculture (5)*, *wholesale (7)*, *retail (3)*, *hotel (3)*, and *communication (3)*.
- Finance sector (25 entities) includes *finance and insurance (20)*, and *property* and *business service (5)*.
- Industry sector (44 entities) includes *manufacturing (19)*, *electricity (3)*, *construction (9)*, *transport (3)*, and *mining (10)*.
- Service sector (12 entities) includes *health (4)*, *education (6)*, and *culture (2)*.
- Other sector (19 entities).

The difference between the longevities of the entities associated with account preparers and the accounting practitioners was not statistically significant.

Table 5.7 Longevity of the associated entity

Group	Count	Longevity of the entity (years)						Total
		0-2	2-5	5-8	8-11	11-14	More than 14	
AP	Count	20	19	8	6	5	9	67
	(%)	29.9%	28.4%	11.9%	9.0%	7.5%	13.4%	100%
APR	Count	7	10	3	3	6	6	35
	(%)	20.0%	28.6%	8.6%	8.6%	17.1%	17.1%	100%
Count		27	29	11	9	11	15	102
(% of Total)		26.5%	28.4%	10.8%	8.8%	10.8%	14.7%	100%
Mean (AP)			5.73					
Mean (APR)			7.11					
Mean (Total)			6.20					
Significance of difference			1.297 (0.195)					

5.2.8 Annual sales revenue of the associated entity (Q B8)

Account preparers were asked to report the annual sales revenue in the firm they worked for. Similar to the earlier questions, an indication of the annual sales revenue in SMEs serviced by PAFs was obtained by asking the accounting practitioners to give the average annual sales revenue in an SME serviced by their firm with and which their firm had a long established relationship.

Table 5.8 shows that 39.7 per cent of the entities had annual sales revenue of less than 50 million tugrug (USD 31 400), while 11.9 per cent of the entities had annual sales revenue of more than 1.5 billion tugrug (USD 943 000). An average the entities had a mean annual sales of 428 million tugrug. The distributions for account preparers and accounting practitioners were similar and the difference was not statistically significant.

Table 5.8 Annual sales revenue of the associated entity

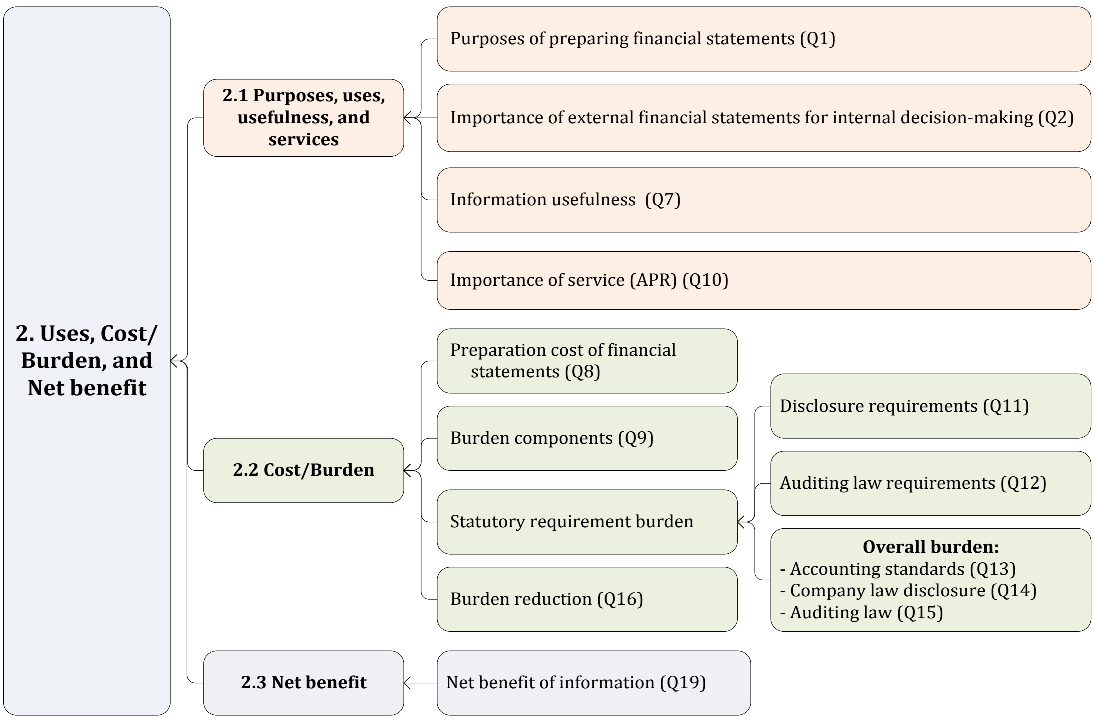
Group	Count	Annual sales revenue (by million/billion Tugrug)							Total
		Up to 25	25-30	30-50	50-80	80-1	1-1.5	More than 1.5	
AP	Count	15	2	9	10	14	8	9	67
	(%)	22.4%	3.0%	13.4%	14.9%	20.9%	11.9%	13.4%	100%
APR	Count	9	1	4	8	8	1	3	34
	(%)	26.5%	2.9%	11.8%	23.5%	23.5%	2.9%	8.8%	100%
Total	Count	24	3	13	18	22	9	12	101
% of Total		23.8%	3.0%	12.9%	17.8%	21.8%	8.9%	11.9%	100%
Mean (AP)				482.27					
Mean (APR)				320.29					
Mean (Total)				427.74					
Significance of difference				0.994 (0.320)					

The analysis and findings outlined in the following sections are concerned with the main topics of the study: the uses, cost/burden, and net benefit of financial reporting, compliance with IFRS, and impacts of the IFRS for SMEs on SMEs.

5.3 Uses, cost/burden, and net benefit

Uses, cost/burden, and net benefit was examined in the following questions as illustrated below in Figure 5.1 (which is drawn from Figure 4.1, Chapter 4).

Figure 5.1 Uses, cost/burden, and net benefit



The responses to each of the questions were analysed as follows:

(1) Descriptive statistics on the responses to the listed items (total and group mean, and mean rank);
(2) Mann Whitney U test was applied to test the statistical significance of the difference between the group responses (mean rank);
(3) Friedman test was applied to test (where relevant) the statistical significance of the differences among the responses to the listed items in each question;
(4) Wilcoxon signed-rank test was applied to test for the sources of the difference in the set;
(5) Canonical Correlation Analysis (CCA)[36] was applied (where relevant) to test the statistical significance of the relationship between the set of responses to the listed items in a survey question to the set of economic characteristics of the associated entities;
(6) Ordinary Least Squares (OLS) analysis was applied to test the statistical significance of the relationship between the responses to each item of a question and the economic characteristics of the associated entities;

5.3.1 Purposes, uses, usefulness, and services

Purposes, uses, usefulness, and services were examined under four main headings: Purposes of preparing financial statements (Question 1); Importance of external financial statements in internal decision-making (Question 2); Information usefulness (Question 7); and Importance of accounting practitioners' services to client SMEs (Question 10) as depicted in Figure 5.1. The responses to each of the questions are discussed below.

[36] The CCA is a method of testing the relationships between two sets of multidimensional variables (Hardoon, Szedmak, & Shawe-Taylor, 2004; Knapp, 1978). Significance tests for nine of the most common statistical procedures (simple correlation, t test for independent samples, multiple regression analysis, one-way analysis of variance, factorial analysis of variance, analysis of covariance, t-test for correlated samples, discriminant analysis, and chi-square test of independence) can all be treated as special cases of the test of the null hypothesis in CCA for two sets of variables (Knapp, 1978, p. 410).

5.3.1.1 Question 1: Purposes of preparing financial statements

In Question 1, respondents were asked to indicate the importance of the purposes of preparing financial statements. Descriptive statistics for the responses are presented in Table 5.9. The table shows both the means of the responses to each part of the question and also the mean ranks. As the responses are numbers on a Likert scale, the mean ranks are the more relevant measure. The table shows that the respondents, on average, regarded *review of performance, compliance with taxation, good internal control, compliance with regulations, decision-making, information to owners/shareholders, planning*, and *borrowing* as being important but other listed purposes as being of moderate importance. In terms of mean ranks for the total set of respondents, the most important purposes of preparing financial statements were *review of performance*, *compliance with taxation*, and *good internal control*. The least important were *information to customers*, *paying dividends*, and *information to employees*.

Table 5.9 also shows that account preparers reported slightly higher mean ranks for *compliance with taxation* and *regulations, information to owners/shareholders*, *borrowing*, and *paying dividends* than did the accounting practitioners. On the other hand, accounting practitioners reported slightly higher mean ranks for *review of performance, good internal control, decision-making, planning, information to customers*, and *information to employees* than did the account preparers.

Table 5.9 Descriptive statistics: Purposes of preparing financial statements

Code	Purposes	Mean			Mean rank			Mann Whitney U
		AP	APR	Total	AP	APR	Total	
A	Review of performance	4.37	4.11	4.28	8.08	8.11	8.09	.406
B	Compliance with taxation	4.27	4.00	4.18	7.62	7.42	7.54	.186
C	Good internal control	3.92	3.83	3.89	6.63	7.00	6.77	.977
D	Compliance with regulations	4.11	3.77	3.99	6.98	6.32	6.73	.124
E	Decision-making	3.88	3.71	3.82	6.49	6.82	6.61	.611
F	Information to owners/shareholders	3.94	3.37	3.74	6.72	5.61	6.31	.049**
G	Planning	3.94	3.47	3.77	6.16	6.31	6.22	.191
H	Borrowing	3.75	3.06	3.51	5.93	5.10	5.62	.008***
I	Information to customers	3.11	3.09	3.10	3.84	5.32	4.39	.886
J	Paying dividends	2.87	2.65	2.79	4.25	4.18	4.22	.511
K	Information to employees	2.80	2.64	2.74	3.31	3.81	3.49	.460

Account preparers indicated the three most important purposes of preparing financial statements were *review of performance*, *compliance with taxation*, and *compliance with regulations*; while the three least important purposes were: *paying dividends*, *information to customers*, and *information to employees*. Accounting practitioners reported that the three most important purposes of preparing financial statements were *review of performance*, *compliance with taxation*, and *good internal control* of the entity; while the three least important purposes were: *borrowing*, *paying dividends*, and *information to employees* of their client SMEs. Thus, in respect of the most important of the purposes, the rankings for accounting practitioners were the same as for the total set of respondents.

A Mann Whitney U test was applied to test whether the respondents from the two groups have similar perceptions regarding the purposes of financial statements. The results of the test indicated that the responses from the two groups were significantly different only in regards to the *information to owners/shareholders* and *borrowing* purposes. In each case, the account preparers had a higher mean ranked response.

5.3.1.1.1 Test of H_1: There is no difference in importance among the purposes for preparing financial statements

To test H_1, the study used the Friedman test. The result was significant $\chi^2(10)=203.5$, $p=0.000^+$ and therefore H_1 is rejected. To test for the sources of the difference in the set, the Wilcoxon signed-rank test was conducted for all pairs of purposes. The results are reported in Table 5.10.

For an experiment involving *k* multiple comparisons of factors, if the experiment error rate is α, the per comparison error rate, γ, is $\alpha/\ [k\ (k\text{-}1)/2]$. Thus setting $\alpha=0.15$, γ is 0.003[37]. At that level, the importance respondents assigned to the *review of performance* purpose was significantly different from that of *good internal control, decision-making, information to owners/shareholders, planning, borrowing, information to customers, paying dividends*, and *information to employees. Compliance with taxation* was significantly different from that of *information to owners/shareholders, planning, borrowing, information to customers, paying dividends*, and *information to employees.*

Good internal control, compliance with regulations, *decision-making, information to owners/shareholders*, and *planning* each was significantly different from that of *information to customers, paying dividends,* and *information to employees*. In addition to this, *compliance with regulations* was significantly different from that of *borrowing*. *Borrowing* and *information to customers* each were significantly different from that of *information to employees*. Finally, *borrowing* was also significantly different from *paying dividends.*

[37] For each subsequent question involving use of the Wilcoxon signed-rank test, the per comparison error rate is shown at the foot of the results table.

Table 5.10 Results of Wilcoxon signed-rank test: Purposes of preparing financial statements

Code	A	B	C	D	E	F	G	H	I	J
B	.459									
C	.000***	.034								
D	.006	.095	.608							
E	.000***	.012	.564	.236						
F	.000***	.002***	.210	.089	.579					
G	.000***	.003***	.202	.076	.278	.989				
H	.000***	.000***	.005	.001***	.024	.211	.093			
I	.000***	.000***	.000***	.000***	.000***	.000***	.000***	.012		
J	.000***	.000***	.000***	.000***	.000***	.000***	.000***	.000***	.030	
K	.000***	.000***	.000***	.000***	.000***	.000***	.000***	.000***	.003***	.725

Note: γ=0.003

5.3.1.1.2 Test of H_2: The respondents' views on the purposes for preparing financial statements do not vary with economic characteristics

The analysis of this hypothesis comprised (a) canonical correlation of the set of eleven listed purposes and the set of economic characteristics, and (b) separate regressions for each of the eleven purposes on the economic characteristics. As the responses to Question 1 were from 1 to 5 on a Likert scale, that is, ordinal in nature, consideration was given to the appropriate regression technique for examining the relationship between the response to a particular listed purpose and the economic characteristics associated with the respondents. It was found that similar results were obtained from ordinal regression, OLS on the Likert responses, and OLS on the ranks of the Likert responses. Thus, given that ordinal regression rests on the (questionable) assumption of parallelism while OLS results are familiar in form and easily interpreted, it was decided to use OLS on the Likert responses.

CCA indicated that overall the relationship between the two sets of variables was not significant (Hotellings test=0.598) but in the univariate tests the *borrowing* purpose was significant (p=0.003***). This was confirmed in the separate regressions.

Table 5.11 shows the results of the regressions. For the *borrowing* purpose, the significant variables were respondent group (confirming the Mann Whitney U test result), number of employees, degree in accounting, and service versus other sector. The results indicated rejection of H_2 only for the case of *borrowing* purpose.

Table 5.11 Results of OLS: Purposes of preparing financial statements

Variables	**A**	**B**	**C**	**D**	**E**	**F**	**G**	**H**	**I**	**J**	**K**
Constant	.000***	.000***	.000***	.000***	.000***	.020**	.000***	.000***	.011**	.005***	.103
Group	.225	.111	.610	.244	.687	.108	.134	.027**	.913	.792	.360
Work experience	.057*	.749	.258	.443	.264	.627	.706	.607	.555	.593	.908
Number of employees	.727	.714	.337	.852	.129	.654	.136	.042**	.946	.153	.771
Longevity of the entity	.677	.651	.414	.132	.522	.607	.591	.894	.591	.028**	.920
Revenue	.184	.644	.457	.578	.880	.430	.221	.904	.218	.724	.435
CPA	.851	.372	.832	.882	.672	.735	.711	.738	.929	.994	.932
Degree in accounting	.744	.716	.253	.278	.596	.465	.972	.035**	.683	.564	.899
English proficiency	.294	.215	.904	.992	.994	.387	.916	.400	.469	.759	.160
Industry											
Consumer goods vs other	.386	.327	.394	.786	.570	.465	.784	.145	.311	.877	.566
Finance vs other	.664	.784	.749	.119	.821	.624	.662	.825	.536	.468	.358
Industry vs other	.324	.506	.382	.261	.756	.461	.158	.383	.206	.311	.942
Service vs other	.239	.104	.475	.337	.730	.698	.790	.089*	.525	.365	.909
R^2	.140	.108	.098	.120	.086	.092	.133	.279	.050	.104	.062
Adjusted R^2	.017	-.019	-.032	-.007	-.043	-.037	.005	.174	-.087	-.027	-.077
Observation	97	97	96	96	98	97	94	95	96	95	94
F statistic	1.138	.847	.754	.945	.664	.712	1.035	2.646***	.367	.795	.449

5.3.1.2 Question 2: Importance of external financial statements for internal decision-making

In Question 2, respondents were asked to indicate the importance of external financial statements for internal decision-making. Descriptive statistics for the responses are presented in Table 5.12. The table shows that the respondents regarded the use of external financial statements for *planning* as important but for all of the other listed applications of external financial statements as being of moderate importance. Respondents from both groups reported that *planning* was the most important concern for internal decision-making. The mean ranks for the total set of respondents showed that setting *staff pay* was the least important use of external financial statements for internal decision-making.

Table 5.12 Descriptive Statistics: Importance of financial statements

Code	Importance of financial statements	Mean			Mean rank			Mann Whitney U
		AP	APR	Total	AP	APR	Total	
A	Planning	3.83	3.35	3.67	4.06	3.86	3.99	.083*
B	Capital expenditure	3.63	3.15	3.46	3.57	3.48	3.58	.046**
C	Pricing	3.58	3.15	3.43	3.63	3.47	3.55	.106
D	Cash management	3.62	2.88	3.36	3.62	3.08	3.42	.003***
E	Directors pay	3.32	3.09	3.24	3.14	3.64	3.32	.554
F	Staff pay	3.17	3.00	3.11	2.95	3.47	3.14	.562

Table 5.12 also shows that account preparers reported higher mean ranks for *planning, capital expenditure, pricing*, and *cash management* than did the accounting practitioners. On the other hand, accounting practitioners reported higher mean ranks for *director's pay* and *staff pay* than did the account preparers. Account preparers indicated financial statements were the most important for decisions concerning *planning* and *pricing*; while the least important for *staff pay.* Accounting practitioners, however, reported that the most important for decisions concerning *planning* and *capital expenditure*; while the least important for *cash management.*

A Mann Whitney U test was applied to test whether the respondents from the two groups have similar perceptions regarding the importance of external financial statements for internal decision-making. The results of the test indicated that the responses from the two groups were significantly different in regards to the *planning*, *capital expenditure*, and *cash management*. In each case, the account preparers had a higher mean ranked response.

5.3.1.2.1 Test of H_3: There is no difference in importance among the uses of external financial statements for internal decision-making

To test H_3, the study used the Friedman test. The result was significant $\chi^2(5)=21.23$, $p=0.001$*** and therefore H_3 is rejected. Similar to Question 1, to test for the sources of the difference in the set, the Wilcoxon signed-rank test was conducted for all pairs of uses of financial statements in internal decision-making. The results are reported in Table 5.13.

Table 5.13 Results of Wilcoxon signed-rank test: Importance of financial statements

Code	A	B	C	D	E
B	.022				
C	.015	.884			
D	.001***	.178	.431		
E	.002***	.166	.153	.512	
F	.000***	.017	.015	.080	.254

Note: $\gamma=0.010$

The importance respondents assigned to the *planning* was significantly different from that of *cash management, director's pay*, and *staff pay*. None of the other pairs showed significant differences.

5.3.1.2.2 Test of H_4: The respondents' views on the importance of the uses do not vary with economic characteristics

The results of CCA were that neither the multivariate test nor the univariate tests were significant (Hotellings test=0.126 and p>0.10, respectively). This was confirmed in the separate regressions. Table 5.14 shows the results of the regressions. The results did not indicate rejection of H_4.

Table 5.14 Results of OLS: Importance of financial statements

Variables	**A**	**B**	**C**	**D**	**E**	**F**
Constant	.000***	.001***	.000***	.000***	.005***	.004***
Group	.137	.221	.223	.098*	.669	.556
Work experience	.354	.768	.239	.625	.856	.319
Number of employees	.310	.751	.405	.525	.056*	.073*
Longevity of the entity	.802	.327	.683	.101	.751	.096*
Revenue	.470	.035**	.769	.120	.758	.797
CPA	.775	.852	.406	.821	.598	.995
Degree in accounting	.858	.478	.125	.184	.141	.072*
English proficiency	.618	.270	.920	.823	.151	.111
Industry						
Consumer goods vs other	.588	.381	.413	.918	.773	.666
Finance vs other	.441	.440	.765	.431	.179	.500
Industry vs other	.505	.583	.927	.171	.877	.927
Service vs other	.106	.468	.175	.411	.506	.647
R^2	.131	.153	.165	.181	.175	.162
Adjusted R^2	.007	.028	.045	.063	.050	.042
Observation	97	94	97	96	92	97
F statistic	1.058	1.219	1.381	1.534	1.396	1.349

5.3.1.3 Question 7: Information usefulness

In Question 7, respondents were asked whether financial information produced by SMEs under the existing reporting standards was useful to users. Descriptive statistics for the responses are presented in Table 5.15. The respondents indicated that the information usefulness as being medium usefulness. The account preparers reported a higher mean usefulness of information produced under existing reporting standards than did accounting practitioners. The Mann Whitney U test, however, indicated that there was no statistically significant difference between the groups for this question.

Table 5.15 Descriptive statistics: Information usefulness

Information usefulness	Mean			Mann Whitney U
	AP	APR	Total	
Information usefulness under existing IFRS	3.42	3.30	3.38	.684

5.3.1.3.1 Test of H_5: The respondents' views on importance of the information usefulness do not vary with economic characteristics

Table 5.16 shows the result of the regression of information usefulness on the economic characteristics. The R^2 was not significant and thus H_5 is not rejected.

Table 5.16 Results of OLS: Information usefulness

Variables	Information usefulness
Constant	.105
Group	.229
Work experience	.061*
Number of employees	.083*
Longevity of the entity	.556
Revenue	.276
CPA	.421
Degree in accounting	.900
English proficiency	.027**
Industry	
Consumer goods vs other	.219
Finance vs other	.041**
Industry vs other	.934
Service vs other	.586
R^2	.159
Adjusted R^2	.034
Observation	94
F statistic	1.276

5.3.1.4 Question 10: Importance of the services provided to SMEs by accounting practitioners

In Question 10, accounting practitioners were asked to indicate the importance of the components of their service to their client SMEs. Descriptive statistics for the responses are presented in Table 5.17. The table shows that the accounting practitioners regarded all of the listed service components as being of moderate importance.

Table 5.17 Descriptive statistics: Importance of the services

Code	Service component	Mean	Mean rank
A	Account preparation	2.93	2.63
B	Information for lenders	2.76	2.59
C	VAT work	2.71	2.48
D	Advice on tax return	2.66	2.30

The mean ranks showed that *account preparation* service was the most important component; while *advice on tax return* was the least important service provided to the client SMEs.

5.3.1.4.1 Test of H_6: There is no difference in importance among the services provided to SMEs by accounting practitioners

To test H_6, the study used the Friedman test. The result was not significant $\chi^2(3)=1.033$, $p=0.806>0.05$ and therefore H_6 is not rejected. This result implied that it was not necessary to use the Wilcoxon signed-rank test to test for differences between the listed items.

5.3.1.4.2 Test of H_7: The respondents' views on importance of the services provided to SMEs by accounting practitioners do not vary with economic characteristics

The results of CCA were that neither the multivariate test nor the univariate tests were significant (Hotellings test=0.568 and p>0.10, respectively). This result was confirmed in the separate regressions. Table 5.18 shows the results of the regressions. Thus, the results did not indicate rejection of H_7.

Table 5.18 Results of OLS: Importance of the services

Variables	A	B	C	D
Constant	.074*	.057*	.038**	.059*
Work experience	.149	.322	.232	.393
Number of employees	.380	.840	.993	.622
Longevity of the entity	.984	.271	.218	.550
Revenue	.788	.380	.722	.917
CPA	.150	.198	.233	.506
Degree in accounting	.634	.635	.661	.564
English proficiency	.751	.523	.474	.562
Industry				
Consumer goods vs other	.065*	.513	.298	.217
Finance vs other	.092*	.269	.480	.348
Industry vs other	.219	.122	.361	.642
Service vs other	.016**	.135	.223	.099*
R^2	.535	.318	.290	.281
Adjusted R^2	.216	-.058	-.082	-.135
Observation	28	32	33	31
F statistic	1.675	.847	.780	.676

5.3.2 Cost/Burden

The reporting burden for SMEs was examined under four main headings: Preparation cost of financial statements (Question 8); Burden components (Question 9); Statutory requirement burden (Questions 11-15); and Burden reduction (Question 16) as depicted earlier in Figure 5.1.

5.3.2.1 Question 8: Importance of preparation costs in preparation of financial statements

In Question 8, respondents were asked to indicate the importance of preparation costs in preparation of financial statements. Descriptive statistics for the responses are presented in Table 5.19. The table shows that the respondents regarded *audit costs* and *information system costs* as being important but the other preparation costs as being of moderate importance. In terms of the mean ranks for the total set of respondents, the most important cost for preparing financial statements was *audit costs* and that the least important was *preparation costs*.

The table also shows that account preparers reported higher mean ranks for *audit costs* and *information system costs* than did the accounting practitioners. On the other hand, accounting practitioners reported higher mean ranks for *opportunity costs* and *preparation costs* than did the account preparers. Account preparers indicated the most important cost was *audit costs*; while the least important was *preparation costs.* Accounting practitioners considered that the most important cost was *opportunity costs*; while the least important was *preparation costs*.

Table 5.19 Descriptive Statistics: Importance of preparation costs

Code	Preparation costs	Mean			Mean rank			Mann Whitney U
		AP	APR	Total	AP	APR	Total	
A	Audit costs	4.08	3.46	3.86	3.25	2.65	3.04	.004***
B	Information system costs	3.63	3.31	3.51	2.59	2.50	2.56	.177
C	Opportunity costs	3.31	3.56	3.41	2.37	2.76	2.51	.229
D	Preparation costs	2.98	2.97	2.98	1.80	2.09	1.90	.976

The rankings for account preparers were the same as for the total set of responses. The results of the Mann Whitney U test indicated that the responses from the two groups were significantly different only in respect of *audit costs*. The account preparers had a higher mean ranked response than accounting practitioners.

5.3.2.1.1 Test of H_8: There is no difference in importance among the costs associated with preparation of financial statements

To test H_8, the study used the Friedman test. The result was significant $\chi^2(3)=53.35$, $p=0.000^+$ and therefore H_8 is rejected. Similar to prior questions, to test for the sources of the difference in the set, the Wilcoxon signed-rank test was conducted for all pairs of preparation costs. The results are reported in Table 5.20.

Table 5.20 Results of Wilcoxon signed-rank test: Importance of preparation costs

Code	A	B	C
B	.002***		
C	.000***	.364	
D	.000***	.000***	.000***

Note: γ=0.025

The mean rank of the *audit costs* was significantly different from that of *information system costs, opportunity costs*, and *preparation costs.* The mean ranks of the *information system costs* and *opportunity costs* were significantly different from that of *preparation costs*.

5.3.2.1.2 Test of H_9: The respondents' views on importance of preparation costs do not vary with economic characteristics

CCA indicated that the multivariate test was significant (Hotellings test=0.085*) and that in the univariate tests *audit costs* were significant (p=0.002***). This result was confirmed in the separate regressions. Table 5.21 shows the results of the regressions.

Table 5.21 Results of OLS: Importance of preparation costs

Variables	A	B	C	D
Constant	.000***	.000***	.000***	.000***
Group	.002***	.115	.178	.981
Work experience	.338	.912	.577	.949
Number of employees	.288	.383	.196	.748
Longevity of the entity	.684	.794	.382	.415
Revenue	.145	.842	.367	.398
CPA	.664	.966	.931	.326
Degree in accounting	.760	.538	.598	.094*
English proficiency	.006***	.343	.211	.263
Industry				
Consumer goods vs other	.258	.597	.248	.212
Finance vs other	.398	.307	.642	.310
Industry vs other	.112	.071*	.277	.431
Service vs other	.899	.152	.254	.632
R^2	.315	.148	.180	.144
Adjusted R^2	.219	.026	.061	.023
Observation	98	97	96	98
F statistic	3.264***	1.213	1.513	1.194

For the *audit costs,* the significant variables were respondent group and English proficiency. The finding on group is consistent with the result of the Mann Whitney U test reported in Table 5.19. The results indicated rejection of H_9 only for the case of *audit costs*.

5.3.2.2 Question 9: Burden components

In Question 9, respondents were asked to indicate their perceptions of the burden of *bookkeeping* and the statutory requirements on reporting: *accounting law*, *company law,* and the *SME Act*. The respondents gave overall responses on the statutory requirements but none gave particular examples of these requirements. Descriptive statistics for the responses are presented in Table 5.22. The mean scores and mean ranks for the total set of responses were very similar between 2.42 to 2.62. The respondents from both groups thus had similar perceptions concerning the burden of the listed four components. The table shows that the respondents regarded all of the listed burden components as being of medium burdensome. In terms of mean ranks for the total set of respondents, the most burdensome component was *SME Act requirements* and that the least burdensome was *bookkeeping*.

Table 5.22 Descriptive Statistics: Burden components

Code	Burden components	Mean			Mean rank			Mann Whitney U
		AP	APR	Total	AP	APR	Total	
A	SME Act	2.64	2.58	2.62	2.52	2.74	2.60	.894
B	Company law	2.66	2.48	2.60	2.47	2.53	2.49	.474
C	Accounting law	2.59	2.58	2.59	2.48	2.50	2.49	.838
D	Bookkeeping	2.64	2.34	2.54	2.53	2.22	2.42	.182

Table 5.22 also shows that account preparers reported a higher mean rank for *bookkeeping*; while accounting practitioners reported a slightly higher mean ranks for *SME Act, company law*, and *accounting law* requirements. Account preparers indicated the most burdensome component was *bookkeeping* and that the least burdensome was *company law*. Accounting practitioners reported that the most burdensome component was *SME Act requirements* and that the least burdensome was *bookkeeping*. Thus, in respect of the most burdensome component, the rankings for accounting practitioners were the same as for the total set of respondents. The Mann Whitney U test, however, indicated that there were no statistically significant differences between the groups for this question.

5.3.2.2.1 Test of H_{10}: There is no difference in burdensomeness among the burden components associated with preparation of financial statements

To test H_{10}, the study used the Friedman test. The result was not significant $\chi^2(3)=3.24$, $p=0.357>0.05$ and therefore H_{10} is not rejected. This result implied that it was not necessary to use the Wilcoxon signed-rank test to test for differences between the listed items.

5.3.2.2.2 Test of H_{11}: The respondents' views on importance of the burden components do not vary with economic characteristics

The results of CCA were that neither the multivariate test nor the univariate tests were significant (Hotellings test=0.301 and p>0.10, respectively). However, the results of the separate regressions, as shown in Table 5.23, the *company law* and *bookkeeping* regressions had significant R^2. For *company law* the only significant variable was industry versus other sector; and for *bookkeeping* both CPA and English proficiency were significant. These results, therefore, reject H_{11} for the case of *company law* and *bookkeeping* burden components.

Table 5.23 Results of OLS: Burden components

Variables	A	B	C	D
Constant	.000***	.001***	.000***	.000***
Group	.868	.216	.852	.512
Work experience	.588	.651	.423	.475
Number of employees	.806	.685	.763	.698
Longevity of the entity	.804	.752	.644	.404
Revenue	.452	.657	.251	.110
CPA	.361	.744	.923	.019**
Degree in accounting	.369	.665	.885	.283
English proficiency	.208	.214	.758	.072*
Industry				
Consumer goods vs other	.786	.193	.231	.547
Finance vs other	.468	.990	.409	.162
Industry vs other	.021**	.021**	.165	.247
Service vs other	.307	.278	.728	.227
R^2	.174	.234	.138	.244
Adjusted R^2	.044	.113	.002	.113
Observation	89	89	89	82
F statistic	1.338	1.937**	1.018	1.857*

5.3.2.3 Statutory requirement burden (Questions 11 - 15)

The next issue addressed concerned the burdens arising from the statutory requirements imposed on SMEs. This subject was examined under three sub-headings: Disclosure requirements (Question 11); Auditing law requirements (Question 12); and Overall burden (Accounting standard burden (Question 13); Company law disclosure burden (Question 14); and Auditing law burden (Question 15)) as depicted above in Figure 5.1. Each of these topics is discussed below.

5.3.2.4 Question 11: Disclosure requirements

In Question 11, respondents were asked to indicate which aspects of the disclosure requirements were the most burdensome to SMEs. The disclosure requirements of the IFRS for SMEs are considerably less than the disclosure requirements of the full IFRS. Some of the disclosure requirements of full IFRS however, have been kept in the IFRS for SMEs without change. The following six disclosure requirements, for example, of the full IFRS also provide necessary and relevant information on the typical SMEs.

(1) disaggregations of amounts presented in financial statements of SMEs;
(2) information about entity's accounting policy choices;
(3) information about short-term cash flows and obligations, commitments or contingencies;
(4) information on measurement uncertainties;
(5) information about liquidity and solvency; and
(6) disclosures about investment decisions in public capital markets (IASCF, 2009b).

The first five requirements listed above re-appear in Question 11 of the survey questionnaire. The sixth item, which is not relevant to Mongolian SMEs, was replaced in the questionnaire with an item on *other disclosures*. Descriptive statistics for the responses to Question 11 are presented in Table 5.24. The table shows that the respondents regarded all of the listed disclosure requirements as being of medium burdensome.

In terms of mean ranks for the total set of respondents, the most burdensome disclosure requirements were *disaggregations of some of the amounts reported* and *other disclosures*. The least burdensome requirement was *disclosures about liquidity and solvency*. Table 5.24 also shows that account preparers reported slightly higher mean ranks for *disaggregations of some of the amounts reported*, *other disclosures*, and *disclosures about liquidity and solvency* than did the accounting practitioners. On the other hand, accounting practitioners reported slightly higher mean ranks for *information about an entity's accounting policy* *choices*, *information on measurement uncertainties*, and *disclosures about short-term cash flows and obligations* than did the account preparers. The Mann Whitney U test, however, indicated that there were no statistically significant differences between the groups for this question.

Table 5.24 Descriptive statistics: Disclosure requirements

Code	Disclosure requirements	Mean			Mean rank			Mann Whitney U
		AP	APR	Total	AP	APR	Total	
A	Disaggregations of some of the amounts reported	3.14	3.00	3.09	4.04	3.70	3.92	.513
B	Other disclosures	3.05	3.03	3.04	3.78	3.67	3.74	.959
C	Information about an entity's accounting policy choices	2.83	2.97	2.88	3.53	3.57	3.54	.507
D	Information on measurement uncertainties	2.68	2.85	2.74	3.25	3.57	3.36	.596
E	Disclosures about short-term cash flows and obligations (commitments or contingencies)	2.57	3.03	2.73	3.18	3.37	3.24	.140
F	Disclosures about liquidity and solvency	2.70	2.74	2.72	3.23	3.13	3.20	.998

Account preparers indicated the most burdensome disclosure requirements were *disaggregations of some of the amounts reported* and *other disclosures*; while the least burdensome was *disclosures about short-term cash flows and obligations*. Accounting practitioners reported that the most burdensome disclosure requirements were *disaggregations of some of the amounts reported* and *other disclosures;* while the least burdensome was *disclosures about liquidity and solvency*.

5.3.2.4.1 Test of H_{12}: There is no difference in burdensomeness among the disclosure requirements

To test H_{12}, the study used the Friedman test. The result was not significant $\chi^2(5)=8.16$, $p=0.148>0.05$ and therefore H_{12} is not rejected. This result implied that it was not necessary to use the Wilcoxon signed-rank test to test for differences between the listed items.

5.3.2.4.2 Test of H_{13}: The respondents' views on burdensomeness of the disclosure requirements do not vary with economic characteristics

CCA indicated that overall the relationship between the two sets of variables was not significant (Hotellings test=0.306) but in the univariate tests the *disaggregations of some of the amounts reported* requirement was significant (p=0.024**). This was confirmed in the separate regressions.

Table 5.25 shows the results of the regressions. For the *disaggregations of some of the amounts reported* requirement, the significant variables were work experience, membership of the finance versus other sector, and the industry versus other sector. The results indicated rejection of H_{13} only for the case of *disaggregations of some of the amounts reported* requirement.

Table 5.25 Results of OLS: Disclosure requirements

Variables	**A**	**B**	**C**	**D**	**E**	**F**
Constant	.000***	.002***	.000***	.001***	.002***	.000***
Group	.718	.875	.124	.465	.077*	.629
Work experience	.078*	.337	.122	.054*	.803	.211
Number of employees	.601	.924	.653	.771	.584	.849
Longevity of the entity	.142	.570	.830	.543	.398	.624
Revenue	.271	.712	.393	.749	.448	.393
CPA	.422	.308	.649	.485	.984	.868
Degree in accounting	.264	.951	.853	.950	.298	.264
English proficiency	.546	.620	.929	.364	.201	.371
Industry						
Consumer goods vs other	.768	.412	.787	.727	.707	.651
Finance vs other	.005***	.643	.005***	.333	.240	.747
Industry vs other	.029**	.853	.124	.276	.550	.474
Service vs other	.981	.879	.656	.334	.421	.666
R^2	.244	.080	.136	.108	.109	.090
Adjusted R^2	.132	-.069	.008	-.024	-.022	-.040
Observation	94	87	94	94	95	97
F statistic	2.183**	.537	1.065	.819	.832	.693

5.3.2.5 Question 12: Auditing law requirements

In Question 12, respondents were asked to indicate which aspects of the auditing law requirements of Mongolia were the most burdensome to SMEs. Descriptive statistics for the responses are presented in Table 5.26. The table shows that the respondents regarded *auditing requirements applied to many companies* as being above medium burdensome but the other two listed requirements as being of medium burdensome. In terms of mean ranks for the total set of respondents, the most burdensome requirement was *tight year-end deadline* and that the least burdensome was *need for perceived independence*.

Table 5.26 Descriptive statistics: Auditing law requirements

Code	Auditing law requirements	Mean			Mean rank			Mann Whitney U
		AP	APR	Total	AP	APR	Total	
A	Tight year-end deadline	3.35	3.71	3.48	1.98	2.34	2.11	.161
B	Auditing requirements applied to many companies	3.78	3.18	3.58	2.15	1.77	2.02	.016**
C	Need for perceived independence	3.41	3.35	3.39	1.87	1.89	1.87	.856

Table 5.26 also shows that account preparers reported a higher mean rank only for *auditing requirements applied to many companies*[38] than did the accounting practitioners. On the other hand, accounting practitioners reported slightly higher mean ranks for *tight year-end deadline* and *need for perceived independence* than did the account preparers. Account preparers indicated the most burdensome requirement was *auditing requirements applied to many companies*; while the least burdensome was *need for perceived independence.* Accounting practitioners reported that the most burdensome requirement was

[38] Financial statements of certain entities or organisations are subject to audit verification: (1) listed companies registered at the stock exchange, (2) companies that apply for listing on the stock exchange, (3) business entities and organisations having above 50 million Tugrug capital assets, (4) business entities and organisations being restructured, liquidated, or intended to sell all its capital by auction, (5) foreign invested business entities and organisations, (6) cooperatives conducting savings and loan disbursement activities, (7) banking, financial and insurance organisations, (8) securities companies carrying out brokerage and dealer activities and companies running investment funds, (9) funds described under Article 36, paragraph 2 of the Civil Code, (10) political parties, and (11) organisations similar to the business entities and organisations specified under provisions 1-10 above (Audit law, 1997, Paragraph 1, Article 7).

tight year-end deadline; while the least burdensome was *auditing requirements applied to many companies.* The Mann Whitney U test indicated that the responses from the two groups were significantly different only in regards to the *auditing requirements applied to many companies.*

5.3.2.5.1 Test of H_{14}: There is no difference in importance among the requirements associated with auditing law

To test H_{14}, the study used the Friedman test. The result was not significant $\chi^2(2)=4.09$, $p=0.130>0.05$ and therefore H_{14} is not rejected. This result implied that it was not necessary to use the Wilcoxon signed-rank test to test for differences between the listed items.

5.3.2.5.2 Test of H_{15}: The respondents' views on importance of the auditing law requirements do not vary with economic characteristics

The results of CCA were that neither the multivariate test nor the univariate tests were significant (Hotellings test=0.556 and p>0.10, respectively). This result was confirmed in the separate regressions. Table 5.27 shows the results of the regressions. Thus, the results did not indicate rejection of H_{15}.

Table 5.27 Results of OLS: Auditing law requirements

Variables	**A**	**B**	**C**
Constant	.000***	.000***	.000***
Group	.126	.076*	.452
Work experience	.232	.446	.128
Number of employees	.115	.998	.327
Longevity of the entity	.844	.465	.438
Revenue	.952	.283	.268
CPA	.137	.267	.202
Degree in accounting	.454	.358	.754
English proficiency	.937	.492	.456
Industry			
Consumer goods vs other	.780	.598	.610
Finance vs other	.062*	.182	.765
Industry vs other	.352	.494	.398
Service vs other	.520	.503	.276
R^2	.109	.155	.117
Adjusted R^2	-.017	.033	-.012
Observation	98	96	95
F statistic	.863	1.267	.906

5.3.2.6 Overall burden (Questions 13, 14, and 15)

Respondents were asked to indicate the burdens of complying with Accounting standards (Question 13); Disclosure requirements of the company law (Question 14), and Auditing law (Question 15). For the purpose of analysis, the responses to the three questions were considered as a group. Descriptive statistics for the responses to the questions are presented in Table 5.28. The table shows that the respondents regarded all of the listed components as being of medium burdensome. In terms of mean ranks for the total set of respondents, the most burdensome was *auditing law* and that the least burdensome was *disclosure requirements of the company law.*

Table 5.28 Descriptive statistics: Overall burden

Code	Components	Mean			Mean rank			Mann Whitney U
		AP	APR	Total	AP	APR	Total	
A	Auditing law (Q 15)	3.02	2.54	2.85	2.21	1.98	2.13	.026**
B	Accounting standards (Q 13)	2.71	2.59	2.67	2.02	2.09	2.05	.474
C	Disclosure requirements of the company law (Q 14)	2.55	2.53	2.54	1.77	1.92	1.82	.907

Table 5.28 also shows that account preparers reported slightly higher mean rank only for *auditing law* than did the accounting practitioners. On the other hand, accounting practitioners reported slightly higher mean ranks for *accounting standards* and *disclosure requirements of the company law* than did the account preparers.

Account preparers indicated the most burdensome requirement was *auditing law* and that the least burdensome was *disclosure requirements of the company law*. Accounting practitioners reported that the most burdensome requirement was *accounting standards*; while the least burdensome was *disclosure requirements of the company law*. The rankings for account preparers were the same as for the total set of respondents. The results of the Mann Whitney U test indicated that the responses from the two groups were significantly different only in respect of *auditing law*.

5.3.2.6.1 Test of H_{16}: There is no difference in burdensomeness among the overall burden associated with complying with requirements

To test H_{16}, the study used the Friedman test. The result was significant $\chi^2(2)=8.82$, p=0.012** and therefore H_{16} is rejected. Similar to prior questions, to test for the sources of the difference in the set, the Wilcoxon signed-rank test was conducted for all pairs of requirements. The results are reported in Table 5.29. The mean rank of the *audit law* was significantly different from that of *disclosure requirements of the company law.*

Table 5.29 Results of Wilcoxon signed-rank test: Overall burden

Code	A	B
B	.219	
C	.002***	.138

Note: γ=0.050

5.3.2.6.2 Test of H_{17}: The respondents' views on burdensomeness of the overall burden do not vary with economic characteristics

CCA indicated that the multivariate test was significant (Hotellings test=0.085*) and that in the univariate tests *auditing law* was significant (p=0.026**). This result was confirmed in the separate regressions. Table 5.30 shows the results of the regressions. For the *auditing law* burden the significant variables were respondent group and membership of the finance versus other sector. The results indicated rejection of H_{17} only for the case of *auditing law* burden. The significance in the group difference was consistent with the Mann Whitney U test shown in Table 5.28.

Table 5.30 Results of OLS: Overall burden

Variables	A	B	C
Constant	.000***	.000***	.000***
Group	.062*	.602	.807
Work experience	.345	.264	.476
Number of employees	.152	.557	.094*
Longevity of the entity	.999	.948	.627
Revenue	.199	.564	.570
CPA	.210	.839	.905
Degree in accounting	.801	.436	.378
English proficiency	.727	.400	.559
Industry			
Consumer goods vs other	.695	.462	.320
Finance vs other	.036**	.712	.062*
Industry vs other	.161	.222	.026**
Service vs other	.118	.640	.799
R^2	.231	.109	.142
Adjusted R^2	.120	-.019	.021
Observation	96	97	98
F statistic	2.080**	.854	1.170

5.3.2.7 Question 16: Reduction of the burden associated with preparation of financial statements

In Question 16, respondents were asked to indicate the importance of possible ways to reduce the burden for SMEs. Descriptive statistics for the responses are presented in Table 5.31. The table shows that the respondents regarded *develop special standards for SMEs, reduce legal requirements, reduce number of accounting standards*, and *promote use of technology to streamline process* as being important but the other possible reductions of the burden as being of moderate importance. In terms of mean ranks for the total set of respondents, the most important ways of reducing the burden were *develop special standards for SMEs* and *reduce legal requirements*. The least important burden reductions were *audit* and *complete* exemptions.

Table 5.31 also shows that account preparers reported higher mean ranks for *reduce legal requirements*, *promote use of technology to streamline process*, *audit exemption*, and *complete exemption* than did the accounting practitioners. On the other hand, accounting practitioners reported higher mean ranks for *develop special standards for SMEs, reduce number of accounting standards*, and *reduce disclosure* than did the account preparers. The Mann Whitney U test showed that the groups had statistically significant different perceptions for *reduce legal requirements, promote use of technology to streamline process, audit exemption*, and *complete exemption.* In each case, the account preparers had a higher mean ranked response.

Table 5.31 Descriptive statistics: Burden reduction

Code	Burden reduction	Mean			Mean rank			Mann Whitney U
		AP	APR	Total	AP	APR	Total	
A	Develop special standards for SMEs	4.06	3.89	4.00	4.65	5.29	4.86	.485
B	Reduce legal requirements	4.03	3.27	3.77	4.75	4.27	4.59	.002***
C	Reduce number of accounting standards	3.69	3.52	3.63	4.04	4.48	4.19	.551
D	Reduce disclosure	3.48	3.53	3.49	3.90	4.59	4.13	.867
E	Promote use of technology to streamline process	3.72	3.15	3.53	4.15	3.52	3.94	.019**
F	Audit exemption	3.38	2.41	3.04	3.64	3.02	3.43	.001***
G	Complete exemption	2.97	2.36	2.75	2.86	2.84	2.85	.046**

5.3.2.7.1 Test of H_{18}: There is no difference in possible ways of reducing the burden associated with preparation of financial statements

To test H_{18}, the study used the Friedman test. The result was significant $\chi^2(6)=71.53$, $p=0.000^+$ and therefore H_{18} is rejected. To test for the sources of the difference in the set, the Wilcoxon signed-rank test was conducted for all pairs of possible ways of reducing the burden. The results are reported in Table 5.32.

Table 5.32 Results of Wilcoxon signed-rank test: Burden reduction

Code	A	B	C	D	E	F
B	.025					
C	.000***	.072				
D	.001***	.107	.361			
E	.000***	.056	.949	.417		
F	.000***	.000***	.004***	.000***	.006***	
G	.000***	.000***	.000***	.000***	.000***	.014

Note: $\gamma=0.007$

Table 5.32 indicated that *develop special standards for SMEs* was significantly different from that of *reduce number of accounting standards, reduce disclosure, promote use of technology to streamline process, audit exemption*, and *complete exemption. Reduce legal requirements*, *reduce number of accounting standards, reduce disclosure*, and *promote use of technology to streamline process* were significantly different from that of *audit exemption* and *complete exemption.*

5.3.2.7.2 Test of H_{19}: The respondents' views on possible ways of reducing the burden associated with preparation of financial statements do not vary with economic characteristics

CCA indicated that the multivariate test was significant (Hotellings test=0.023**) and that in the univariate tests *audit exemption* and *complete exemption* were significant (p=0.007*** and p=0.057*, respectively). This result was confirmed in the separate regressions. Table 5.33 shows the results of the regressions. For the *audit exemption* the significant variables were respondent group, English proficiency and membership of the service versus other sector.

The *complete exemption* regression shows that the significant variables were respondent group, number of employees and membership of the industry versus other sector. The results indicated rejection of H_{19} for the case of *audit exemption* and *complete exemption*. The significance in the group differences were consistent with the Mann Whitney U tests shown in Table 5.31.

Table 5.33 Results of OLS: Burden reduction

Variables	A	B	C	D	E	F	G
Constant	.000***	.000***	.000***	.000***	.000***	.011**	.002***
Group	.853	.037**	.822	.451	.056*	.005***	.029**
Work experience	.600	.187	.442	.882	.413	.971	.144
Number of employees	.520	.506	.923	.125	.436	.429	.086*
Longevity of the entity	.199	.342	.551	.864	.792	.835	.747
Revenue	.290	.346	.721	.468	.477	.999	.816
CPA	.254	.231	.194	.530	.828	.765	.596
Degree in accounting	.503	.450	.650	.407	.371	.915	.229
English proficiency	.905	.987	.436	.444	.101	.023**	.418
Industry							
Consumer goods vs other	.103	.694	.616	.454	.034**	.398	.990
Finance vs other	.669	.664	.754	.523	.914	.137	.163
Industry vs other	.710	.276	.870	.107	.860	.175	.065*
Service vs other	.460	.854	.894	.312	.894	.099*	.204
R^2	.107	.195	.040	.091	.182	.252	.236
Adjusted R^2	-.021	.074	-.106	-.042	.061	.142	.117
Observation	97	93	92	95	94	95	90
F statistic	.836	.104	.272	.686	1.500	2.298**	1.981**

5.3.3 Net benefit

Net benefit of financial information was examined under Question 19: *net benefit of information* as shown in Figure 5.1.

5.3.3.1 Question 19: Net benefit of information

Question 19 asked respondents to rate the net benefit of producing financial statements of SMEs with the existing IFRS. Descriptive statistics for the responses are presented in Table 5.34.

The respondents indicated the information as being of medium net benefit. The table shows that account preparers reported a slightly higher mean for net benefit of information than did the accounting practitioners. The Mann Whitney U test, however, indicated that there was no statistically significant difference between the groups.

Table 5.34 Descriptive statistics: Net benefit of information

Net benefit of information	Mean			Mann Whitney U
	AP	APR	Total	
Net benefit of information	2.94	2.85	2.91	.871

5.3.3.1.1 Test of H_{20}: The respondents' views on importance of the net benefit do not vary with economic characteristics

Table 5.35 shows the result of the regression of net benefit of information on the economic characteristics. The R^2 was significant for the *net benefit,* and the significant variable was work experience. Thus, the result indicated rejection of H_{20}.

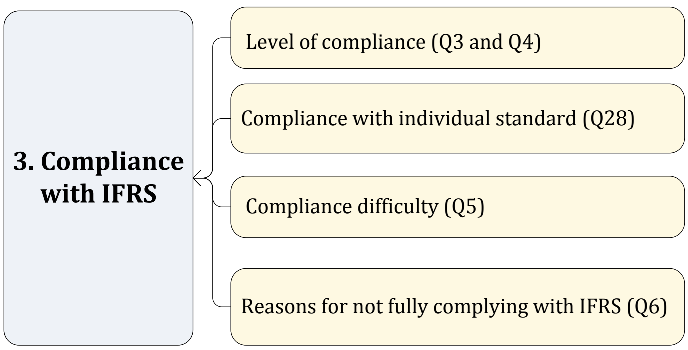
Table 5.35 Results of OLS: Net benefit of information

Variables	Net benefit
Constant	.000***
Group	.219
Work experience	.003***
Number of employees	.881
Longevity of the entity	.806
Revenue	.174
CPA	.225
Degree in accounting	.708
English proficiency	.387
Industry	
Consumer goods vs other	.142
Finance vs other	.197
Industry vs other	.432
Service vs other	.120
R^2	.283
Adjusted R^2	.175
Observation	93
F statistic	2.631***

5.4 Compliance with IFRS

Compliance with IFRS was examined under four main headings: Level of compliance (Questions 3 and 4); Compliance with individual standard (Question 28); Compliance difficulty (Question 5); and Reasons for not fully complying with IFRS (Question 6); as illustrated below in Figure 5.2. Each of these components are discussed below.

Figure 5.2 Compliance with IFRS



5.4.1 Questions 3 and 4: Level of compliance with IFRS

In Question 3, respondents were asked to report the level of compliance with IFRS by their own or client entities. In Question 4, accounting practitioners were asked to indicate the level of compliance with IFRS by entities whose financial statements they audit. Descriptive statistics for the responses to Questions 3 and 4 are presented in Table 5.36. The account preparers reported a higher level of compliance with IFRS than did the accounting practitioners. The table shows that the account preparers regarded the level of compliance with IFRS as being above medium; while the accounting practitioners as being medium. The table also shows that the accounting practitioners regarded the level of compliance with IFRS by entities whose financial statements they audit as being medium compliance. The results from the Mann Whitney U test indicated that the difference across the two groups was statistically significant.

Table 5.36 Descriptive statistics: Level of compliance with IFRS

Level of compliance	**Mean**		**Mann Whitney U**
	AP	**APR**	
Level of compliance (Q3)	3.96	3.29	.000***
Level of compliance (Q4)		3.39	

These ratings, if given on some other factor, would appear to be high. However, compliance with standards should be near perfect if the information produced is to have the desirable qualitative characteristics of relevance, faithful representation, comparability, verifiability, timeliness, and understandability. Thus, medium to above medium compliance is actually "low" compliance.

5.4.1.1 Test of H_{21}: The respondents' views on the level of compliance with IFRS do not vary with economic characteristics

Table 5.37 shows the result of the regressions of *level of compliance* on the economic characteristics. The R^2 was significant for Question 3. Consistent with the result of the Mann Whitney test, the respondent group variables was significant. Thus, the result indicated rejection of H_{21} only for the *level of compliance with IFRS* reported by account preparers and accounting practitioners for their own or clients' entities respectively.

Table 5.37 Results of OLS: Level of compliance with IFRS

Variables	Question 3	Question 4
Constant	.000***	.020**
Group	.003***	-
Work experience	.322	.937
Number of employees	.821	.937
Longevity of the entity	.108	.275
Revenue	.324	.730
CPA	.450	.250
Degree in accounting	.475	.509
English proficiency	.343	.956
Industry		
Consumer goods vs other	.477	.788
Finance vs other	.647	.196
Industry vs other	.544	.904
Service vs other	.781	.198
R^2	.192	.386
Adjusted R^2	.080	.049
Observation	99	32
F statistic	1.707*	1.145

5.4.2 Question 28: Compliance with individual standard

This section captures two different concerns related to compliance with individual standards: (a) relevance of each standard and (b) level of compliance with each standard. Each of these is discussed below.

(a) Relevance of the individual standard

Respondents were first asked to report the relevance of the individual standards to their own or clients SMEs' reporting practice. Table 5.38 shows that the individual standards most frequently reported as being relevant to the respondents own firm or client SMEs were *IAS 7 Cash flow statements*, *IAS 12 Income taxes*, and *IAS 18 Revenue*. The least relevant individual standards were *IAS 28 Investments in associates*, *IAS 29 Financial reporting in hyperinflationary economies*, and *IAS 26 Accounting and reporting by retirement benefit plans*.

Table 5.38 Relevance of the individual standard

Code	IFRS	Relevance[39] AP	Relevance[39] APR	Total
IAS 7	Cash flow statements	67	35	102
IAS 12	Income taxes	67	35	102
IAS 18	Revenue	67	35	102
IAS 1	Presentation of financial statements	66	35	101
IAS 8	Accounting policies, changes in accounting estimates and errors	67	34	101
IAS 16	Property, plant and equipment	67	34	101
IAS 2	Inventories	66	34	100
IAS 17	Leases	66	33	99
IAS 32	Financial instruments: presentation	63	34	97
IFRS 7	Financial instruments: disclosures	64	33	97
IFRS 9	Financial instruments	63	34	97
IAS 38	Intangible assets	62	34	96
IAS 10	Events after the balance sheet date	61	33	94
IAS 19	Employee benefits	61	32	93
IAS 21	The effects of changes in foreign exchange rates	60	32	92
IAS 23	Borrowing costs	62	29	91
IAS 39	Financial instruments: recognition and measurement	59	32	91
IAS 15	Information reflecting the effects of changing prices	55	31	86
IFRS 1	First-time adoption of IFRS	57	27	84
IAS 40	Investment property	54	29	83
IAS 14	Segment reporting	52	30	82
IFRS 8	Operating segments	55	27	82
IAS 24	Related party disclosures	53	27	80
IFRS 5	Non-current assets held for sale and discontinued operations	51	29	80
IFRS 13	Fair value measurement	50	29	79
IAS 37	Provisions, contingent liabilities and contingent assets	53	25	78
IAS 34	Interim financial reporting	48	29	77
IAS 36	Impairment of assets	51	26	77
IFRS 2	Share-based payment	48	29	77
IFRS 4	Insurance contracts	48	27	75
IFRS 3	Business combinations	45	29	74
IFRS 11	Joint arrangements	46	27	73
IAS 11	Construction contracts	45	28	73
IAS 20	Accounting for government grants and disclosure of government assistance	43	29	72
IFRS 6	Exploration for and evaluation of mineral resources	44	26	70
IFRS 12	Disclosure of interests in other entities	44	26	70
IFRS 10	Consolidated financial statements	44	25	69
IAS 33	Earnings per share	44	24	68
IAS 27	Consolidated and separate financial statements	44	23	67
IAS 41	Agriculture	43	23	66

[39] Note: Number of respondents reporting relevance

Code	IFRS	Relevance[39]		Total
		AP	APR	
IAS 31	Interests in joint ventures	42	23	65
IAS 28	Investments in associates	42	22	64
IAS 29	Financial reporting in hyperinflationary economies	41	20	61
IAS 26	Accounting and reporting by retirement benefit plans	36	24	60

(a) Level of compliance with individual standard

Respondents were then asked to report the level of compliance with individual standards by their own or clients' entities. Descriptive statistics for the responses to Question 28 are presented in Table 5.39. The table shows that the respondents regarded *IAS 2 Inventories, IAS 18 Revenue, IAS 16 Property, plant and equipment, IAS 12 Income taxes, IAS 8 Accounting policies, changes in accounting estimates and errors, IAS 7 Cash flow statements*, and *IAS 1 Presentation of financial statements* as being above medium level of compliance.

The table also shows that the respondents regarded *IAS 32 Financial instruments: presentation, IAS 21 The effects of changes in foreign exchange rates, IAS 17 Leases, IAS 23 Borrowing costs, IAS 38 Intangible assets, IAS 10 Events after the balance sheet date, IAS 24 Related party disclosures, IAS 39 Financial instruments: recognition and measurement, IAS 19 Employee benefits, IFRS 9 Financial instruments, IFRS 7 Financial instruments: disclosures, IAS 40 Investment property, IAS 37 Provisions, contingent liabilities and contingent assets, IAS 33 Earnings per share, IAS 36 Impairment of assets, IAS 11 Construction contracts, IAS 34 Interim financial reporting, IAS 14 Segment reporting, IFRS 8 Operating segments, IFRS 13 Fair value measurement, IFRS 10 Consolidated financial statements, IAS 27 Consolidated and separate financial statements,* and *IAS 20 Accounting for government grants and disclosure of government assistance* as being medium level of compliance.

Table 5.39 Descriptive Statistics: Level of compliance with individual standard

Code	IFRS	Mean			Mean rank			Mann Whitney U
		AP	APR	Total	AP	APR	Total	
IAS 2	Inventories	3.89	3.70	3.82	36.16	28.17	33.28	0.312
IAS 18	Revenue	4.03	3.84	3.97	34.47	29.78	32.78	0.206
IAS 16	Property, plant and equipment	3.92	3.85	3.89	33.03	31.94	32.64	0.622
IAS 12	Income taxes	4.00	3.76	3.91	34.34	27.89	32.02	0.205
IAS 8	Accounting policies, changes in accounting estimates and errors	3.47	3.70	3.55	29.97	33.39	31.20	0.445
IAS 7	Cash flow statements	3.98	3.53	3.82	32.69	25.06	29.94	0.062*
IAS 32	Financial instruments: presentation	3.13	3.39	3.23	26.28	31.72	28.24	0.495
IAS 21	The effects of changes in foreign exchange rates	3.22	3.33	3.26	29.38	25.56	28.00	0.745
IAS 1	Presentation of financial statements	3.78	3.68	3.74	27.66	28.28	27.88	0.528
IAS 17	Leases	3.53	3.29	3.45	27.72	27.11	27.50	0.401
IAS 23	Borrowing costs	3.33	3.04	3.23	27.44	27.11	27.32	0.338
IAS 38	Intangible assets	3.17	3.61	3.33	24.81	31.00	27.04	0.154
IAS 10	Events after the balance sheet date	2.98	3.06	3.01	26.66	25.61	26.28	0.790
IAS 24	Related party disclosures	3.07	2.96	3.03	22.66	32.33	26.14	0.756
IAS 39	Financial instruments: recognition and measurement	2.88	3.23	3.01	24.38	29.06	26.06	0.270
IAS 19	Employee benefits	2.96	2.75	2.89	25.28	22.61	24.32	0.443
IFRS 9	Financial instruments	2.77	2.90	2.82	21.91	25.00	23.02	0.567
IFRS 7	Financial instruments: disclosures	2.88	3.24	3.01	21.13	25.94	22.86	0.205
IAS 40	Investment property	2.82	2.96	2.88	22.88	21.94	22.54	0.741
IAS 37	Provisions, contingent liabilities and contingent assets	2.70	2.71	2.71	22.50	21.44	22.12	0.895
IAS 33	Earnings per share	2.65	2.50	2.59	22.69	20.56	21.92	0.698
IAS 36	Impairment of assets	2.58	2.54	2.56	19.66	24.56	21.42	0.780
IFRS 1	First-time adoption of IFRS	2.53	2.43	2.49	22.28	19.56	21.30	0.676
IAS 11	Construction contracts	2.58	3.15	2.83	18.78	24.72	20.92	0.095*
IAS 34	Interim financial reporting	2.62	2.77	2.68	20.31	21.28	20.66	0.633
IAS 14	Segment reporting	2.71	2.42	2.60	20.56	19.61	20.22	0.287
IFRS 8	Operating segments	2.56	2.67	2.60	19.88	19.50	19.74	0.634
IAS 31	Interests in joint ventures	2.09	1.50	2.26	17.72	22.39	19.40	0.804

Code	IFRS	Mean			Mean rank			Mann Whitney U
		AP	APR	Total	AP	APR	Total	
IFRS 13	Fair value measurement	2.47	2.63	2.54	21.47	15.06	19.16	0.705
IAS 15	Information reflecting the effects of changing prices	2.61	2.10	2.41	21.19	15.00	18.96	0.121
IFRS 10	Consolidated financial statements	2.33	2.87	2.57	18.34	19.67	18.82	0.119
IAS 27	Consolidated and separate financial statements	2.77	2.14	2.54	19.06	16.78	18.24	0.050**
IFRS 5	Non-current assets held for sale and discontinued operations	2.36	2.37	2.36	18.41	16.56	17.74	0.957
IFRS 4	Insurance contracts	2.44	2.13	2.31	18.25	16.00	17.44	0.293
IFRS 12	Disclosure of interests in other entities	2.10	2.64	2.33	16.31	18.00	16.92	0.221
IFRS 2	Share-based payment	1.88	2.15	2.00	17.59	15.56	16.86	0.292
IAS 41	Agriculture	2.18	2.64	2.36	16.75	16.94	16.82	0.185
IAS 28	Investments in associates	2.53	2.38	2.47	17.13	16.22	16.80	0.563
IAS 20	Accounting for government grants and disclosure of government assistance	2.24	2.88	2.51	14.97	19.72	16.68	0.054*
IFRS 11	Joint arrangements	2.59	2.29	2.46	18.91	12.61	16.64	0.398
IFRS 3	Business combinations	2.16	2.12	2.14	15.66	17.83	16.44	0.844
IAS 29	Financial reporting in hyperinflationary economies	2.10	2.11	2.10	15.41	16.67	15.86	0.991
IAS 26	Accounting and reporting by retirement benefit plans	2.33	2.36	2.35	14.25	17.17	15.30	0.934
IFRS 6	Exploration for and evaluation of mineral resources	2.10	2.71	2.36	13.13	17.11	14.56	0.106

The table further shows that the respondents regarded *IFRS 1 First-time adoption of IFRS*, *IAS 31 Interests in joint ventures*, *IAS 15 Information reflecting the effects of changing prices, IFRS 5 Non-current assets held for sale and discontinued operations, IFRS 4 Insurance contracts, IFRS 12 Disclosure of interests in other entities, IFRS 2 Share-based payment, IAS 41 Agriculture, IAS 28 Investments in associates, IFRS 11 Joint arrangements, IFRS 3 Business combinations, IAS 29*

Financial reporting in hyperinflationary economies, IAS 26 Accounting and reporting by retirement benefit plans, and *IFRS 6 Exploration for and evaluation of mineral resources* as being minor level of compliance in Mongolia.

The table shows that in terms of the mean ranks for the total set of respondents, the standards with highest compliance were *IAS 2 Inventories*, *IAS 18 Revenue*, *IAS 16 Property, plant and equipment*, *IAS 12 Income taxes*, and *IAS 8 Accounting policies, changes in accounting estimates and errors*. The standards with lowest compliance were *IFRS 11 Joint arrangements*, *IFRS 3 Business combinations*, *IAS 29 Financial reporting in hyperinflationary economies*, *IAS 26 Accounting and reporting by retirement benefit plans*, and *IFRS 6 Exploration for and evaluation of mineral resources*.

Table 5.39 also shows that account preparers reported higher mean ranks for *IAS 2 Inventories, IAS 18 Revenue, IAS 16 Property, plant and equipment, IAS 12 Income taxes, IAS 7 Cash flow statements, IAS 21 The effects of changes in foreign exchange rates, IAS 17 Leases, IAS 23 Borrowing costs, IAS 10 Events after the balance sheet date, IAS 19 Employee benefits, IAS 40 Investment property, IAS 37 Provisions, contingent liabilities and contingent assets, IAS 33 Earnings per share, IFRS 1 First-time adoption of IFRS, IAS 14 Segment reporting, IFRS 8 Operating segments, IFRS 13 Fair value measurement, IAS 15 Information reflecting the effects of changing prices, IAS 27 Consolidated and separate financial statements, IFRS 5 Non-current assets held for sale and discontinued operations, IFRS 4 Insurance contracts, IFRS 2 Share-based payment, IAS 28 Investments in associates*, and *IFRS 11 Joint arrangements* than did the accounting practitioners.

On the other hand, accounting practitioners reported higher mean ranks for *IAS 8 Accounting policies, changes in accounting estimates and errors, IAS 32 Financial instruments: presentation, IAS 1 Presentation of financial statements, IAS 38 Intangible assets, IAS 24 Related party disclosures, IAS 39 Financial instruments: recognition and measurement, IFRS 9 Financial instruments, IFRS 7 Financial instruments: disclosures, IAS 36 Impairment of assets, IAS 11 Construction contracts, IAS 34 Interim financial reporting, IAS 31 Interests in joint ventures, IFRS*

10 Consolidated financial statements, IFRS 12 Disclosure of interests in other entities, IAS 41 Agriculture, IAS 20 Accounting for government grants and disclosure of government assistance, IFRS 3 Business combinations, IAS 29 Financial reporting in hyperinflationary economies, IAS 26 Accounting and reporting by retirement benefit plans, and *IFRS 6 Exploration for and evaluation of mineral resources* than did the account preparers.

The results of the Mann Whitney U test indicated that the responses from the two groups were significantly different only in respect of *IAS 7 Cash flow statements, IAS 11 Construction contracts, IAS 27 Consolidated and separate financial statements*, and *IAS 20 Accounting for government grants and disclosure of government assistance.* The range of the mean levels of compliance across the standards and the large number of standards with below medium compliance appears to be inconsistent with the overall level of compliance reported in Questions 3 and 4. However, the results for the individual standards probably reflect the fact that many of the standards had a low level of relevance.

5.4.2.1.1 Test of H_{22}: There is no difference in level of compliance among the individual standard

To test H_{22}, the study used the Friedman test. The result was significant $\chi^2(6)=252.47$, $p=0.000^+$ and therefore H_{22} is rejected. To test for the sources of the difference in the set, the Wilcoxon signed-rank test was conducted for all pairs of individual standards. Table 5.40 (a) to (g) report the results of the Wilxocon signed-rank test for all pairs of individual standards. The tables show that the individual standards that differ most markedly from the other standards were *IAS 2 Inventories, IAS 18 Revenue, IAS 16 Property, plant and equipment, IAS 12 Income taxes, IAS 8 Accounting policies, changes in accounting estimates and errors*, and *IAS 7 Cash flow statements.*

Table 5.40 (a) Results of Wilcoxon signed-rank test: Level of compliance with individual standard

Code	IAS 2	IAS 18	IAS 16	IAS 12	IAS 8	IAS 7
IAS 18	.204					
IAS 16	.724	.368				
IAS 12	.705	.621	.979			
IAS 8	.002	.000***	.000***	.009		
IAS 7	.631	.092	.638	.461	.003	
IAS 32	.000***	.000***	.000***	.000***	.054	.000***
IAS 21	.000***	.000***	.000***	.000***	.087	.000***
IAS 1	.101	.034	.010	.080	.147	.239
IAS 17	.001	.000***	.000***	.001	.409	.004
IAS 23	.000***	.000***	.000***	.000***	.021	.000***
IAS 38	.000***	.000***	.000***	.000***	.158	.000***
IAS 10	.000***	.000***	.000***	.000***	.000***	.000***
IAS 24	.000***	.000***	.000***	.000***	.000***	.000***
IAS 39	.000***	.000***	.000***	.000***	.002	.000***
IAS 19	.000***	.000***	.000***	.000***	.000***	.000***
IFRS 9	.000***	.000***	.000***	.000***	.001	.000***
IFRS 7	.000***	.000***	.000***	.000***	.023	.000***
IAS 40	.000***	.000***	.000***	.000***	.000***	.000***
IAS 37	.000***	.000***	.000***	.000***	.000***	.000***
IAS 33	.000***	.000***	.000***	.000***	.000***	.000***
IAS 36	.000***	.000***	.000***	.000***	.000***	.000***
IFRS 1	.000***	.000***	.000***	.000***	.000***	.000***
IAS 11	.000***	.000***	.000***	.000***	.000***	.000***
IAS 34	.000***	.000***	.000***	.000***	.000***	.000***
IAS 14	.000***	.000***	.000***	.000***	.000***	.000***
IFRS 8	.000***	.000***	.000***	.000***	.000***	.000***
IAS 31	.000***	.000***	.000***	.000***	.000***	.000***
IFRS 13	.000***	.000***	.000***	.000***	.000***	.000***
IAS 15	.000***	.000***	.000***	.000***	.000***	.000***
IFRS 10	.000***	.000***	.000***	.000***	.000***	.000***
IAS 27	.000***	.000***	.000***	.000***	.000***	.000***
IFRS 5	.000***	.000***	.000***	.000***	.000***	.000***
IFRS 4	.000***	.000***	.000***	.000***	.000***	.000***
IFRS 12	.000***	.000***	.000***	.000***	.000***	.000***
IFRS 2	.000***	.000***	.000***	.000***	.000***	.000***
IAS 41	.000***	.000***	.000***	.000***	.000***	.000***
IAS 28	.000***	.000***	.000***	.000***	.000***	.000***
IAS 20	.000***	.000***	.000***	.000***	.000***	.000***
IFRS 11	.000***	.000***	.000***	.000***	.000***	.000***
IFRS 3	.000***	.000***	.000***	.000***	.000***	.000***
IAS 29	.000***	.000***	.000***	.000***	.000***	.000***
IAS 26	.000***	.000***	.000***	.000***	.000***	.000***
IFRS 6	.000***	.000***	.000***	.000***	.000***	.000***

Note: $\gamma = 0.000^{+}$

Table 5.40 (b) continues

Code	IAS 32	IAS 21	IAS 1	IAS 17	IAS 23	IAS 38
IAS 21	.696					
IAS 1	.000***	.006				
IAS 17	.262	.511	.044			
IAS 23	.313	.180	.000***	.043		
IAS 38	.767	.704	.000***	.465	.332	
IAS 10	.070	.057	.000***	.002	.351	.019
IAS 24	.004	.009	.000***	.000***	.229	.012
IAS 39	.065	.106	.000***	.010	.374	.014
IAS 19	.006	.017	.000***	.000***	.072	.002
IFRS 9	.019	.089	.000***	.006	.442	.030
IFRS 7	.217	.384	.000***	.001	.911	.334
IAS 40	.011	.017	.000***	.000***	.160	.002
IAS 37	.003	.001	.000***	.000***	.021	.000***
IAS 33	.003	.003	.000***	.000***	.009	.000***
IAS 36	.000***	.000***	.000***	.000***	.003	.000***
IFRS 1	.001	.002	.000***	.000***	.012	.000***
IAS 11	.016	.003	.000***	.000***	.158	.004
IAS 34	.011	.007	.000***	.000***	.054	.000***
IAS 14	.000***	.000***	.000***	.000***	.000***	.000***
IFRS 8	.001	.009	.000***	.000***	.108	.004
IAS 31	.000***	.000***	.000***	.000***	.000***	.000***
IFRS 13	.000***	.002	.000***	.000***	.003	.000***
IAS 15	.000***	.000***	.000***	.000***	.000***	.000***
IFRS 10	.000***	.005	.000***	.002	.045	.001
IAS 27	.000***	.001	.000***	.000***	.003	.000***
IFRS 5	.000***	.000***	.000***	.000***	.000***	.000***
IFRS 4	.000***	.001	.000***	.000***	.000***	.000***
IFRS 12	.000***	.000***	.000***	.000***	.001	.000***
IFRS 2	.000***	.000***	.000***	.000***	.000***	.000***
IAS 41	.000***	.000***	.000***	.000***	.002	.000***
IAS 28	.000***	.000***	.000***	.000***	.001	.000***
IAS 20	.000***	.000***	.000***	.000***	.008	.001
IFRS 11	.000***	.001	.000***	.000***	.004	.000***
IFRS 3	.000***	.000***	.000***	.000***	.000***	.000***
IAS 29	.000***	.000***	.000***	.000***	.000***	.000***
IAS 26	.000***	.000***	.000***	.000***	.001	.000***
IFRS 6	.000***	.000***	.000***	.001	.002	.000***

Table 5.40 (c) continues

Code	IAS 10	IAS 24	IAS 39	IAS 19	IFRS 9	IFRS 7
IAS 24	.424					
IAS 39	.598	.439				
IAS 19	.490	.957	.353			
IFRS 9	.186	.752	.962	.371		
IFRS 7	.682	.337	.455	.188	.185	
IAS 40	.921	.678	.358	.846	.459	.139
IAS 37	.147	.719	.026	.910	.378	.033
IAS 33	.008	.229	.005	.300	.155	.035
IAS 36	.005	.063	.002	.177	.021	.003
IFRS 1	.004	.064	.003	.163	.006	.009
IAS 11	.104	.283	.233	.651	.468	.060
IAS 34	.081	.281	.157	.472	.121	.020
IAS 14	.001	.063	.001	.036	.018	.005
IFRS 8	.029	.255	.175	.603	.009	.007
IAS 31	.000***	.000***	.000***	.005	.008	.001
IFRS 13	.004	.075	.007	.205	.021	.008
IAS 15	.000***	.035	.000***	.001	.010	.002
IFRS 10	.003	.080	.011	.095	.013	.011
IAS 27	.000***	.008	.010	.061	.013	.004
IFRS 5	.000***	.011	.000***	.027	.003	.000***
IFRS 4	.000***	.006	.000***	.006	.001	.004
IFRS 12	.000***	.009	.000***	.006	.002	.000***
IFRS 2	.000***	.000***	.000***	.000***	.000***	.000***
IAS 41	.000***	.006	.000***	.007	.003	.000***
IAS 28	.000***	.004	.001	.033	.002	.003
IAS 20	.003	.024	.005	.005	.099	.016
IFRS 11	.001	.009	.000***	.089	.007	.001
IFRS 3	.000***	.000***	.000***	.000***	.000***	.000***
IAS 29	.000***	.000***	.000***	.000***	.001	.001
IAS 26	.000***	.001	.001	.000***	.023	.004
IFRS 6	.006	.001	.000***	.004	.004	.000***

Table 5.40 (d) continues

Code	IAS 40	IAS 37	IAS 33	IAS 36	IFRS 1	IAS 11
IAS 37	.247					
IAS 33	.027	.157				
IAS 36	.027	.257	1.000			
IFRS 1	.112	.645	.802	.732		
IAS 11	.637	.808	.390	.158	.518	
IAS 34	.349	.925	.923	.159	.243	.850
IAS 14	.047	.143	.585	.915	.741	.044
IFRS 8	.393	.980	.641	.378	.322	.556
IAS 31	.001	.001	.024	.025	.248	.012
IFRS 13	.088	.381	.240	.789	.761	.192
IAS 15	.004	.029	.513	.769	.325	.065
IFRS 10	.058	.214	.986	.449	.603	.353
IAS 27	.064	.026	.192	.102	.094	.262
IFRS 5	.002	.022	.279	.162	.275	.088
IFRS 4	.009	.012	.263	.265	.110	.084
IFRS 12	.002	.006	.038	.144	.073	.038
IFRS 2	.000***	.001	.004	.009	.004	.002
IAS 41	.001	.025	.040	.106	.104	.013
IAS 28	.002	.020	.157	.047	.167	.022
IAS 20	.010	.091	.421	.731	.264	.064
IFRS 11	.003	.032	.112	.218	.074	.207
IFRS 3	.001	.002	.021	.008	.006	.012
IAS 29	.000***	.000***	.000***	.000***	.043	.000***
IAS 26	.002	.001	.089	.040	.077	.003
IFRS 6	.003	.012	.182	.056	.018	.056

Table 5.40 (e) continues

Code	IAS 34	IAS 14	IFRS 8	IAS 31	IFRS 13	IAS 15
IAS 14	.040					
IFRS 8	.717	.653				
IAS 31	.018	.092	.038			
IFRS 13	.451	.938	.146	.080		
IAS 15	.047	.538	.189	.100	.678	
IFRS 10	.397	.805	.208	.090	.533	.794
IAS 27	.036	.483	.106	.373	.961	.619
IFRS 5	.053	.608	.020	.119	.266	.747
IFRS 4	.052	.401	.091	.612	.358	.595
IFRS 12	.055	.355	.003	.810	.031	.271
IFRS 2	.002	.029	.001	.499	.004	.057
IAS 41	.045	.224	.022	.974	.710	.194
IAS 28	.049	.425	.050	.520	.669	.377
IAS 20	.184	.502	.184	.537	.650	.639
IFRS 11	.093	.337	.027	.748	.079	.774
IFRS 3	.001	.050	.001	.982	.024	.055
IAS 29	.000***	.016	.005	.104	.068	.010
IAS 26	.008	.023	.069	.718	.140	.034
IFRS 6	.047	.673	.001	.549	.093	.660

Table 5.40 (f) continues

Code	IFRS 10	IAS 27	IFRS 5	IFRS 4	IFRS 12	IFRS 2
IAS 15						
IFRS 10						
IAS 27	.228					
IFRS 5	.479	.992				
IFRS 4	.389	.612	.811			
IFRS 12	.054	.617	.207	.573		
IFRS 2	.009	.475	.002	.099	.128	
IAS 41	.062	.293	.226	.204	.855	.512
IAS 28	.182	.796	.561	.494	.705	.427
IAS 20	.804	.862	.625	.939	.299	.201
IFRS 11	.140	.856	1.000	.773	.881	.208
IFRS 3	.007	.330	.053	.090	.274	.707
IAS 29	.050	.027	.023	.031	.301	.508
IAS 26	.521	.986	.262	.771	.930	.760
IFRS 6	.015	.509	.319	.263	.948	.555

Table 5.40 (g) continues

Code	IAS 41	IAS 28	IAS 20	IFRS 11	IFRS 3	IAS 29	IAS 26
IAS 28	.562						
IAS 20	.776	.930					
IFRS 11	.451	.876	.982				
IFRS 3	.923	.741	.294	.106			
IAS 29	.183	.026	.139	.211	.242		
IAS 26	.828	.900	.362	.649	.451	.265	
IFRS 6	.803	.663	.729	.196	.467	.459	.707

5.4.2.1.2 Test of H_{23}: The respondents' views on level of compliance with individual standard do not vary with economic characteristics

Table 5.41 shows the result of the regression of level of compliance with individual IFRS on the economic characteristics. The results indicated rejection of H_{23} for the case of *IAS 18 Revenue, IAS 21 The effects of changes in foreign exchange rates, IAS 38 Intangible assets, IAS 19 Employee benefits, IFRS 10 Consolidated financial statements, IAS 27 Consolidated and separate financial statements, IFRS 4 Insurance contracts*, and *IAS 28 Investments in associates*.

Table 5.41 (a) shows that for the *IAS 18 Revenue*, the significant variables were number of employees, longevity of the entity, CPA certification and membership of the industry versus other sector. For the *IAS 21 The effects of changes in foreign exchange rates*, the significant variables were degree in accounting and English proficiency.

Table 5.41 (b) shows that for the *IAS 38 Intangible* assets, the significant variables were number of employees, English proficiency and membership of the service versus other sector. For the *IAS 19 Employee benefits,* the significant variables were number of employees and membership of the industry versus other sector.

Table 5.41 (d) shows that for the *IFRS 10 Consolidated financial statements*, the significant variables were number of employees, revenue, CPA certification, English proficiency, membership of the consumer goods versus other, finance versus other, and industry versus other sectors. For the *IAS 27*, *Consolidated and separate financial statements,* the significant variables were respondent group, number of employees, CPA certification, and English proficiency. For the *IFRS 4 Insurance contracts,* the significant variables were number of employees, longevity of the entity, and English proficiency.

Table 5.41 (e) shows that for the *IAS 28 Investments in associates*, the significant variables were number of employees of the entity and CPA certification.

Table 5.41 (a) Results of OLS: Level of compliance with individual standard

Variables	IAS 2	IAS 18	IAS 16	IAS 12	IAS 8	IAS 7	IAS 32	IAS 21	IAS 1
Constant	.002***	.000***	.004***	.002***	.021**	.002**	.181	.740	.013**
Group	.378	.392	.394	.264	.840	.091*	.883	.427	.309
Work experience	.689	.300	.928	.991	.134	.731	.626	.601	.869
Number of employees	.015**	.027**	.032**	.046**	.044**	.553	.615	.114	.436
Longevity of the entity	.911	.061*	.217	.161	.920	.883	.632	.808	.893
Revenue	.656	.185	.486	.589	.637	.533	.984	.715	.968
CPA	.551	.048**	.998	.866	.314	.557	.609	.248	.849
Degree in accounting	.693	.844	.447	.419	.772	.911	.210	.088*	.410
English proficiency	.634	.623	.182	.987	.067*	.693	.008***	.002***	.114
Industry									
Consumer goods vs other	.208	.509	.166	.048**	.611	.381	.737	.484	.759
Finance vs other	.101	.397	.273	.663	.059*	.424	.889	.143	.126
Industry vs other	.697	.043**	.302	.420	.647	.410	.841	.558	.090*
Service vs other	.662	.555	.979	.403	.398	.591	.708	.974	.698
R^2	.163	.266	.152	.200	.181	.112	.131	.281	.096
Adjusted R^2	.036	.153	.024	.077	.054	-.021	-.014	.156	-.040
Observation	92	91	92	91	90	93	85	82	93
F statistic	1.284	2.356**	1.184	1.626	1.421	.840	.903	2.244**	.708

Table 5.41 (b) continues:

Variables	IAS 17	IAS 38	IAS 10	IAS 24	IAS 30	IAS 19	IFRS 9	IFRS 7	IAS 40
Constant	.006***	.015**	.126	.452	.001***	.112	.100*	.063*	.017**
Group	.172	.148	.724	.239	.100*	.761	.793	.519	.849
Work experience	.324	.572	.968	.536	.442	.254	.853	.224	.880
Number of employees	.056*	.003***	.080*	.084*	.010***	.021**	.134	.732	.025**
Longevity of the entity	.104	.725	.766	.649	.095*	.296	.403	.384	.843
Revenue	.095*	.972	.835	.677	.976	1.000	.674	.639	.385
CPA	.565	.557	.392	.162	1.000	.596	.835	.540	.613
Degree in accounting	.960	.746	.978	.261	.198	.451	.847	.288	.841
English proficiency	.764	.077*	.084*	.034**	.371	.262	.337	.066*	.731
Industry									
Consumer goods vs other	.662	.396	.939	.176	.613	.363	.527	.456	.358
Finance vs other	.109	.385	.546	.798	.664	.426	.343	.567	.433
Industry vs other	.071*	.575	.856	.543	.559	.086*	.619	.150	.626
Service vs other	.670	.018**	.105	.012**	.487	.159	.547	.739	.353
R^2	.154	.271	.147	.247	.216	.236	.086	.209	.136
Adjusted R^2	.021	.150	.003	.080	.071	.097	-.088	.061	-.043
Observation	89	85	84	67	78	79	76	77	71
F statistic	1.155	2.234**	1.020	1.475	1.493	1.701*	.495	1.410	.688

Table 5.41 (c) continues:

Variables	IAS 37	IAS 33	IAS 36	IFRS 1	IAS 11	IAS 34	IAS 14	IFRS 8	IAS 31
Constant	.151	.313	.142	.196	.144	.428	.262	.101	.379
Group	.616	.163	.480	.837	.111	.762	.395	.967	.796
Work experience	.666	.552	.706	.913	.842	.269	.708	.721	.820
Number of employees	.020**	.045**	.067*	.114	.036**	.166	.623	.500	.048**
Longevity of the entity	.475	.651	.488	.903	.850	.398	.608	.218	.285
Revenue	.572	.148	.375	.953	.393	.441	.191	.323	.123
CPA	.818	.042**	.085*	.826	.147	.179	.647	.919	.569
Degree in accounting	.473	.267	.987	.970	.908	.917	.314	.526	.825
English proficiency	.064*	.431	.140	.252	.154	.027**	.050**	.224	.025**
Industry									
Consumer goods vs other	.230	.959	.694	.300	.453	.633	.325	.252	.202
Finance vs other	.493	.040**	.053*	.881	.274	.322	.490	.679	.751
Industry vs other	.861	.247	.331	.993	.169	.937	.378	.490	.371
Service vs other	.200	.782	.896	.800	.292	.587	.437	.542	.915
R^2	.256	.275	.221	.153	.249	.191	.240	.154	.289
Adjusted R^2	.087	.068	.030	-.072	.061	-.007	.065	-.041	.076
Observation	66	55	62	58	61	62	65	65	53
F statistic	1.518	1.331	1.160	.680	1.325	.964	1.371	.789	1.356

Table 5.41 (d) continues:

Variables	IFRS 13	IAS 15	IFRS 10	IAS 27	IFRS 5	IFRS 4	IFRS 12	IFRS 2	IAS 41
Constant	.202	.369	.941	.979	.395	.325	.485	.398	.313
Group	.858	.312	.381	.071*	.549	.630	.526	.675	.357
Work experience	.775	.962	.554	.512	.520	.569	.972	.584	.486
Number of employees	.130	.369	.034**	.004***	.381	.000***	.244	.083*	.114
Longevity of the entity	.843	.568	.583	.682	.483	.023**	.745	.938	.518
Revenue	.080*	.983	.056**	.839	.305	.590	.027**	.133	.217
CPA	.310	1.000	.016**	.077*	.240	.303	.337	.676	.079*
Degree in accounting	.465	.577	.145	.328	.734	.320	.197	.470	.201
English proficiency	.246	.047**	.000***	.073*	.207	.007***	.019**	.010***	.097*
Industry									
Consumer goods vs other	.987	.946	.034**	.573	.741	.961	.143	.966	.994
Finance vs other	.751	.899	.082*	.410	.079*	.374	.383	.553	.461
Industry vs other	.087*	.283	.001***	.788	.095*	.453	.067*	.354	.341
Service vs other	.852	.808	.393	.601	.262	.128	.623	.892	.529
R^2	.168	.164	.495	.332	.116	.527	.314	.271	.226
Adjusted R^2	-.036	-.001	.345	.142	-.084	.398	.092	.081	.000
Observation	62	74	53	55	66	57	50	59	54
F statistic	.822	.995	3.285***	.092*	.582	4.091***	1.414	1.426	1.000

Table 5.41 (e) continues:

Variables	IAS 28	IAS 20	IFRS 11	IFRS 3	IAS 29	IAS 26	IFRS 6
Constant	.210	.148	.581	.399	.007***	.367	.413
Group	.773	.222	.360	.794	.723	.999	.323
Work experience	.950	.982	.812	.854	.221	.298	.650
Number of employees	.001***	.801	.528	.019**	.260	.036**	.491
Longevity of the entity	.379	.534	.285	.842	.273	.637	.602
Revenue	.135	.404	.061*	.207	.509	.564	.402
CPA	.058*	.596	.784	.657	.943	.048**	.827
Degree in accounting	.340	.533	.210	.931	.403	.604	.681
English proficiency	.229	.224	.025**	.024**	.386	.302	.006***
Industry							
Consumer goods vs other	.355	.470	.233	.288	.153	.061*	.857
Finance vs other	.384	.215	.854	.763	.675	.685	.307
Industry vs other	.694	.194	.042**	.432	.679	.334	.022**
Service vs other	.704	.038**	.740	.155	.713	.445	.523
R^2	.360	.256	.286	.296	.258	.314	.317
Adjusted R^2	.163	.054	.083	.100	.003	.072	.121
Observation	52	57	55	56	48	47	55
F statistic	1.829*	1.264	1.405	1.507	1.012	1.298	1.621

5.4.3 Question 5: Compliance difficulties

In Question 5, respondents were also asked to report on the possible difficulties encountered in achieving full compliance with IFRS. Descriptive statistics for the responses are presented in Table 5.42. Table shows that the respondents regarded all of the listed difficulties as being of moderate importance. In terms of the mean ranks for the total set of respondents, the most important compliance difficulty was *lack of qualified* staff and that the least important was *keeping up to date with standards*.

Table 5.42 Descriptive Statistics: Compliance difficulties

Code	Compliance difficulties	Mean			Mean rank			Mann Whitney U
		AP	APR	Total	AP	APR	Total	
A	Lack of qualified staff	3.29	3.31	3.30	2.63	2.84	2.70	.878
B	Poor translation of IFRS to Mongolian	3.21	3.06	3.16	2.65	2.53	2.61	.509
C	Too costly	3.17	2.97	3.10	2.60	2.46	2.55	.465
D	Keeping up to date with standards	2.70	2.63	2.67	2.12	2.18	2.14	.650

The table also shows that account preparers reported slightly higher mean ranks for *poor translation of IFRS to Mongolian* and *too costly* difficulties than did the accounting practitioners. On the other hand, accounting practitioners reported slightly higher mean ranks for *lack of qualified staff* and *keeping up to date with standards* than did the account preparers.

Account preparers indicated the most important compliance difficulty was *poor translation of IFRS to Mongolian*; while the least important was *keeping up to date with standards*. Accounting practitioners reported that the most important compliance difficulty was *lack of qualified staff*; while the least important was *keeping up to date with standards.* The Mann Whitney U test, however, indicated that there were no statistically significant differences between the groups for this question.

5.4.3.1 Test of H_{24}: There is no difference in potential difficulties in complying with IFRS

To test H_{24}, the study used the Friedman test. The result was significant $\chi^2(3)=15.46$, p=0.001*** and therefore H_{24} is rejected. To test for the sources of the difference in the set, the Wilcoxon signed-rank test was conducted for all pairs of compliance difficulties. The results are reported in Table 5.43.

Table 5.43 Results of Wilcoxon signed-rank test: Compliance difficulties

Code	A	B	C
B	.278		
C	.095	.651	
D	.000***	.001***	.004***

Note: γ=0.025

The importance respondents assigned to the *lack of qualified staff*, *poor translation of standards*, and *too costly* difficulties each was significantly different from that of *keeping up to date with standards.*

5.4.3.2 Test of H_{25}: The respondents' views on difficulties in complying with IFRS do not vary with economic characteristics

The results of CCA were that neither the multivariate test nor the univariate tests were significant (Hotellings test=0.706 and p>0.10, respectively). This result was confirmed in the separate regressions. Table 5.44 shows the results of the regressions. The results did not indicate rejection of H_{25}.

Table 5.44 Results of OLS: Compliance difficulties

Variables	A	B	C	D
Constant	.000***	.000***	.000***	.000***
Group	.854	.868	.850	.990
Work experience	.859	.143	.660	.929
Number of employees	.828	.223	.603	.207
Longevity of the entity	.489	.280	.743	.590
Revenue	.785	.581	.205	.907
CPA	.477	.160	.641	.858
Degree in accounting	.071*	.957	.079*	.550
English proficiency	.460	.776	.786	.557
Industry				
Consumer goods vs other	.339	.029**	.883	.157
Finance vs other	.357	.240	.882	.243
Industry vs other	.949	.106	.371	.633
Service vs other	.699	.113	.927	.947
R2	.076	.127	.120	.098
Adjusted R2	-.052	.005	-.006	-.030
Observation	99	99	97	98
F statistic	.593	.045	.956	.766

5.4.4 Question 6: Reasons for not fully complying with IFRS

Respondents were asked to report on possible reasons the low compliance in cases where compliance with IFRS was low. Descriptive statistics for the responses to Question 6 are presented in Table 5.45. The table shows that the respondents regarded all of the listed reasons as being of moderate importance. In terms of mean ranks for the total set of respondents, the most important reason for low level of compliance with IFRS was *nobody values IFRS* and that the least important was *IFRS is not understandable.*

Table 5.45 Descriptive statistics: Reasons for not fully complying with IFRS

Code	Reasons for low compliance	Mean			Mean rank			Mann Whitney U
		AP	APR	Total	AP	APR	Total	
A	Nobody values IFRS	3.39	3.21	3.32	2.69	2.45	2.60	.526
B	Lack of qualified staff	3.24	3.37	3.29	2.49	2.70	2.57	.427
C	IFRS is not relevant	3.21	3.27	3.24	2.49	2.66	2.55	.769
D	IFRS is not understandable	3.05	3.03	3.04	2.33	2.19	2.28	.915

Account preparers indicated the most important reason for low compliance was *nobody values IFRS*; while the least important was *IFRS is not understandable.* Accounting practitioners indicated the most important reason was *lack of qualified staff* and the least important was *IFRS is not understandable*. The Mann Whitney U test, however, indicated that there were no statistically significant differences between the groups for this question.

5.4.4.1 Test of H_{26}: There is no difference in reasons for not fully complying with IFRS

To test H_{26}, the study used the Friedman test. The result was not significant $\chi^2(3)=4.93$, $p=0.177>0.05$ and therefore H_{26} is not rejected. This result implied that it was not necessary to use the Wilcoxon signed-rank test to test for differences between the listed items.

5.4.4.2 Test of H_{27}: The respondents' views on reasons for not fully complying with IFRS do not vary with economic characteristics

CCA indicated that overall the relationship between the two sets of variables was not significant (Hotellings test=0.449) but in the univariate tests the *IFRS is not* *understandable* reason was significant (p=0.080*). This was confirmed in the separate regressions. Table 5.46 shows the results of the regressions. For the *IFRS is not understandable* reason the significant variable was industry versus other sector. The results indicated rejection of H_{27} only for the case of *IFRS is not understandable* reason.

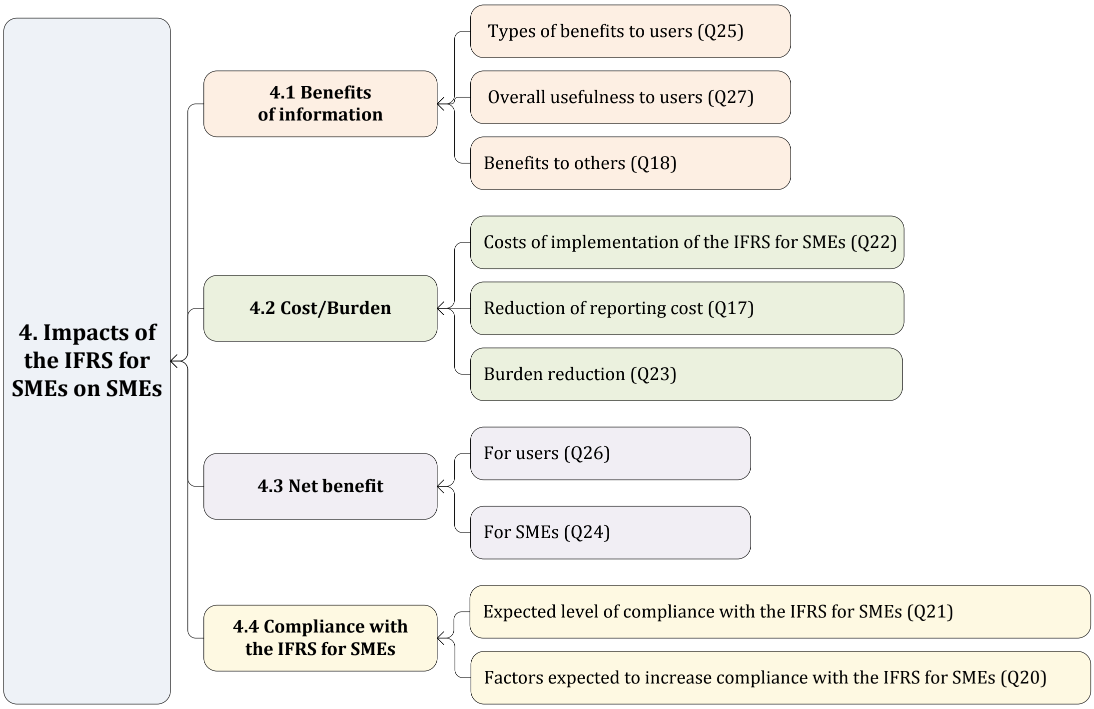
Table 5.46 Results of OLS: Reasons for not fully complying with IFRS

Variables	**A**	**B**	**C**	**D**
Constant	.004***	.000***	.002***	.000***
Group	.989	.437	.930	.903
Work experience	.171	.407	.743	.441
Number of employees	.470	.554	.544	.171
Longevity of the entity	.866	.069*	.876	.732
Revenue	.863	.642	.952	.164
CPA	.534	.182	.974	.305
Degree in accounting	.322	.387	.896	.457
English proficiency	.718	.618	.146	.282
Industry				
Consumer goods vs other	.746	.467	.903	.566
Finance vs other	.961	.680	.769	.993
Industry vs other	.462	.259	.527	.014**
Service vs other	.740	.159	.290	.124
R^2	.056	.115	.067	.222
Adjusted R^2	-.095	-.020	-.084	.099
Observation	88	92	87	89
F statistic	.368	.852	.445	1.803*

5.5 Impacts of the IFRS for SMEs on SMEs

The study examines the expected impacts of the IFRS for SMEs on SMEs in Mongolia under four main headings: Benefit of information to users (Questions 25, 27, and 18); Cost/Burden (Questions 22, 17, and 23); Net benefit (Questions 26 and 24), and Compliance with the IFRS for SMEs (Questions 21 and 20) as depicted in Figure 5.3. Each of these discussed as below.

Figure 5.3 Impacts of the IFRS for SMEs



5.5.1 Benefits of information

The benefits of information expected from adoption of the IFRS for SMEs was addressed in questions on Types of benefits to information users (Question 25), Overall usefulness to users (Question 27), and Benefits to others (preparers and regulators in Mongolia; Question 18) as illustrated above in Figure 5.3.

5.5.1.1 Question 25: Types of benefits to users

In Question 25, respondents were asked to indicate the expected types of benefits from the adoption of the IFRS for SMEs to users, in terms of the quality of financial information. Descriptive statistics for the responses are presented in Table 5.47. The table shows that the respondents regarded all of the listed types of benefits to users as being important. In terms of mean ranks for the total set of respondents, the most important benefits to users were *increased understandability* and *increased faithful representation*. The least important benefit to users was *improved information relevance.*

Table 5.47 also shows that account preparers reported higher mean ranks for *increased understandability, increased timelines*, and *improved verifiability* than did the accounting practitioners. On the other hand, accounting practitioners reported higher mean ranks for *increased faithful representation*, *improved comparability*, and *improved information relevance* than did the account preparers.

Table 5.47 Descriptive statistics: Types of benefits to users

Code	**Benefits to users**	**Mean**			**Mean rank**			**Mann Whitney U**
		AP	**APR**	**Total**	**AP**	**APR**	**Total**	
A	Increased understandability	4.06	4.13	4.08	4.00	3.63	3.89	.919
B	Increased faithful representation	3.72	3.91	3.79	3.55	3.83	3.64	.271
C	Improved comparability	3.80	4.03	3.88	3.47	3.67	3.53	.220
D	Increased timeliness	3.94	4.00	3.96	3.65	3.20	3.51	.759
E	Improved verifiability	3.88	3.97	3.91	3.45	3.23	3.39	.552
F	Improved information relevance	3.57	3.76	3.64	2.88	3.43	3.05	.242

Account preparers indicated the most important benefits to users were *increased understandability* and *increased timelines*; while the least important was *improved information relevance.* Accounting practitioners reported that the most important benefits to users were *increased faithful representation* and *improved comparability*; while the least important was *increased timelines.* The Mann Whitney U test, however, indicated that there were no statistically significant differences between the groups for this question.

5.5.1.1.1 Test of H_{28}: There is no difference in importance of the types of expected benefits for users from the IFRS for SMEs

To test H_{28}, the study used the Friedman test. The result was significant $\chi^2(5)=12.91$, p=0.024** and therefore H_{28} is rejected. Similar to prior questions, to test for the sources of the difference in the set, the Wilcoxon signed-rank test was conducted for all pairs of expected benefits to users. The results are reported in Table 5.48.

Table 5.48 Results of Wilcoxon signed-rank test: Types of benefits to users

Code	A	B	C	D	E
B	.113				
C	.218	.426			
D	.079	.030	.218		
E	.034	.127	.742	.469	
F	.005***	.050	.012	.001***	.005***

Note: γ=0.010

The table also shows that the *increased understandability*, *increased timeliness*, and *improved verifiability* were significantly different from that of *improved information relevance*.

5.5.1.1.2 Test of H_{29}: The respondents' views on importance of the expected types of benefits of information do not vary with economic characteristics

The results of CCA were that neither the multivariate test nor the univariate tests were significant (Hotellings test=0.657 and p>0.10, respectively). This was confirmed in the separate regressions. Table 5.49 shows the results of the regressions. The results did not indicate rejection of H_{29}.

Table 5.49 Results of OLS: Types of benefits to users

Variables	**A**	**B**	**C**	**D**	**E**	**F**
Constant	.000***	.000***	.000***	.000***	.000***	.000***
Group	.481	.542	.568	.990	.833	.849
Work experience	.159	.173	.940	.304	.537	.546
Number of employees	.816	.407	.984	.354	.332	.784
Longevity of the entity	.608	.534	.982	.892	.762	.505
Revenue	.132	.511	.925	.628	.276	.885
CPA	.026**	.027**	.062*	.078*	.446	.065*
Degree in accounting	.801	.771	.400	.423	.204	.695
English proficiency	.959	.770	.406	.521	.176	.993
Industry						
Consumer goods vs other	.621	.423	.592	.880	.272	.463
Finance vs other	.193	.808	.177	.711	.117	.179
Industry vs other	.771	.292	.799	.429	.729	.095*
Service vs other	.882	.678	.540	.950	.747	.751
R^2	.251	.118	.168	.127	.121	.181
Adjusted R^2	-.006	-.010	.044	.000	-.008	.062
Observation	48	96	94	95	95	96
F statistic	.978	.925	1.359	.997	.937	1.528

5.5.1.2 Question 27: Overall usefulness to users

In Question 27, respondents were asked whether the IFRS for SMEs would produce financial information that was useful to users. Descriptive statistics for the responses are presented in Table 5.50. The table shows that the respondents expected the information to be above medium usefulness. Accounting practitioners reported higher expected usefulness than did the account preparers. The Mann Whitney U test, however, indicated that there was no statistically significant difference between the groups for this question.

Table 5.50 Overall usefulness to users

Overall usefulness to users	Mean			Mann Whitney U
	AP	APR	Total	
Overall usefulness to users	3.85	4.00	3.90	.398

5.5.1.2.1 Test of H_{30}: The respondents' views on overall usefulness of information to users do not vary with economic characteristics

Table 5.51 shows the result of the regression of overall information usefulness on the economic characteristics. The R^2 was not significant and thus the result did not indicate rejection of H_{30}.

Table 5.51 Results of OLS: Overall usefulness to users

Variables	Overall usefulness to users
Constant	.000***
Group	.316
Work experience	.953
Number of employees	.223
Longevity of the entity	.956
Revenue	.611
CPA	.019**
Degree in accounting	.670
English proficiency	.368
Industry	
Consumer goods vs other	.740
Finance vs other	.720
Industry vs other	.785
Service vs other	.996
R^2	.157
Adjusted R^2	.036
Observation	97
F statistic	1.302

5.5.1.3 Question 18: Benefits to others

In Question 18, respondents were asked to rate the importance of expected benefits to others from the adoption of the IFRS for SMEs. Descriptive statistics for the responses are presented in Table 5.52. The table shows that the respondents regarded all of the listed benefits to others as being important. In terms of mean ranks for the total set of respondents, the most important expected benefit was *produce more useful financial information for decision-making* and the least important was *improve reporting quality.*

Table 5.52 also shows that account preparers reported higher mean ranks for *produce more useful financial information for decision-making* and *reduce preparation costs for SMEs* than did the accounting practitioners. On the other hand, accounting practitioners reported higher mean ranks for *reduce cost for the national regulators* and *improve reporting quality* than did the account preparers.

Table 5.52 Descriptive statistics: Benefits to others

Code	Benefits to others	Mean			Mean rank			Mann Whitney U
		AP	APR	Total	AP	APR	Total	
A	Produce more useful financial information for decision-making	3.97	3.48	3.80	3.25	2.98	3.15	.021**
B	Reduce preparation costs for SMEs	3.94	3.53	3.62	3.20	2.95	3.11	.112
C	Opportunity costs	3.79	3.58	3.72	2.95	2.95	2.95	.258
D	Reduce cost for the national regulators	3.76	3.55	3.68	2.80	3.09	2.91	.520
E	Improve reporting quality	3.63	3.61	3.62	2.79	3.02	2.88	.946

Account preparers indicated the most important expected benefit was *produce more useful financial information for decision-making*; while the least important was *improve reporting quality*. Accounting practitioners reported that the most important expected benefit was *reduce cost for the national regulators*; while the least important were *reduce preparation costs for SMEs* and *opportunity costs*.

Thus, in respect of the most important benefits, the rankings for account preparers were the same as for the total set of respondents. The Mann Whitney U test indicated that the responses from the two groups were significantly different only in regards to the *produce more useful financial information for decision-making.*

5.5.1.3.1 Test of H_{31}: There is no difference in importance of the expected benefits to others from the adoption of the IFRS for SMEs

To test H_{31}, the study used the Friedman test. The result was not significant $\chi^2(4)=3.44$, $p=0.487$ and therefore H_{31} is not rejected. This result implied that it was not necessary to use the Wilcoxon signed-rank test to test for differences between the listed items.

5.5.1.3.2 Test of H_{32}: The respondents' views on importance of the expected benefits to others from the adoption of the IFRS for SMEs do not vary with economic characteristics

The results of CCA were that neither the multivariate test nor the univariate tests were significant (Hotellings test=0.351 and p>0.10, respectively). This was confirmed in the separate regressions. Table 5.53 shows the results of the regressions. The results did not indicate rejection for H_{32}.

Table 5.53 Results of OLS: Benefits to others

Variables	A	B	C	D	E
Constant	.000***	.000***	.000***	.000***	.000***
Work experience	.239	.545	.659	.212	.243
Number of employees	.756	.197	.443	.766	.623
Longevity of the entity	.989	.191	.062*	.179	.070*
Revenue	.770	.080*	.410	.413	.154
CPA	.223	.236	.609	.093*	.200
Degree in accounting	.680	.706	.727	.863	.652
English proficiency	.971	.122	.316	.712	.990
Industry					
Consumer goods vs other	.410	.142	.624	.747	.934
Finance vs other	.886	.772	.769	.909	.259
Industry vs other	.268	.891	.748	.903	.300
Service vs other	.060*	.891	.497	.623	.383
R^2	.118	.170	.090	.083	.126
Adjusted R^2	.000	.059	-.032	-.046	.005
Observation	94	94	94	90	92
F statistic	1.000	1.528	.740	.644	1.045

5.5.2 Cost/Burden

The reporting cost/burden imposed on SMEs was examined under three main headings: Costs of implementation of the IFRS for SMEs (Question 22); Reduction of reporting cost (Question 17); and Burden reduction (Question 23) as depicted earlier in Figure 5.3. Each of these discussed are below.

5.5.2.1 Question 22: Costs of implementation

In Question 22, respondents were asked to rate the importance of selected costs of implementation of the IFRS for SMEs. Descriptive statistics for the responses are presented in Table 5.54.

Table 5.54 Descriptive statistics: Costs of implementation

Code	Costs of implementation	Mean			Mean rank			Mann Whitney U
		AP	APR	Total	AP	APR	Total	
A	Training	4.05	3.21	3.76	2.28	1.85	2.14	.000***
B	Information system	3.79	3.49	3.68	2.00	2.18	2.06	.119
C	Other implementation	3.52	3.26	3.43	1.72	1.97	1.80	.174

The table shows that respondents regarded *training costs* and *information system costs* as being important but *other implementation costs* as being of moderate importance. In terms of mean ranks for the total set of respondents, the most important cost of implementation for the IFRS for SMEs was expected to be *training costs*; while the least important was *other implementation costs*. Table 5.54 also shows that account preparers reported a slightly higher mean rank only for *training costs* than did the accounting practitioners. On the other hand, accounting practitioners reported slightly higher mean ranks for *information system costs* and *other implementation costs* than did the account preparers.

Account preparers expected the most important cost of implementation could be *training costs*; while the least important could be *other implementation costs.* Accounting practitioners reported that the most important could be *information system costs*; while the least important could be *training costs*. The mean scores and mean ranks both showed the same rankings. The Mann Whitney U test indicated that the responses from the two groups were significantly different only in respect of *training costs.*

5.5.2.1.1 Test of H_{33}: There is no difference in importance among the costs for implementation for the IFRS for SMEs

To test H_{33}, the study used the Friedman test. The result was significant χ^2 (2) = 11.15, p=0.003*** and therefore H_{33} is rejected. To test for the sources of the difference in the set, the Wilcoxon signed-rank test was conducted for all pairs of listed costs of implementation. Table 5.55 indicated that *training costs* and *information system costs* were significantly different from that of *other implementation costs*.

Table 5.55 Results of Wilcoxon signed-rank test: Costs of implementation

Code	A	B
B	.291	
C	.001***	.003***

Note: γ=0.050

5.5.2.1.2 Test of H_{34}: The respondents' views on importance of the costs of implementation do not vary with economic characteristics

CCA indicated that the multivariate test was significant (Hotellings test=0.030**) and that in the univariate tests *training costs* and *other implementation costs* were significant (p=0.003*** and p=0.046**, respectively).

This result was confirmed in the separate regressions. Table 5.56 shows the results of the regressions. For the *training costs,* the significant variables were respondent group and revenue of the entity. The *other implementation costs* regression shows that the significant variables were respondent group and CPA certification. The results indicated rejection of H_{34} for the case of *training costs* and *other implementation costs*.

Table 5.56 Results of OLS: Costs of implementation

Variables	**A**	**B**	**C**
Constant	.000***	.000***	.000***
Group	.000***	.015**	.045**
Work experience	.662	.313	.118
Number of employees	.598	.880	.981
Longevity of the entity	.815	.244	.682
Revenue	.070*	.429	.175
CPA	.453	.211	.029**
Degree in accounting	.498	.438	.865
English proficiency	.267	.430	.310
Industry			
Consumer goods vs other	.414	.983	.644
Finance vs other	.237	.528	.328
Industry vs other	.906	.196	.265
Service vs other	.753	.669	.593
R^2	.291	.159	.216
Adjusted R^2	.189	.040	.105
Observation	96	98	98
F statistic	2.840***	1.337	1.952**

5.5.2.2 Question 17: Reduction of reporting cost

In Question 17, respondents were asked to rate the importance of various simplifications for reduction in reporting cost resulting from adoption of the IFRS for SMEs. Descriptive statistics for the responses are presented in Table 5.57. The table shows that the respondents regarded *one choice of accounting treatment* as being moderate but other listed reporting cost reductions as being important. In terms of mean ranks for the total set of respondents, the most important reporting cost reduction could be *simplified required presentation* and that the least important could be *one choice of accounting treatment.*

Table 5.57 Descriptive statistics: Reduction of reporting cost

Code	**Reporting cost reduction**	**Mean**			**Mean rank**			**Mann Whitney U**
		AP	**APR**	**Total**	**AP**	**APR**	**Total**	
A	Simplified required presentation	3.98	3.67	3.88	2.70	2.80	2.73	.204
B	Simplified disclosure	3.94	3.55	3.80	2.60	2.70	2.64	.117
C	Simplified principles for recognition and measurement	3.94	3.47	3.78	2.63	2.59	2.62	.080*
D	One choice of accounting treatment	3.48	2.94	3.29	2.06	1.91	2.01	.018**

Table 5.57 also shows that account preparers reported slightly higher mean ranks for *simplified principles for recognition and measurement* and *one choice of accounting treatment* than did the accounting practitioners. On the other hand, accounting practitioners reported slightly higher mean ranks for *simplified required presentation* and *simplified disclosure* than did the account preparers.

Account preparers and accounting practitioners both expected the most important reporting cost reduction could be *simplified required presentation*; while the least important would be *one choice of accounting treatment.* The rankings for accounting practitioners were the same as for the total set of respondents. The Mann Whitney U test indicated that the responses from the two groups were significantly different in respect of *simplified principles for recognition and measurement* and *one choice of accounting treatment.*

5.5.2.2.1 Test of H_{35}: There is no difference in importance among the possible simplifications from adoption of the IFRS for SMEs

To test H_{35}, the study used the Friedman test. The result was significant χ^2 (3) = 37.93, p=0.000$^+$ and therefore H_{35} is rejected. To test for the sources of the difference in the set, the Wilcoxon signed-rank test was conducted for all pairs of listed simplifications. The results are reported in Table 5.58.

Table 5.58 Results of Wilcoxon signed-rank test: Reduction of reporting cost

Code	A	B	C
B	.231		
C	.186	.951	
D	.000***	.000***	.000***

Note: γ=0.033

The importance of the anticipated reporting cost reductions, respondents assigned to the *simplified required presentation, simplified disclosure*, and *simplified principles for recognition and measurement* were significantly different from that of *one choice of accounting treatment.*

5.5.2.2.2 Test of H_{36}: The respondents' views on importance of the simplifications do not vary with economic characteristics

The results of CCA were that neither the multivariate test nor the univariate tests were significant (Hotellings test=0.748 and p>0.10, respectively). This was confirmed in the separate regressions. Table 5.59 shows the results of the regressions. The results did not indicate rejection of H_{36}.

Table 5.59 Results of OLS: Reduction of reporting cost

Variables	**A**	**B**	**C**	**D**
Constant	.000***	.000***	.000***	.000***
Group	.226	.202	.111	.079*
Work experience	.168	.174	.074*	.487
Number of employees	.532	.823	.533	.516
Longevity of the entity	.836	.882	.507	.145
Revenue	.505	.679	.899	.936
CPA	.055*	.021**	.019**	.270
Degree in accounting	.826	.591	.620	.982
English proficiency	.497	.750	.988	.363
Industry				
Consumer goods vs other	.773	.617	.683	.243
Finance vs other	.320	.255	.255	.298
Industry vs other	.462	.360	.572	.735
Service vs other	.370	.323	.289	.054*
R^2	.124	.137	.149	.160
Adjusted R^2	-.004	.010	.023	.036
Observation	95	95	94	94
F statistic	.966	1.082	1.179	1.285

5.5.2.3 Question 23: Burden reduction from the IFRS for SMEs

In Question 23, respondents were asked to rate the reduction in reporting burden on SMEs expected from adoption of the IFRS for SMEs. Descriptive statistics for the responses are presented in Table 5.60. The table shows that the total set of respondents expected adoption of the IFRS for SMEs would provide above medium burden reduction. Accounting practitioners reported a higher mean for burden reduction from the IFRS for SMEs than did the account preparers. The result of the Mann Whitney U test indicated that the responses from the two groups were significantly different.

Table 5.60 Descriptive statistics: Burden reduction

Burden reduction	Mean			Mann Whitney U
	AP	APR	Total	
Burden reduction from the IFRS for SMEs	3.68	4.11	3.83	.026**

5.5.2.3.1 Test of H_{37}: The respondents' views on importance of burden reduction do not vary with economic characteristics

Table 5.61 shows the result of the regression of expected burden reduction from the IFRS for SMEs on the economic characteristics. The R^2 was significant with respondent group, work experience, CPA certification, and membership of the industry versus other sector. Thus, the results indicated rejection of H_{37}.

Table 5.61 Results of OLS: Burden reduction

Variables	Burden reduction
Constant	.000***
Group	.026**
Work experience	.015**
Number of employees	.872
Longevity of the entity	.788
Revenue	.857
CPA	.001***
Degree in accounting	.992
English proficiency	.182
Industry	
Consumer goods vs other	.581
Finance vs other	.482
Industry vs other	.063*
Service vs other	.116
R^2	.303
Adjusted R^2	.205
Observation	98
F statistic	3.079***

5.5.3 Net benefit from the IFRS for SMEs

Expected net benefit of financial information was examined under two main headings: Net benefit for users (Question 26) and Net benefit for SMEs (Question 24) as shown in Figure 5.3.

5.5.3.1 Question 26: Net benefit for users

In Question 26, respondents were asked to rate the expected net benefit for users. Descriptive statistics are presented in Table 5.62. The table shows that the total set of respondents expected adoption of the IFRS for SMEs would provide above medium net benefit to information users. In particular, accounting practitioners expected users to receive higher level of benefits from adoption of the IFRS for SMEs than account preparers. However, the Mann Whitney U test indicated that difference between the groups on this question was statistically significant but only at the 10 per cent level.

Table 5.62 Net benefit for users

Level of benefit	Mean			Mann Whitney U
	AP	APR	Total	
Net benefit	3.87	4.11	3.96	.098*

5.5.3.1.1 Test of H_{38}: The respondents' views on importance of the net benefit for users do not vary with economic characteristics

Table 5.63 shows the result of the regression of net benefit for users from adoption of the IFRS for SMEs on the economic characteristics. The R^2 was not significant and the result therefore did not indicate rejection of H_{38}.

Table 5.63 Results of OLS: Net benefit for users

Variables	Net benefit for users
Constant	.000***
Group	.130
Work experience	.619
Number of employees	.543
Longevity of the entity	.546
Revenue	.510
CPA	.066*
Degree in accounting	.671
English proficiency	.838
Industry	
Consumer goods vs other	.948
Finance vs other	.887
Industry vs other	.541
Service vs other	.638
R^2	.113
Adjusted R^2	-.015
Observation	96
F statistic	.881

5.5.3.2 Question 24: Net benefit for SMEs

In Question 24, respondents were asked to indicate the expected net benefit for SMEs. Descriptive statistics for the responses are presented in Table 5.64.

Accounting practitioners expected SMEs to receive higher net benefits than account preparers. The table shows that the total set of respondents expected adoption of the IFRS for SMEs would provide above medium net benefit to SMEs. The result of the Mann Whitney U test indicated that the responses from the two groups were significantly different.

Table 5.64 Descriptive statistics: Net benefit for SMEs

Net benefit	**Mean**			**Mann Whitney U**
	AP	**APR**	**Total**	
Net benefit	3.48	3.89	3.62	.045**

5.5.3.2.1 Test of H_{39}: The respondents' views on importance of the net benefit for SMEs do not vary with economic characteristics

Table 5.65 shows the result of the regression of net benefit of information on the economic characteristics. The R^2 was not significant and the result did not indicate rejection of H_{39}.

Table 5.65 Results of OLS: Net benefit for SMEs

Variables	**Net benefit of information**
Constant	.000***
Group	.527
Work experience	.474
Number of employees	.276
Longevity of the entity	.282
Revenue	.681
CPA	.146
Degree in accounting	.584
English proficiency	.091*
Industry	
Consumer goods vs other	.571
Finance vs other	.119
Industry vs other	.208
Service vs other	.858
R^2	.162
Adjusted R^2	.044
Observation	98
F statistic	1.368

5.5.4 Compliance with the IFRS for SMEs

The last addressed concern with respect to adoption of the IFRS for SMEs was the expected level of compliance with the new standard. Compliance issue was examined under two sub-headings, namely: Expected level of compliance with the IFRS for SMEs (Question 21) and Factors expected to increase compliance with the IFRS for SMEs (Question 20) (see Figure 5.3 above).

5.5.4.1 Question 21: Level of compliance with the IFRS for SMEs

In Question 21, respondents were asked to indicate the expected increase in compliance from adoption of the IFRS for SMEs. Descriptive statistics for the responses are presented in Table 5.66. The table shows that the total set of respondents expected adoption of the IFRS for SMEs would provide above medium increase in compliance with reporting standards. Accounting practitioners however, had higher expectations with respect to this issue than did account preparers. The Mann Whitney U test, however, indicated that there was no statistically significant difference between the groups for this question.

Table 5.66 Level of compliance with the IFRS for SMEs

Compliance with the IFRS for SMEs	Mean			Mann Whitney U
	AP	APR	Total	
Compliance with the IFRS for SMEs	4.00	4.09	4.03	.824

5.5.4.1.1 Test of H_{40}: The respondents' views on importance of the level of compliance with the IFRS for SMEs do not vary with economic characteristics

Table 5.67 shows the result of the regression of expected compliance with IFRS for SMEs on the economic characteristics. The R^2 was significant, work experience and CPA certification were significant and thus the results indicated rejection of H_{40}.

Table 5.67 Results of OLS: Level of compliance with the IFRS for SMEs

Variables	Level of compliance
Constant	.000***
Group	.556
Work experience	.054*
Number of employees	.688
Longevity of the entity	.268
Revenue	.706
CPA	.005***
Degree in accounting	.562
English proficiency	.473
Industry	
Consumer goods vs other	.184
Finance vs other	.617
Industry vs other	.145
Service vs other	.355
R^2	.223
Adjusted R^2	.112
Observation	97
F statistic	2.009**

5.5.4.2 Question 20: Factors to increase compliance

In Question 20, respondents were asked to indicate the importance of the factors that could increase the compliance with the IFRS for SMEs. Descriptive statistics for the responses are presented in Table 5.68. The table shows that the respondents regarded all the factors as being important. Respondents were asked questions as to the factors they thought would lead to increased compliance with the IFRS for SMEs and questions as to their expectations regarding eventual levels of compliance with the IFRS for SMEs.

In terms of mean ranks for the total set of respondents, the most important compliance improvement factor was *more useful financial statements for decision-making* and that the least important factor was *more specific recognition and measurement principles*. Table 5.68 also shows that account preparers reported higher mean ranks for *more useful financial statements for decision-making* and *enhance quality of financial information for external users* than did the accounting practitioners. On the other hand, accounting practitioners reported higher mean ranks for *reduce the financial reporting burden on SMEs* and *more specific recognition and measurement principles* than did the account preparers.

Table 5.68 Factors to increase compliance

Code	Factors	Mean			Mean rank			Mann Whitney U
		AP	APR	Total	AP	APR	Total	
A	More useful financial statements for decision-making	3.86	3.62	3.77	2.83	2.52	2.72	.289
B	Enhance quality of financial information for external users	3.63	3.70	3.65	2.53	2.52	2.53	.787
C	Reduce the financial reporting burden on SMEs	3.66	3.69	3.67	2.45	2.66	2.52	.748
D	More specific recognition and measurement principles	3.51	3.51	3.51	2.19	2.31	2.23	.903

Account preparers indicated the most important compliance improvement factor was *more useful financial statements for decision-making*; while the least important was *more specific recognition and measurement principles.* Accounting practitioners indicated the most important compliance improvement factor was *reduce the financial reporting burden on SMEs*; while the least important was *more specific recognition and measurement principles.* The rankings for account preparers were the same as for the total set of respondents. The Mann Whitney U test, however, indicated that there were no statistically significant differences between the groups for this question.

5.5.4.2.1 Test of H_{41}: There is no difference in importance among the factors to increase compliance

To test H_{41}, the study used the Friedman test. The result was important $\chi^2(3)=14.24$, p=0.003*** and therefore H_{41} is rejected. To test for the sources of the difference in the set, the Wilcoxon signed-rank test was conducted for all pairs of factors to increase compliance. The results are reported in Table 5.69.

Table 5.69 Results of Wilcoxon signed-rank test: Factors to increase compliance

Code	A	B	C
B	.148		
C	.396	.767	
D	.004***	.086	.029

Note: γ=0.025

The table shows that the importance, respondents assigned to the *more useful financial statements for decision-making* was significantly different only from that of *more specific recognition and measurement principles*.

5.5.4.2.2 Test of H_{42}: The respondents' views on importance of the factors to increase compliance do not vary with economic characteristics

The results of CCA were that neither the multivariate test nor the univariate tests were significant (Hotellings test=0.556 and p>0.10, respectively). This result was confirmed in the separate regressions. Table 5.70 shows the results of the regressions. The results did not indicate rejection of H_{42}.

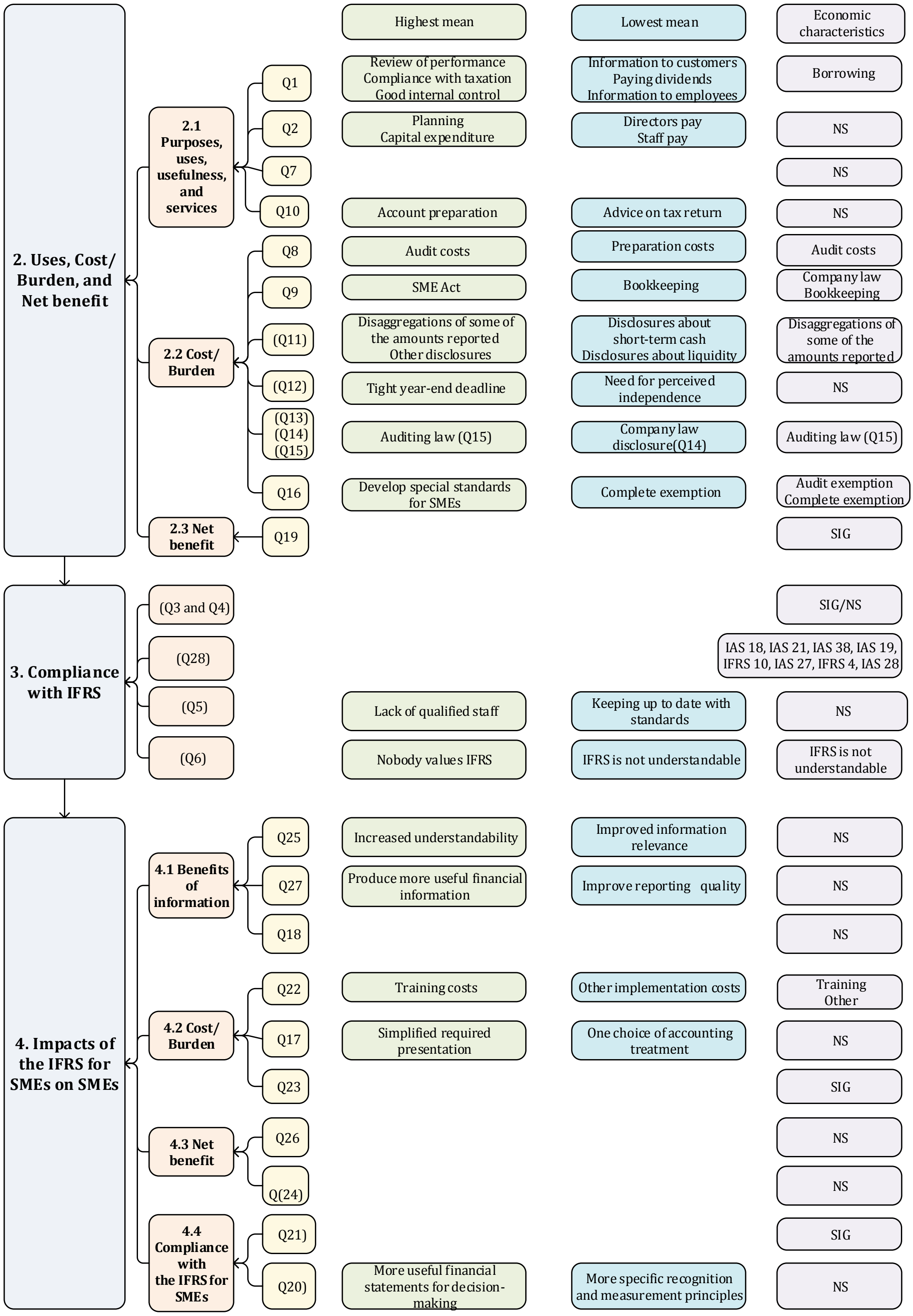
Table 5.70 Results of OLS: Factors to increase compliance

Variables	**A**	**B**	**C**	**D**
Constant	.001***	.000***	.000***	.000***
Group	.076*	.644	.823	.536
Work experience	.950	.473	.112	.534
Number of employees	.222	.077*	.080*	.166
Longevity of the entity	.959	.866	.654	.959
Revenue	.509	.257	.096*	.589
CPA	.968	.190	.044**	.447
Degree in accounting	.065*	.230	.082*	.097*
English proficiency	.100	.935	.874	.841
Industry				
Consumer goods vs other	.491	.632	.772	.724
Finance vs other	.208	.156	.965	.656
Industry vs other	.416	.882	.614	.484
Service vs other	.868	.163	.318	.092*
R^2	.115	.140	.167	.108
Adjusted R^2	-.015	.018	.050	-.021
Observation	95	97	98	96
F statistic	.884	1.143	1.422	.841

5.6 Summary

This chapter provides findings of the empirical analysis of the questionnaire in three main areas: (1) uses, cost/burden, and net benefit; (2) compliance with IFRS; and (3) impacts of the IFRS for SMEs on SMEs. The empirical analysis includes descriptive statistics, the Mann Whitney U test, the Friedman test, the Wilcoxon signed-rank test, CCA and OLS for the responses to each of the survey questions. An overall summary findings of the empirical analysis is outlined in Figure 5.4

Figure 5.4 Summary findings of the empirical analysis



Chapter 6. QUALITATIVE ANALYSIS

6.1 Introduction

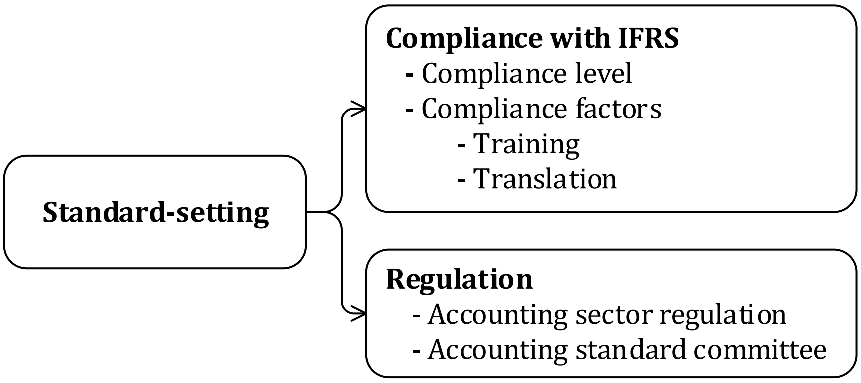
This chapter outlines the findings of the semi-structured interviews that were conducted with eight key interviewees in Mongolia during the course of the study. Interviewees were selected on the basis of their involvement in: standard-setting; implementation of accounting standards; training; and use of the information prepared by SMEs. Each interview was tailored to the interviewee concerned and designed to obtain a more detailed understanding of the reporting practices of SMEs; the factors underlying the survey data; and, where relevant, supplementary information beyond that sought by the questionnaire.

Section 6.2 outlines accounting standard-setting issues in two parts: compliance with IFRS and accounting sector regulation, while Section 6.3 presents the implementation of IFRS in two parts: current implementation of a full set of IFRS and future implementation of the IFRS for SMEs. Section 6.4 discusses the need for the IFRS for SMEs by addressing whether the country needs a simplified reporting standard for SMEs and its appropriateness to the country. Section 6.5 outlines financial information issues for business entities. Section 6.6 discusses the features of the SMEs in Mongolia based on three characteristics: size, business environment, and lending policy. Section 6.7 presents the taxation issues of the country by examining taxation regulation and knowledge. Section 6.8 presents a summary of the chapter.

6.2 Standard-setting

The findings for standard-setting were analysed in two parts: compliance with IFRS; and accounting sector regulation in Mongolia. Figure 6.1 illustrates the structure used to code standard-setting issues.

Figure 6.1 Standard-setting



6.2.1 Compliance with IFRS

Compliance with IFRS was examined in two main areas: level of compliance with IFRS and compliance factors (training and translation). Each area is discussed in the following sections.

6.2.1.1 Level of compliance with IFRS

In order to examine perceptions about the level of compliance with IFRS, the study selected four interviewees (INT 1, INT 3, INT 5, and INT 6) from three different organisations: the MOF, the MICPA, and the NTA (two interviewees).

According to three of these interviewees, business entities do not comply with IFRS because of practical needs, size of the entity, and a lack of quality of audit service. INT 3 noted that, "…even though accounting law requires entities to comply with IFRS, entities in practice do not follow the requirements of IFRS unless they are essential to their operation." This may be because the purpose of preparing financial statements is more concerned with taxation than other purposes in Mongolia. INT 1 likewise noted, "…the majority of the business entities prepare their financial statements only for tax purpose." This finding is consistent with the result of the survey questionnaire of the present study: where taxation was ranked as the second most important purpose after review of performance (see Section 5.3.1.1 of the Chapter 5).

INT 5 supported this finding and noted that:

> SMEs do not comply with a full set of IFRS: that is something only the larger entities do and then only because it is a requirement for access to foreign market. Even if we ask entities to comply with IFRS, there is no one to oversee actual compliance and to enforce the payment of fines for not doing so.

INT 6, however, responded that: "Tax inspectors usually do not check whether it complies with IFRS or not. However, I think entities comply with IFRS as required by law."

With the exception of the views of INT 6, the interview findings were consistent with the results of the nationwide accounting review assessments and findings of international experts (Narayan & Reid, 2000; Odgarig, 2011; World Bank, 2008). In order to examine the reasons for low compliance, a follow up question was asked about factors that could affect compliance with IFRS.

6.2.1.2 Factors influencing compliance

Four interviewees (INT 1, INT 4, INT 5, and INT 8) made specific comments on this issue. Overall, interviewees noted that training; translation issues; the national government database; cost and lack of skills on part-time accountants; audit; and requirements of international market affect the level of compliance. Training and translation issues factors are discussed separately.

INT 1 commented that the national database requirements affect the level of compliance. Business entities are required to submit a copy of their financial statement to the government information database of the MOF. This government database not only provides information for the government tender process but also affects compliance with IFRS: "(As a result), applicants [business entities] try to submit more accurate financial statements to this information database."

Interviewees also reported other factors resulting in the low level of compliance with IFRS, including the cost of accounting practitioners, and the lack of skills on the part of part-time accounting practitioners. INT 1 and INT 8 gave some useful comments on this issue when they addressed the question of reporting practice of SMEs. For instance, INT 1 noted that the low level of compliance reflected a perception that the cost of accounting practitioners outweighed the value of compliance with IFRS:

> SMEs need to hire expensive accounting practitioners in order to comply with IFRS but unfortunately, no one value the result. Therefore, SMEs have no interest in compliance and this will remain the case until SMEs are provided with an inexpensive reporting framework.

In addition, INT 8 commented: “It is obvious that part-time accountants do not know much about the entity when preparing the accounts. It is the biggest problem in SME reporting practice in Mongolia.”

INT 5 believed that the reason for low level of compliance with IFRS was the auditing service:

> In my opinion, the responsibility for oversight should rest with the auditing firm. Unfortunately, the services of auditing firms are only required to get stamps of assurance on entity financial statements based on money not on the quality of the service. If auditing firms were also required to audit compliance with IFRS then actual compliance with IFRS would increase significantly in Mongolia.

Orientation to the international market was also mentioned as a factor influencing compliance. This reflects a range of factors, including the desire to attract investors; the desire to expand international trade; and business in the mining sector. INT 1 noted that compliance tended to increase when entities undertook initial public offering activities on the international market because compliance with IFRS was an essential element for such activity. INT 4 supported the statement. Training and translation, as factors influencing compliance, are discussed below.

6.2.1.2.1 Training

INT 1, INT 3, INT 4, and INT 7 commented on this issue. There are two main accounting education providers in Mongolia: universities and short-term training organisations. Almost all of the interviewees mentioned the country's lack of accounting training. INT 4 explained the NUM accounting programme requirements:

> In order to get a bachelor degree in accounting, students are required to pass several compulsory courses: principles of accounting, financial accounting (level 1 and level 2), cost accounting, managerial accounting, financial statement analysis, advanced financial accounting, and auditing at NUM. In addition, there are options to attend several subjects: project analysis, property valuation, and internal control if they interested. The accounting department of NUM has been offering a course in International Standards and Ethics to undergraduates since 2006. The 40 hours of this course is split into 30 hours on international standards and 10 hours on Accounting Ethics.

However, interviewees did not think that accounting education provided by either the universities or the short-term training organisations met the needs of information users. For instance, INT 1 noted that some universities failed to provide quality training for their graduates. Lecturers were using outdated teaching materials with the result that graduates did not receive appropriate training in IFRS. This implies that even though educators (in this context university) offer courses based on IFRS, the quality of training is inadequate. However, INT 3 did note that universities had recently been revising their course curriculum based on the IFRS 2009 implementation guide.

In terms of short-term training organisations, INT 7 reported that:

> Recently training organisations have run a number of three day courses on financial reporting at a cost of 90 000 tugrug [approximately USD 57]. Attendees (mainly owners of SMEs) however, gained little from these courses; and it would have been better if training had been conducted inside their companies over a period of at least a month.

This finding suggests that compliance with IFRS would improve if educators provided practical guidance relating to compliance with the requirements of IFRS for particular circumstances of reporting entities. This is because, in practice, owners or managers of SMEs prefer to learn what they need to do to comply instead of receiving general accounting training.

INT 3 noted that the lack of funding for the MICPA has a negative impact on accounting professional capacity building in the country:

> The institute does not receive any funding from the government. Income from training, exams, and specific projects are the main financing sources. Members' contribution and donations make a small part of funding. The institute usually works on short-term, temporary projects such as standards' translation. Curriculum development, train the trainers, purchases of course books are all financed by own funding. It has a negative impact on future development.

6.2.1.2.2 Translation of IFRS

Interviewees reported that translation of international standards into Mongolian was one of the biggest challenges to improve compliance. MICPA has fully translated IFRS on three occasions: in 1996, 2003, and 2010.

In the words of INT 3:

> In 1998 and 2004, the institute published the 1994 and 2003 versions of IFRS respectively. In 2007, the MOF published the application guideline [for IFRS]. In 2009, the institute translated all 2009's standards.

However, in discussing the translation of IFRS, interviewees consistently referred to the fact that there is a shortage of translators with professional qualifications in accounting and often part-timers were used. As a result, difficulties have been encountered with both the pace and a quality of the translations.

INT 5 summed this up by saying:

> Translation of international standards is terribly late in Mongolia. In practice, accountants use the 2003 translation of IFRS. We have problems to understand and use English reference. Therefore, we (taxation authority) usually use implementation guidelines of IFRS 2010 as a main reference. It is extremely difficult to understand the translation of IFRS. I do not think that the middle level accounting practitioners can properly understand IFRS. It maybe takes some time to understand and practice it.

Yet another matter of concern has been the cost of translation services. Since the MICPA finances the translation of international reporting standards it needs to recoup the costs involved by selling the translated standards to its members and the public. Other training materials, in English, do reside on the IASB website. However, there is no money available to translate them and accounting practitioners seldom have sufficient proficiency in the English language to read the documents themselves. Thus, they are unable to obtain wider and up to date knowledge of IFRS.

Finally, difficulties had been encountered with various aspects of the translation itself. INT 1 noted that, for instance, the translation of international standards was in practice very challenging because developing countries have a completely different reporting environment:

> We do not understand some of the accounting terms because in our environment we do not practice the activities these terms describe. Our environment is in fact completely different from that of developed countries.

This issue is a common problem for developing countries and it seems the only way to overcome it is by offering a national specific interpretation of such challenging terminology.

6.2.2 Accounting sector regulation

Regulation of the accounting sector is addressed in two areas: accounting sector regulation in Mongolia and the accounting standards committee (see Figure 6.1).

6.2.2.1 Accounting sector regulation

The principal Mongolian accounting law was passed in 1993 and this law required all business entities to comply with the full set of IFRS without special provision being made for SMEs. The MOF however, responsible for regulating the Mongolian accounting sector, plans to amend the law to accommodate the new IFRS for SMEs. INT 3 made specific comments on accounting sector regulation. The main concern for both of these interviewees was further amendments to the accounting law in order to accommodate the new IFRS for SMEs. INT 3 noted that:

> The accounting law of Mongolia requires business entities to adopt only the IFRS not the IFRS for SMEs. The parliament therefore needs to amend the accounting law due to this new standard. The MOF also agrees to this issue.

6.2.2.2 Accounting standards committee

The 2010 amendment to the Mongolian accounting law 1993 provided for the establishment of an accounting standards committee with a mandate to deal with issues relating to standard-setting. INT 1 noted with respect to this committee that:

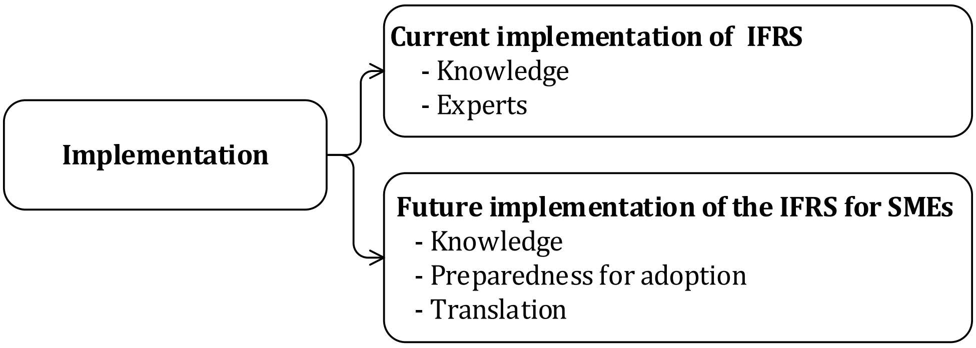
> …the main goal is to promote implementation of International standards in Mongolia. The committee has 11 members from government organisations such as the MOF, the Ministry of Education, non-governmental organisations, universities, and scholars.

It was still too early, according to this interviewee, to evaluate the work of this committee but hopes were held that it would play its part in improving compliance with IFRS in Mongolia.

6.3 Implementation of IFRS

In this section, implementation of IFRS is addressed in two areas: the first deals with the current situation; and the second with future implementation. This approach is depicted below in Figure 6.2.

Figure 6.2 Implementation of IFRS



6.3.1 Current implementation of IFRS

The discussion regarding current implementation of IFRS likewise proceeds in two parts: the first is concerned with current knowledge of IFRS; and the second, with the number of experts currently available in Mongolia.

6.3.1.1 Knowledge about IFRS

Five out of the seven interviewees thought accountants and owners of SMEs had insufficient knowledge of IFRS to produce their own financial statements. Full-time accountants were expensive so business entities “made do” by employing part-time accountants. In this regard, INT 6 noted that:

> They [SMEs] do not have accountants. Owners usually ask someone to prepare their financial statements to submit their taxation statement. Owners themselves do not have sufficient knowledge of either reporting or taxation.

Similarly, INT 8 mentioned that:

> Small entities do not have full-time accountants. Public media such as television and radio often announce that there are services to prepare financial statements for business entities. One reason for this could be that having full-time accountants is costly for small entities. For instance, if they have a full-time accountant, they must pay at least 300 000 tugrug[40] per month (3 600 000 tugrug per year); if they have a part-time accountant, they just pay 500 000 tugrug per year for their service. It is an enormous difference for small entities.

Two of the interviewees, however, thought accounting practitioners were extremely knowledgeable and capable of producing different reports for different purposes as required. INT 3 stated that "In practice, practitioners report on their accounts properly even when they look as though they do not know very much." INT 8 likewise stated that "I think they [accountants] know more than we [lenders] know and they are capable of producing different reports for different purposes." Despite the views of INT 3 and INT 8, the overall view was that Mongolia was in need of quality training regarding IFRS. In this regard simple handouts and guidelines as to how to practice IFRS in Mongolia would be useful.

6.3.1.2 Experts

One thing to emerge clearly from the interviews was that Mongolia had insufficient accounting professionals. Three interviewees (INT 1, INT 3, and INT 8) made specific comments on accounting experts issues. INT 3 noted there were just on 20 000 account preparers and accounting practitioners for more than 40 000 active business entities and some accountants work for several entities. INT 8 highlighted that accountants were expensive so business entities made do by employing part-time accountants.

The shortage also extended to regulation of financial reporting. In this regard, INT 1 noted: "It is not sufficient at all. For example, at national level there is just one person dealing with IFRS issues. We have a lot of work pressure." Overall, these

[40] It approximately equals 189 USD per month (2 268 USD per year).

findings suggest that the shortage of accounting practitioners in both the private and public service significantly impeded the implementation of IFRS in Mongolia.

6.3.2 Future implementation of the IFRS for SMEs

Future implementation of the IFRS for SMEs is discussed below under three areas: knowledge about the standard, preparedness for adoption, and translation of the standard.

6.3.2.1 Knowledge about the IFRS for SMEs

All interviewees commented on this issue. Five (INT 2, INT 5, INT 6, INT 7, and INT 8) of the eight interviewees did not know much about the new IFRS for SMEs. Steps, however, had been taken to rectify the situation. The first "Train the trainers' seminar for the new IFRS for SMEs had been held in Kuala Lumpur, Malaysia 20-22 January 2010. INT 3 and INT 4 attended that workshop together with six other delegates from the MICPA, a private company and a consulting firm. INT 3 highlighted that after the workshop the MICPA organised a brief seminar on the subject but this was restricted to committee members of the MICPA. INT 4 commented that a three-day training course provides a good background to the standard but further study would be required for full understanding.

INT 1 reported that non-governmental organisations had organised several training courses for members of the public. The cost, content and curriculum of these courses had yet to be reviewed by the MOF. All the interviewees advised that public seminars for standard-setters and training institutions had still to be organised. A year after the interview, the World Bank together with the MOF organised a "Train the trainers' workshop for the new IFRS for SMEs in Ulaanbaatar, Mongolia (24-27 July 2012). It was the first official workshop for "trainers" on the IFRS for SMEs in Mongolia.

6.3.2.2 Preparedness for adoption

Due to their day-to-day work involvements in implementation of standards, INT 1 and INT 3 were asked whether Mongolia was ready to adopt the IFRS for SMEs. INT 1 noted that no timeframe had been specified for adoption. INT 3 thought that implementation would take at least a year. Interviewees in general identified: training for trainers; amendments to accounting law and SME Act; and public training courses on the new IFRS for SMEs as essential prerequisites for implementation. For this reason, interviewees who were also standard-setters intended to focus on training before proposing adoption of the IFRS for SMEs.

6.3.2.3 Translation of the IFRS for SMEs

INT 1 and INT 3 commented on translation of the IFRS for SMEs. INT 1 noted that the MOF funded the MICPA for the cost of translation for the IFRS for SMEs. INT 3 observed that:

> The ED of IFRS for SMEs was first translated by MICPA [the official holder of Mongolian translation rights] in 2007. The final IFRS for SMEs has not been significantly amended from its ED. The institute translated the 2010 edition [final version] after review. This standard [IFRS for SMEs] was translated three times including the 2011 translation.

In 2010, the MICPA also translated and published a brief summary of the "IFRS for SMEs: Basis for Conclusions" which accompanied but was not part of the IFRS itself. Finally, in 2011 the MICPA translated and published the current full version of the IFRS for SMEs.

The quality of the translation is serious concern for successful implementation of the IFRS for SMEs. INT 3 noted that:

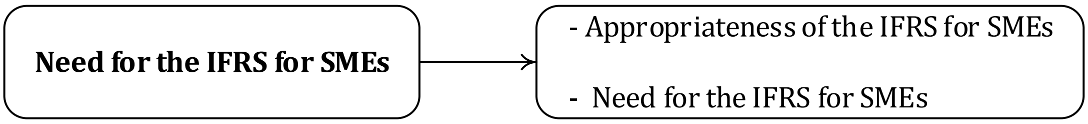
> The institute [MICPA] makes translations by internal and external translators, and then submits these to a professional accounting translator and to the deputy of the accounting department of the MOF. Editing is more complex than translating. To make consistent translations from different interpretations of various translators is the difficult task. The editor of the institute also works as the head of a foreign relations department. Therefore, it is extremely difficult to manage the editor's work pressure.

In summary, if translation is to be helpful it must be of high quality.

6.4 Need for the IFRS for SMEs

The need for the IFRS for SMEs is again analysed in two parts, according to: first, the appropriateness of the standards; and second, SMEs' need for a new reporting standard. Figure 6.3 below depicts the relationship between these two parts.

Figure 6.3 Need for the IFRS for SMEs



6.4.1 Appropriateness of the IFRS for SME

INT 1, INT 3, and INT 4 were asked to indicate whether they thought the new standards were appropriate to Mongolia[41]. INT 3 thought the IFRS for SMEs significantly reduced the reporting burden for SMEs and for this reason, the standard is appropriate. INT 4 supported this with the statement that: "The new standard is highly simplified and designed to meet the needs and capabilities of SMEs."

INT 1, however, thought that differences in reporting principles, valuation of non-current assets for example, might in practice lead to material differences. The interviewee also considered the IFRS for SMEs was not as straightforward as some people thought it might be because of the way it had been derived from full IFRS concepts. These matters, as in so many other aspects of the overall problem, can only be resolved by further research.

6.4.2 Need for the IFRS for SMEs

All interviewees were of the opinion that Mongolia needs a set of simplified reporting standards for SMEs. INT 8, for instance, noted that: "Full IFRS is burdensome for SMEs. In particular, it is burdensome to newly established small entities. I agree that the current [full set of IFRS] reporting standard is burdensome." INT 2 added to this with the statement that: "In my opinion, SMEs

[41] The three respondents concerned were the only ones to have attended the Kuala Lumpur training seminar on IFRS for SMEs.

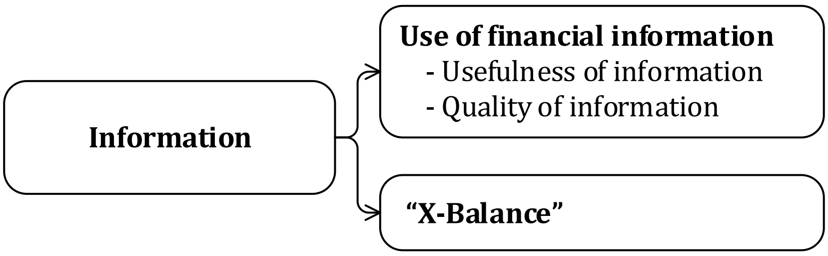
and micro entities do not need burdensome reporting standards. The standards employed should be entirely straightforward."

INT 3 observed that: "I think Mongolia is ready to adopt this standard. One problem we have here is that we require everything to be regulated by law." INT 4, INT 5, INT 6, and INT 7 agreed that the country needs a simplified reporting standard for SMEs rather than all entities complying with full IFRS. INT 1, however, highlighted that it is still necessary to consider whether the IFRS for SMEs can capture the reporting needs of emerging economies such as Mongolia.

6.5 Information

The main objective of preparing financial statements for any business entity is to provide information that is useful for economic decision-making by a broad range of users. It is, therefore, important to examine whether SMEs from Mongolia can achieve this objective. In order to answer this question, this section addresses two issues: the use of financial information and "X-Balance" issues as illustrated in Figure 6.4.

Figure 6.4 Information



6.5.1 Use of financial information

This section addresses the issues of quality of financial information under two parts: the usefulness of financial information and the quality of this information to business entities from Mongolia including SMEs. The results for each of these issues are reported in the following sections.

6.5.1.1 Usefulness of financial information

The study used the term "usefulness" to refer to a broad range of qualitative characteristics of information in financial statements, in particular relevance and reporting faithfulness. The justification for focusing on the term usefulness was that it was the most commonly used term to refer to the characteristics of financial information in Mongolia. The present author also decided to use this term for the semi-structured interview questions because respondents were comfortable using this term when discussing financial information. Six interviewees (INT 1, INT 4, INT 5, INT 6, INT 7, and INT 8) specifically mentioned that financial statements prepared by SMEs have limited usefulness for the decision-making of users of the financial statements.

INT 1 noted, for example, the lack of qualified staff (accounting experts) as the reason for poor financial information for decision-making. INT 4 highlighted that: "Business entities try to minimise their tax payments. Therefore, they usually produce unreliable financial statements. It is clear that unreliable and inaccurate financial statements are not useful for any other information users." INT 5 noted that though financial information is very important for their decision-making, the reliability of the information is still questionable. These responses suggest that account preparers and accounting practitioners produce financial statements only to comply with regulations rather than to provide information that is useful for economic decision-making by a broad range of users. In substance, nobody is responsible for the quality of reporting information including auditors in Mongolia.

6.5.1.2 Quality of financial information

Discussions on the quality of financial information need to address two questions: who produces the financial statements and what was the purpose. Five interviewees (INT 1, INT 3, INT 6, INT 7, and INT 8) made comments on the issue of quality. Interviewees (INT 8 and INT 6) reported follows: "The quality of financial statements is poor if the entity has a part-time contract based accountant" and "…the quality of financial statements of small entities is a difficult issue for the taxation authority." INT 3 supported the statement. INT 7 highlighted that: "Affordable and simple accounting software is significant factor in achieving improvement in information quality in Mongolia."

INT 7 stated that:

> In practice, some entities do not report a 100 million tugrug [USD 63 000] loan in their financial statements. Because of underreporting, entities submit unreliable financial statements to the taxation authority. Some entities underreport the interest cost of their loan. Overall, everything becomes wrong.

INT 7 also added, "Some entities pay personal consumption of their owners from the business account and do not report it in their financial statements." These responses suggested that underreporting is a common practice in the majority of SMEs in Mongolia.

Interviewees expressed the view that financial statements are often produced only for "formality" purposes in Mongolia because nobody uses that information for decision-making. For instance, INT 8 reported that they usually require a "black note[42]" from entities instead of the financial statements. Lenders believe that a black note from owners of entities provides a more reliable picture of the financial position of the entity.

On the other hand, INT 1 noted that all business entities are required to submit one copy of their financial statements to the information database of the government that this requirement had a significant and a positive impact on reducing the preparation of different financial statements for different purposes by business entities.

[42] The term "Black note" refers to the financial information that is used and prepared for personal use of owners or owner-managers of business entities.

INT 1 noted that:

> Government agencies gather information from the Ministry's information database regarding a tender applicant's financial position. They believe that this information source provides more reliable information than other sources. As a result, applicants (business entities) try to submit more reliable and accurate financial statements to this database. I think, step by step, this attitude has a positive impact on reducing the preparation of different types of financial statements for different purposes in the country.

The government of Mongolia has been encouraging SMEs to compete for the government tender opportunities. However, this policy incentive only applies to entities that intend to compete for government tenders.

In order to improve financial information quality, respondents mentioned a range of factors, including professional ethics of taxation officers and accounting practitioners, straightforward and simple financial reporting software for SMEs, and knowledge about taxation law and appreciation of the value of preparing IFRS compliant financial statements are necessary in Mongolia.

6.5.2 X-Balance

X-Balance is a term that refers to financial statements of the taxpayers (business entities) who submit financial statements with income at "zero" or "loss" in the current financial year to the taxation authorities. Account preparers, accounting practitioners, and information users call this financial statement an X-Balance in Mongolia. Anecdotal evidence suggests that the X-Balance is a way of reporting inaccurate information to evade taxation. In particular, small entities often submit an X-Balance for several financial periods. It is, however, questionable whether these entities really had a loss during these periods or that they simply reported no profit just to avoid their tax liabilities. If taxpayers have not complied with taxation regulations then it is important for any government and revenue collecting authority to examine the reasons for this behaviour. Unfortunately, so far, the government of the Mongolia and taxation authority have not provided any official evidence on this problem except to say that "it is obvious". In terms of business principles, it is questionable how entities could maintain their businesses if they do not earn a profit for several financial years.

The X-balance issue was discussed by two interviewees (INT 6 and INT 8) during the interviews. INT 6 highlighted there has been no regulation that regulated for X-Balance issue except an order[43] from the MOF. According to the INT 6, the order from the MOF requires the entities to cease their activities if they submit an X-Balance to the taxation authority for more than a financial year. In practice, however, there has been no literature that shows an X-Balance has been the reason for certain entities ceasing the activity of their business entity in Mongolia.

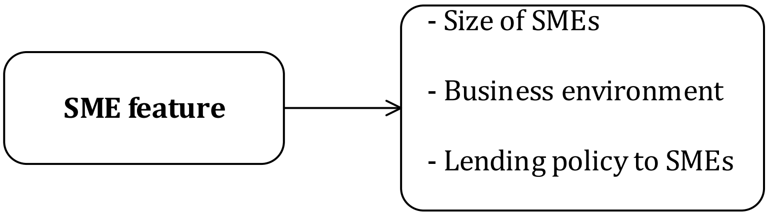
Another aspect of this issue is to consider how an X-Balance impacts on the economic decision-making of a broad range of users. Overall, responses of the interviewees showed that the submission of the X-Balance to the taxation authority does not have any significant impact on the decision-making of other information users. This finding is very important for both standard-setters and information users because this supports the notion that SMEs produce several different financial reports for different purposes in Mongolia. INT 8, for instance, noted that the approval of a loan application is based on observation of the actual activity of the entity by visiting the business site. It means that lenders believe what they see in the actual business site not in the paper report submitted to them. Therefore, approval of the loan application by the lender is not dependent on whether the entity submits an X-Balance or not to the taxation authority.

6.6 SME feature

SMEs are the economic backbone of many countries but they have specific features that differ across countries. Without examining these features of SMEs specific to Mongolia, the successful adoption and implementation of the IFRS for SMEs is doubtful. This study, therefore, examined three main features of SMEs from Mongolia. These are size, environment, and lending policy to SMEs as depicted in Figure 6.5.

[43] Author's note: an INT 6 did not give broad information about this "order" because an INT 6 only heard about the order and no official regulation was introduced to the taxation authority yet.

Figure 6.5 SME feature



6.6.1 Size of SMEs

The Parliament of Mongolia passed the first SME Act in 2007 and it defined the quantitative size criteria for SMEs. All interviewees were asked about the size definition of SME and seven out of eight interviewees expressed disagreement with the definition (exception was an INT 6). These interviewees noted that the country needs to reconsider the definition because it is impractical in Mongolia. INT 1 stated that the SME Act (2007) of Mongolia was based on the Japanese SME regulations and highlighted that:

> According to the SME Act (2007), the quantitative definition of SMEs is remarkably wide ranged. However, entities with 199 employees are large entities in Mongolia. That SME Act was based on a big country that has more than 50 million in population. Personally, I do not think that the SME definition of the SME Act works in our country's conditions.

Interviewees (INT 2, INT 5, INT 7, and INT 8) stated that the SME definition in the existing SME Act is not suitable for the business environment of Mongolia. For example, INT 4 commented as follows: "Regulatory bodies of our country need to define who SMEs are. In my opinion, the majority of business entities could be classified as SMEs."

Thus, adoption of the IFRS for SMEs would require change of the SME Act but would also be subject to the further legal problem that the current law requires all entities to comply with IFRS. INT 3 commented: "Mongolia has not defined the proper size category of SMEs and we do not have a legal right to adopt the new IFRS for SMEs."

6.6.2 Business environment

In order to address financial reporting by SMEs it is necessary to examine the business environment of SMEs in Mongolia. The author focused on this area in the interview with INT 2 and the findings are as follows. According to INT 2, the business environment of the country has improved when compared with the situation of a few years ago. INT 2 gave an example:

> One of my relatives, who runs a small workshop for sewing, got a 3 million tugrug [approximately USD 1887] loan without any collateral within 7 days. It shows that the business environment has changed for the better from the conditions that applied a few years ago in Mongolia.

This response indicated that the lending environment for small entities has improved and the burden associated with lending process has reduced. The response also could be explained by the fact that lenders have become more flexible in the lending requirements imposed on applicants due to the stronger competition with an increasing number of lending organisations including commercial banks and non-bank financial institutions.

The business environment of Mongolia, nevertheless, is significantly different from developed countries.

INT 2 also noted that the high frequency of cash based transactions contributes to production of unreliable financial statements in Mongolia by saying:

> The business environment is itself not working properly. For instance, it is difficult to get an accurate payment receipt if I buy something from the black market [Narantuul[44] market]. SMEs also do have many costs that they could not show evidence. Good examples are taxi costs, purchase of petrol for business cars, and phone calls. It is difficult to get receipts for all these costs. Therefore, business entities produce unreliable financial statements.

[44] "Narantuul" market is an enclosed and open-air marketplace located in Bayanzurkh district of Ulaanbaatar, Mongolia. This market is often called as "Black market".

The unregulated business environment of the black market is also a significant factor in development of SMEs. According to INT 2:

> However, it might be a different story in the black market. For instance, if someone imports products and sells it to the black market, some of them would make a good profit in an unregulated environment [shadow economy]. However, if that person registered his business as an entity, then many troubles come out. Therefore, businesses operating in the unregulated environment do not want to be a legal entity.

These comments indicate that in order to ensure production of reliable financial information, decision-makers need to further concentrate on regulation of the business environment in Mongolia. Government encouragement of business entities using non-cash transactions by funds transfers through an electronic payment system could be part of the solution.

6.6.3 Lending policy to SMEs

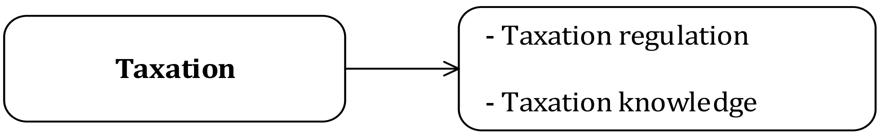
INT 7 and INT 8 both noted that the lending policy that applied to SMEs was the same as to other entities except that because of government support initiatives some lenders offer discounted interest rates to certain SMEs. In Mongolia, entities are required to submit a large number of documents with their loan applications. INT 7 noted that the required documents include a briefing about the business, a legal registration certificate for the entity, the company's internal rules, a licence to operate, financial statements, a taxation certificate, a customhouse certificate, inventory accounts, loan history, personal accounts for owners of the entity, and a business plan with financial projections. In addition, the applicant is likely to be required to offer collateral for the loan. INT 8 explained the reason for this as follows: "In my opinion, business entities need financial discipline. The financial discipline is extremely poor; therefore, we require a lot of information for a loan application."

Inaccuracies in the information provided by the loan applicant further necessitate lenders having to examine the applicant's personal black note. INT 8 reported that verification of the application information was time consuming: "It is easy if entities submit reliable financial statements. In order to know more about clients, we ask one question in different ways. It means our decision is based on the accuracy of the information that was provided by the applicant." Comments suggest that lenders are not "satisfied" with the quality of the financial information that applicants provide in Mongolia.

6.7 Taxation

Taxation was addressed in two sections: taxation regulation and taxation knowledge as depicted in Figure 6.6. Each of them is reported in the following section.

Figure 6.6 Taxation issue



6.7.1 Taxation regulation

INT 5 commented that compliance with taxation regulations by SMEs is generally satisfactory. It seems, however, only concerns the basic knowledge about taxation reporting. Tax evasion, however, is quite common in Mongolia. Therefore, taxation officers usually request additional information to verify the reports received. According to INT 5, there any many inconsistencies between IFRS and the taxation law of Mongolia. The taxation authority has therefore proposed to parliament some changes to the taxation law in order to address these inconsistencies. As a result, on May 2010, the MOF issued a new order to regulate permanent and temporary differences between income for taxation and financial reporting purposes.

INT 5 specified that:

> Taxation law of Mongolia has some limitations on reporting in terms of inconsistency with IFRS. For instance, entities can choose any depreciation methods by IFRS. However, entities are required to use only the straight-line method when they calculate depreciation for taxation purposes. In order to provide taxation report, entities are required to use only straight-line method even they used different depreciation methods for their financial statements. If an entity does not comply with taxation regulations, it required to pay a penalty. Non-deductable expenses such as charity expenses should be reported as expenses in taxation report. Profit of financial statements and taxation report is different. This regulation aims to handle these issues.

The new order provides a practical solution to the problem by recognising the differences between accounting income and taxable income in Mongolia. The country also needs more training to the public about taxation and financial reporting differences. In practice, business entities comply more with taxation law than with any other regulation. INT 5 explained the reason for this as follows: "If the entity does not comply with taxation law, then it has to pay billions of tugrug as its penalty for non-compliance." Every year the taxation authority selects certain entities for tax inspection, based on market benchmark criteria. However, lack of number of tax inspectors can delay the programme.

6.7.2 Taxation knowledge

INT 5 mentioned that some entities pay huge amounts of money as penalties arising from lack of knowledge of taxation regulations. However, taxpayers have steadily become more familiar with the taxation regulations. INT 5 noted that: "Taxpayers have become knowledgeable about taxation issues than what they knew few years ago. Anecdotal evidence shows that some accounting practitioners have more knowledge than taxation officers'."

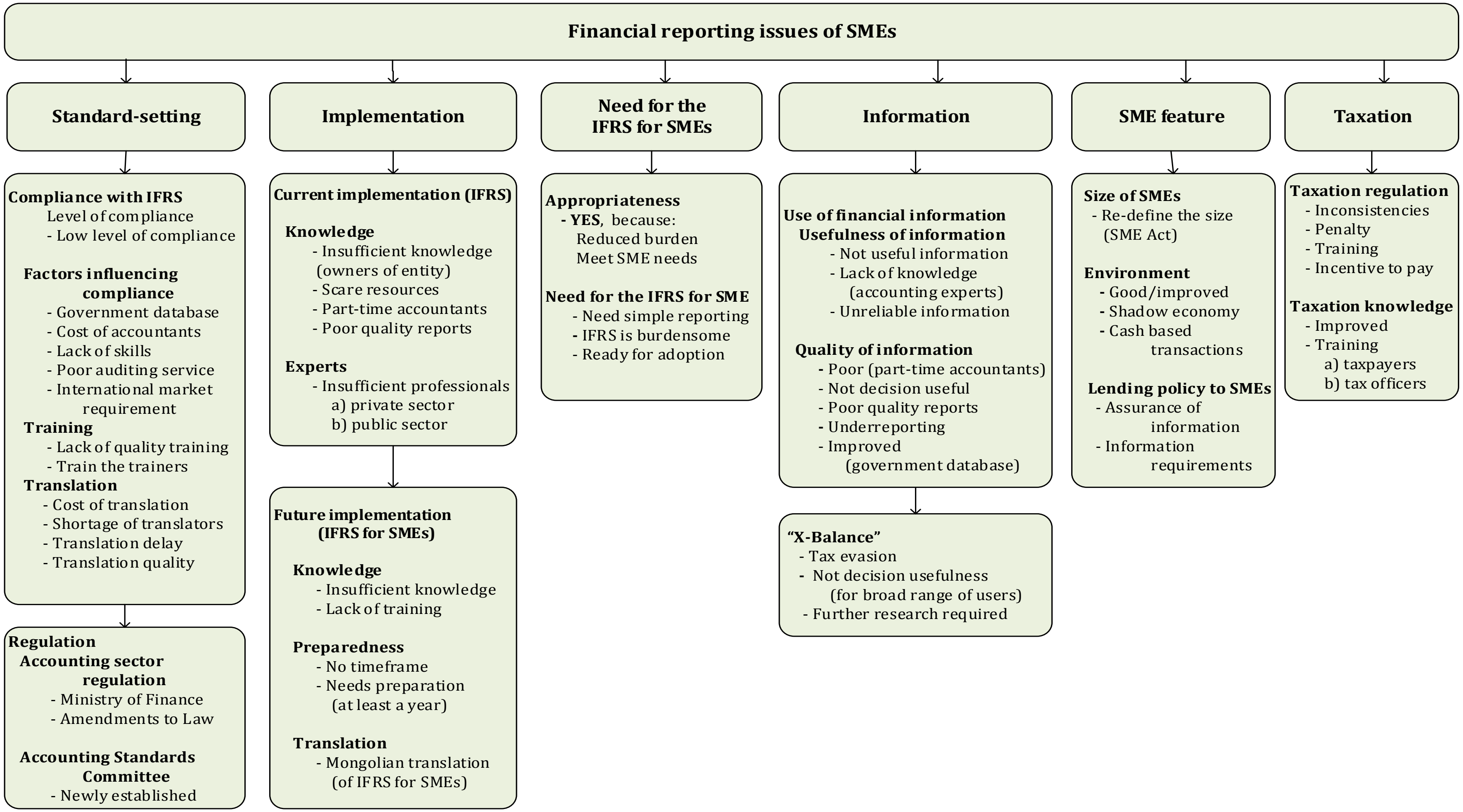
On the other hand, INT 8 commented that in order to impose the correct amount of tax on entities, taxation officers need to have practical knowledge of business and market pricing. Given the correct amount of the lack of this knowledge, taxation officers often approve whatever an entity submits to the taxation authority. It clearly shows that taxation knowledge needs to be improved not only by business entities but also by taxation officers in Mongolia.

6.8 Summary

An overall summary of the interview findings is provided in Figure 6.7. Interviewees stated that the level of compliance by SMEs with IFRS is low in Mongolia. The country specific factors influencing the level of compliance were reported as the government database requirement, cost of accountants, lack of skills of accountants, poor audit quality, and the international market requirements. In particular, interviewees cited training and translation of the IFRS as the main factors responsible for the low level of compliance with IFRS. However, it is expected that the newly established Accounting Standards Committee will contribute to improved compliance.

Overall, the findings from the interviews showed that current implementation of the full IFRS was inadequate. Financial information prepared by SMEs is not being as useful to decision-makers. Lack of knowledge of international financial reporting standards and lack of accounting experts were reported as factors contributing for this problem. Interviewees, however, expect that the simplified reporting framework for SMEs could reduce the reporting burden currently imposed on SMEs. The main prerequisites for successful implementation of the IFRS for SMEs are adequate knowledge of the new standard and availability of a high quality translation of the standard. Thus, the country needs intensive training on the new IFRS for SMEs. Decision-makers need to reconsider the issue of the size criterion for SMEs and urgently amend the relevant laws.

Figure 6.7 Summary of the semi-structured interview findings



Chapter 7. DISCUSSION AND CONCLUSION

This chapter integrates the findings from the quantitative survey questionnaire and the qualitative interviews, in the context of the empirical literature. Section 7.1 presents the discussion on uses, cost/burden, and net benefit (Part 2 of the questionnaire). Section 7.2 provides the discussion on compliance with IFRS (Part 3 of the questionnaire). Section 7.3 reports discussion on the impacts of the IFRS for SMEs on SMEs (Part 4 of the questionnaire). Section 7.4 reports the results of the tests on the impact of the economic characteristics. Section 7.5 proposes policy recommendations; while Section 7.6 presents the contributions made by the study to the literature. Limitations and suggestions for further research are presented in Sections 7.7 and 7.8 respectively.

7.1 Uses, cost/burden, and net benefit

Uses, cost/burden, and net benefit was discussed under three main headings: Purposes, uses, usefulness and services (Questions 1, 2, 7, and 10); Cost/burden (Questions 8, 9, and 11-16); and Net benefit (Question 19); as illustrated in Figure 4.1 (see Chapter 4).

7.1.1 Purposes, uses, usefulness, and services

Purposes, uses, usefulness, and services was addressed in Purposes of preparing financial statements (Question 1), Importance of external financial statements for internal decision-making (Question 2), Information usefulness (Question 7), and Importance of service (Question 10). Each of these subjects is discussed in turn.

7.1.1.1 Question 1: Purposes of preparing financial statements

The listed purposes were all rated as being important or at least moderately important. The most important were *review of performance, compliance with taxation,* and *compliance with regulations*; while *information to customers*, *information to employees,* and *paying dividends* were the three least important (see Chapter 5, Table 5.9). The test of Hypothesis 1 of no difference among the listed purposes showed that the differences were statistically significant (see Chapter 5, Table 5.10).

The findings are broadly consistent with the extant literature. Collis and Jarvis (2000), Sian and Roberts (2009) and Cui, Evans and Wright (2007) all found that *review of performance* was the main purpose of preparing financial statements for SMEs. The importance of the *compliance with taxation* purpose was also supported by various other studies from Vietnam, Australia, Russia, and South Africa (Dang et al., 2006; Maingot & Zeghal, 2006; McGee & Preobragenskaya, 2006; Van Wyk & Rossouw, 2009). According to these studies, *taxation* is the main, sometimes the only, reason to prepare financial statements. The emphasis on compliance with regulations is consistent with recognition of the various uses of information by government, particularly in developing countries (Albu et al., 2011; Chand et al., 2006; Dang et al., 2006; McGee & Preobragenskaya, 2006).

In the present study on Mongolia, *borrowing* was the fourth least important purposes of preparing financial statements (see Chapter 5, Table 5.9). This finding is in contrast with the studies that have found that *borrowing* is a high ranking purpose for preparing financial statements for SMEs (Atik (2010) (Turkey); Carsberg et al. (1985) (the UK); Joshi and Ramadhan (2002) (Bahrain); MAZARS (2008) (six European countries); Rennie and Senkow (2009) (Canada) and Sian and Roberts (2006) (cross country)). This finding could be due to lenders in Mongolia requiring personal financial guarantees from the owners of entities in addition to financial statements. INT 8 noted that lenders require a "black note" from entities instead of the financial statements.

The lower importance assigned to *information to employees* could reflect the fact that the employees of many of the small entities in Mongolia would not have the required skills to understand financial statements. The same would apply for the *customers* of small entities or that the scale of their purchases does not justify interest in financial reports on the entities.

The findings from the qualitative interviews contradict the survey results. Interviewees expressed the view that financial statements have limited importance for users and are often prepared for "formality" purposes in Mongolia (see Chapter 6, Section 6.5.1). INT 1, the representative of the Accounting

Department of the MOF, stated that the majority of the entities prepare financial statements for taxation purposes. INT 5 and INT 6 were of the view that compliance by SMEs with taxation was generally satisfactory. Therefore, the reports are at least important for the purpose of taxation in Mongolia.

7.1.1.2 Question 2: Importance of external financial statements for internal decision-making

The findings show that use of external financial statements for *planning* is important but all other uses as being of moderate importance; *planning* was highest ranked, and *staff pay* was lowest ranked (see Chapter 5, Table 5.12). The test of Hypothesis 3 of no differences showed that the differences in importance were statistically significant (see Chapter 5, Table 5.13).

In contrast to these results, Collis and Jarvis (2000) and Sian and Roberts (2009) found that *planning* was one of the less important uses of financial statements in small entities from the UK. *Pricing,* seen as moderately important in this study, was found by Carsberg, et al. (1985) and Atik (2010) to be the least important use of financial statements in internal decision-making of SMEs in the UK and Turkey respectively. *Directors pay* and *staff pay*, seen as least important in the present study, were found by Barker and Noonan (1996) (Ireland); Carsberg, et al. (1985) (the UK) and Collis and Jarvis (2000) (the UK) to be important uses of financial statements by owners of SMEs.

The reason for the low ranking of *director's pay* and *staff pay* (and *dividends* (in Question 1)) could be that, as mentioned by INT 1, SMEs prepare different forms of financial information for their decision-making.

INT 1 noted that:

> Government agencies gather information from the Ministry's information database regarding a tender applicant's financial position. They believe that this information source provides more reliable information than other sources. As a result, applicants (business entities) try to submit more reliable and accurate financial statements to this database. I think, step by step, this attitude has a positive impact on reducing the preparation of different types of financial statements for different purposes in the country.

7.1.1.3 Question 7: Information usefulness

Financial information prepared by SMEs under the existing reporting standards was rated as being of medium usefulness by all survey respondents (see Chapter 5, Table 5.15). As noted in the discussion above on Question 1, the findings from the interviews of the present study indicate a much lower rating for the usefulness of financial reports. Similar problems have been encountered in other post-socialist countries. McGee and Preobragenskaya (2006, p. 31), for example, concluded "…accountants are aware of their audience and prepare financial statements based on what their audience wants and expects" in Russia. This suggests that one of the key requirements for improvement in information usefulness could be that information users should require entities to prepare "useful" and "reliable" information to their decision-making.

7.1.1.4 Question 10: Importance of the service provided to SMEs by accounting practitioners

The study found that accounting practitioners, on average, regarded all of the services provided as being of moderate importance (see Chapter 5, Table 5.17). The test of Hypothesis 6 showed that the differences in importance among the services were not statistically significant. This finding is broadly consistent with the result of the studies conducted by Collis and Jarvis (2000) and Sian and Roberts (2009) in the UK who found small owner-managed entities used external accountants for *account preparation, advice on tax return,* and *use of the accounting system.*

Interviewees provided some insights into why this situation exists, including shortage of accounting experts in the country; and full-time account preparers were expensive for SMEs so entities "made do" by employing part-time accountants.

7.1.2 Cost/Burden

Cost/Burden was addressed in Preparation cost (Question 8); Burden components (Question 9); Statutory requirement burden (Questions 11-15); and Burden reduction (Question 16) (see Chapter 4, Figure 4.1). Each of these subjects is discussed in turn.

7.1.2.1 Question 8: Preparation cost

The listed preparation costs were all rated as being important or at least moderately important. The most important were *audit costs*; while *preparation costs* were the least important (see Chapter 5, Table 5.19). The test of Hypothesis 8 of no difference in importance among the listed costs showed that the differences in importance were significant (see Chapter 5, Table 5.20).

The findings are consistent with the prior studies. With regard to *audit costs*, the findings support the view that assurance of financial statements is costly for SMEs (Barker & Noonan, 1996; Deloitte, 2009a; Rennie & Senkow, 2009; Sian & Roberts, 2006). The importance of *information system costs* was supported by Dang (2011) who found that *information system costs* are considered to be one of the significant costs of preparing financial statements in Vietnam. Sian and Roberts (2008) also found that, on account of cost, the use of accounting software was quite low in the UK. The emphasis on *opportunity costs* is also consistent with Collis and Jarvis (2000) who concluded that the *opportunity costs* of time spent on compliance and preparation of financial statements were significant in small entities in the UK.

In the present study, *preparation costs* were the least important cost in Mongolia (see Chapter 5, Table 5.19). This finding is in contrast with, for example, Barker and Noonan (1996) who found that account *preparation costs* were the major element of the total service fee paid to accounting firm. One possible explanation for this difference is that most SMEs in Mongolia hire part-time accountants to prepare their financial statements. In the interviews, INT 1 stated that "They [SMEs] do not have accountants" and INT 8 commented that SMEs keep financial statement *preparation costs* to a minimum by hiring external accounting practitioners on a part-time basis rather than employing in-house account preparers.

7.1.2.2 Question 9: Burden components

The burden components listed in the question all rated as being of medium level of burdensomeness. The most burdensome component was *SME Act* requirements (which specify the size of entities) and the least burdensome was *bookkeeping* (see Chapter 5, Table 5.22). The test of Hypothesis 10 showed that the differences in burdensomeness among the components were not statistically significant.

The medium ranking of the listed burdens contrasts with the literature and the results of the interviews. Barker and Noonan (1996) reported that the requirement on small companies in Ireland to comply with accounting standards and company law was regarded as too great a burden. In Mongolia the World Bank (2008) reports that the lack of regard in the accounting law for size of entities has resulted in lack of compliance with IFRS.

The size definition of SMEs in the *SME Act* emerged as one of the strongest themes during the interviews. Seven out of eight interviewees expressed disagreement with the existing size definition of SMEs in Mongolia (see Chapter 6, Section 6.6.1). INT 1, for example, stated that the *SME Act* of Mongolia was based on the Japanese SME regulations and highlighted that the quantitative definition of SMEs does not suit in Mongolia.

7.1.2.3 Questions 11-15: Statutory requirement burden

Statutory requirement burden is examined under three main topics: Disclosure requirements (Question 11), Auditing law requirements (Question 12) and overall burden (Questions 13 - 15) (see Chapter 4, Figure 4.1). Each of these is discussed below.

The first topic addressed under the statutory requirement burden was the disclosure requirements (Question 11) of the IFRS. The study found that respondents regarded all of the listed disclosure requirements as being of medium burdensomeness on SMEs. *Disaggregation of some of the amounts reported was* the most burdensome and *disclosures about liquidity and solvency* were the least burdensome requirement (see Chapter 5, Table 5.24). The test of Hypothesis 12 of no difference among the listed disclosure requirements showed that the differences were not statistically significant. This finding is consistent with the IASCF (2009b) view that the listed requirements of full IFRS are important because they provide necessary and relevant information on the typical SME.

The second topic examined under the statutory requirement burden was auditing law requirements (Question 12). Respondents regarded *auditing requirements applied to many companies* as being above medium burdensomeness but the other two listed requirements as being of medium burdensomeness. The most burdensome was *tight year-end deadline* and the least burdensome was *need for perceived independence* (see Chapter 5, Table 5.26). The test of Hypothesis 14 of no differences in burdensomeness among the requirements associated with auditing law showed that the differences were not statistically significant.

The importance assigned to *tight year-end deadline* could reflect the fact that Article 7.3.3 of the auditing law requires business entities and organisations to submit their year-end financial statement (31 December) within the first quarter of the next year (31 March). Narayan and Reid (2000, p. 91) highlighted that "A proper audit simply cannot be conducted in this timeframe—whether in Mongolia or any other country." This requirement is also likely to diminish audit quality.

The World Bank (2008) assigned greater importance to auditor independence than indicated by the respondents. The World Bank (2008, p. 11) stated that:

> Due to lack of auditing oversight in Mongolia, no regulatory body is responsible for reviewing whether the audit firms are truly independent of their clients. The ROSC team noted instances when auditor independence was compromised by either the firm providing non-auditing services or an individual in the auditing firm being related to the audit clients.

The survey responses are consistent with the comment by INT 5 that the services of auditing firms are only required to get a stamp of assurance on the financial statements and with emphasis on "money" not on the quality of service provided. This suggests that regulators need to reconsider the issue of the auditor independence and amend the *auditing law* of Mongolia.

The third and the last topic concerned the overall burden of *accounting standards* (Question 13), *disclosure requirement of company law* (Question 14), and the *auditing law* (Question 15) of Mongolia. The respondents regarded all of the listed components as being medium burdensomeness. The most burdensome was the *auditing law* and the least burdensome was *disclosure requirements of the company law* (see Chapter 5, Table 5.28). The test of Hypothesis 16 showed that the differences in burdensomeness among the overall burden associated with complying with requirements were statistically significant (see Chapter 5, Table 5.29). The finding on the burdensomeness of the *auditing law* is consistent with the results of Question 12 regarding auditing.

7.1.2.4 Question 16: Reduction of the burden associated with preparation of financial statements

The possible ways of burden reduction listed in the question were all rated as being of importance or at least of moderate importance. The most important ways of reducing the burden were to *develop special standards for SMEs* and *reduce legal requirements*; while *audit* and *complete exemptions* were the least important (see Chapter 5, Table 5.31). The test of Hypothesis 18 of no difference in ways of reducing the burden showed that the differences were statistically significant (see Chapter 5, Table 5.32).

These findings are broadly consistent with those from studies previously conducted in other countries. Maingot and Zeghal (2006), for instance, found that *computerisation*, *develop special standard for SMEs*, *reduce regulation*, *reduce number of accounting standards*, and *remove audit requirements* were ranked more important ways to reduce the reporting burden in Canada.

The importance found in this study for development of a special standard for SMEs is consistent with the results found by Rennie and Senkow (2009) but, as the authors point out, reduced reporting requirements do not eliminate the burdens. The results from the interviews strongly support the survey findings and all interviewees were of the opinion that Mongolia needs a set of simplified reporting requirements for SMEs (see Chapter 6, Sections 6.4.1 and 6.4.2). For example, INT 3 noted that SMEs and micro-entities need a simple reporting framework in Mongolia.

7.1.3 Net benefit

Net benefit was addressed in Net benefit of information (Question 19); as illustrated earlier in Figure 4.1 (see Chapter 4).

7.1.3.1 Question 19: Net benefit of information

The study found that respondents regarded preparation of financial statements of SMEs with full IFRS as providing medium net benefit in Mongolia (see Chapter 5, Table 5.34).

7.2 Compliance with IFRS

Compliance with IFRS was discussed under four main headings: Level of compliance (Questions 3 and 4); Compliance with individual IFRS (Question 28); Compliance difficulties (Question 5); and Reasons for not fully complying with IFRS (Question 6); as illustrated earlier in Figure 4.1 (see Chapter 4).

7.2.1 Questions 3 and 4: Level of compliance with IFRS

The discussion in Chapter 5 on Questions 3 and 4 concluded that although the respondents reported medium and above compliance, the level of compliance is actually "low." This is consistent with the review reports on compliance in Mongolia by the World Bank (2008) and the MOF (Odgarig, 2011) showing low compliance.

As indicated in Chapter 6 (see Section 6.2.1.1), the interviews strongly support these findings. For instance, INT 3 mentioned that "…even though accounting law requires entities to comply with IFRS, entities in practice do not follow the requirements of IFRS unless they are essential to their operation." As mentioned earlier, this may be because the key purpose of preparing financial statements in Mongolia appears to be taxation.

7.2.2 Question 28: Compliance with individual standard

Results overall indicated the *level of compliance with individual standard* was low in Mongolia. Respondents did not indicate "full" compliance with any of the listed standard. The respondents regarded the *level of compliance* with only seven standards (16 per cent) as being of above medium level of compliance (see Chapter 5, Table 5.39). The respondents also indicated that 23 standards (52 per cent) as being of medium level of compliance; while the other 14 standards (32 per cent) as being of minor compliance (see Chapter 5, Table 5.39).

The standards with the highest indicated compliance were *IAS 2 Inventories*, *IAS 18 Revenue*, *IAS 16 Property, plant and equipment*, *IAS 12 Income taxes* and *IAS 8 Accounting policies, changes in accounting estimates and errors*. The standards with the lowest indicated compliance were *IFRS 11 Joint arrangements*, *IFRS 3 Business combinations*, *IAS 29 Financial reporting in hyperinflationary economies*, *IAS 26 Accounting and reporting by retirement benefit plans,* and *IFRS 6 Exploration for and evaluation of mineral resources* (see Chapter 5, Table 5.39).

The results of the test of Hypothesis 22 of no differences among the standards were that only six standards out of the 44 individual standards, showed statistically significant differences from the other standards. These standards are: *IAS 2 Inventories, IAS 18 Revenue, IAS 16 Property, plant and equipment, IAS 12 Income taxes, IAS 8 Accounting policies, changes in accounting estimates and errors* and *IAS 7 Cash flow statements.* This could reflect the fact that these standards most frequently relate to the basic accounting needs of SMEs in Mongolia (see Chapter 5, Table 5.40).

7.2.3 Question 5: Compliance difficulties

The listed compliance difficulties were all rated as being of moderate importance. The most important was *lack of qualified accounting professionals*; while *keeping up to date with standards* was the least important (see Chapter 5, Table 5.42). The test of Hypothesis 24 of no difference in potential difficulties in complying with IFRS showed that the differences in importance among the listed difficulties were statistically significant (see Chapter 5, Table 5.43).

The findings are in line with prior studies, especially for Mongolia and other post-socialist countries (World Bank (2008) (Mongolia), Tyrrall, et al. (2007) (Kazakhstan); World Bank (2007a) (Georgia), and McGee and Preobragenskaya (2006) (Russia)).

The results are strongly supported by the interview findings. Interviewees acknowledged that the country lacks accounting professionals with INT 3 noting that some accountants worked for several entities in Mongolia. Interviewees also were not satisfied with the quality of the accounting education provided by educators, and highlighted improved accounting training, as one of the main conditions for the successful implementation of IFRS.

Interview findings reinforced the survey finding that translation of international standards into Mongolian is an obstacle for compliance with IFRS. INT 5, for instance, noted that the translation of the international standards was late and is of poor quality in Mongolia. INT 1 also highlighted that: “We do not understand some of the accounting terms because in our environment we do not practice the activities these terms describe. Our environment is in fact completely different from that of developed countries."

7.2.4 Question 6: Reasons for not fully complying with IFRS

The listed reasons for not fully complying with IFRS were all rated as being of moderate importance. The most important was *nobody values IFRS*; while *IFRS is not understandable* was the least important (see Chapter 5, Table 5.45). The test of Hypothesis 26 of no difference in reasons for not fully complying with IFRS showed that the differences were not statistically significant. The findings of the thesis are broadly in line with prior studies. For example, McGee and Preobragenskaya (2006) found that the main reason for the low level of compliance with IFRS in Russia was identified as *nobody values IFRS*.

7.3 Impacts of the IFRS for SMEs on SMEs

Impacts of the IFRS for SMEs on SMEs were discussed under four main headings: Benefits of information (Questions 25, 27, and 18); Cost/burden (Questions 22, 17, and 23); Net benefit (Questions 26 and 24); and Compliance with the IFRS for SMEs (Questions 21 and 20) as illustrated earlier in Figure 4.1 (see Chapter 4).

7.3.1 Benefits of information

Benefits of information were addressed in Types of benefits to users (Question 25); Overall usefulness to users (Question 27); and Benefits to others (Question 18). Each of these subjects is discussed in turn.

7.3.1.1 Question 25: Types of benefits to users

The listed benefits to users were all rated as being important. The most important was *increased understandability*; while *improved information relevance* was the least important (see Chapter 5, Table 5.47). The test of Hypothesis 28 of no difference among the importance of the types of expected benefits for users showed that the differences were statistically significant (see Chapter 5, Table 5.48).

The findings suggest that respondents from Mongolia have a high expectation from the adoption of the IFRS for SMEs. The findings are broadly consistent with prior studies. Increased international comparability of financial reporting has been one of the benefits expected from a single set of reporting standards (Bertoni & Rosa, 2013; MAZARS, 2008; Pacter, 2011). The existing literature, however, suggests there is a limited need for international comparability between SMEs (Aboagye-Otchere & Agbeibor, 2012; Arsoy & Sipahi, 2007; Eierle & Haller, 2009).

The interviewees were all of the view that Mongolia needs to have a set of simplified reporting standards for SMEs. However, INT 1 noted that whether the IFRS for SMEs was appropriate for Mongolia had yet to be evaluated (see Chapter 6, Section 6.4). Furthermore, all noted the need for training if it was to be adopted.

7.3.1.2 Question 27: Overall usefulness to users

The findings show that the respondents expected that the information prepared by SMEs under the IFRS for SMEs would be above medium usefulness (see Chapter 5, Table 5.50). Thus respondents expected that adoption of the IFRS for SMEs would result in more useful information as they had indicated that the financial information prepared by SMEs under the current standards (full IFRS) was of medium usefulness (see Question 7, Section 7.1.1.3).

This is consistent with the expectation that the IFRS for SMEs would provide a benefit for users in comparison with full IFRS (Pacter, 2004a, 2009, 2011; Pacter & Scott, 2012).

7.3.1.3 Question 18: Benefits to others

The listed benefits to others from the adoption of the IFRS for SMEs were all rated as being important. The most important was *produce more useful financial information for decision-making*; while *improve reporting quality* was the least important (see Chapter 5, Table 5.52). This shows that respondents also expected high benefits from the adoption of the IFRS for SMEs for preparers and regulators in Mongolia. The test of Hypothesis 31 of no difference among the listed benefits showed that the differences were not statistically significant.

The findings were similar to those reported in the studies by Arsoy and Sipahi (2007) (Turkey); Hussain, et al. (2012) (Fiji); MAZARS (2008) (France, Germany, Italy, the Netherlands, Spain and the UK); and Van Wyk and Rossouw (2009) (South Africa). Overall, these studies have found that the new IFRS for SMEs was expected to reduce reporting costs, save preparation time, improve reporting quality and increase comparability of financial statements in the global context. In addition to these, Bohusova (2011) found that developing countries are more likely to benefit from the IFRS for SMEs than developed countries because SMEs from developing countries have greater difficulty in complying with full IFRS.

7.3.2 Cost/Burden

Cost/burden issue was addressed in Costs of implementation of the IFRS for SMEs (Question 22); Reduction of reporting cost (Question 17); and Burden reduction (Question 23) (see Chapter 4, Figure 4.1). Each of these subjects is discussed in turn.

7.3.2.1 Question 22: Costs of implementation

The listed costs of implementation were all rated as being important or at least moderately important. The most important were *training costs*; while *other implementation costs* were the least important (see Chapter 5, Table 5.54). The test of Hypothesis 33 of no difference in importance among the listed costs of implementation showed that the differences were statistically significant (see Chapter 5, Table 5.55).

These results were consistent with the findings in studies from other countries that initial implementation could be costly for SMEs because of the differences between existing national reporting requirements and those of the IFRS for SMEs (Albu, et al. (2010) (Romania), Deloitte (2009a) (USA), Hussain, et al. (2012) (Fiji), and Mage (2010) (Kenya)). In Romania, for instance, Albu, et al. (2010) reported that costs for training, professional consultants and information systems are significant when implementing the IFRS for SMEs. Similarly, in Fiji and Kenya, the cost of training was found to be the main barrier to the implementation of the IFRS for SMEs (Hussain et al., 2012; Mage, 2010).

Interestingly, these findings were in conflict with the assumptions of the IASB. According to the IASB, accounting professionals who already complied with full IFRS would have no difficulty with the new standard since it was based on full IFRS. Accounting professionals, therefore, were only required to understand the difference between the two sets of standards. One possible explanation for this difference was that accounting professionals, in particular from developing countries, lacked complete knowledge of full IFRS even though there was a requirement to comply with full IFRS (Odgarig, 2011; World Bank, 2008). As noted earlier, the interviewees all made comment on the need for training if the IFRS for SMEs was adopted.

7.3.2.2 Question 17: Reduction of reporting cost

The listed simplifications for reduction in reporting cost resulting from adoption of the IFRS for SMEs were all rated as being important or at least moderately important. The most important was *simplified required presentation*; while *one choice of accounting treatment* was the least important (see Chapter 5, Table 5.57). The test of Hypothesis 35 of no difference among the listed simplifications for reduction in reporting cost showed that the differences were statistically significant (see Chapter 5, Table 5.58).

One of the primary reasons for the development of the new IFRS for SMEs is the reduction of reporting costs (Bohusova, 2011; Pacter, 2009). All four of the simplifications listed in Question 17 were covered in the final version of the IFRS for SMEs and the IASB expected they would significantly reduce SMEs' reporting costs (IASCF, 2009b).

7.3.2.3 Question 23: Burden reduction from the IFRS for SMEs

The findings show that respondents expected an above medium burden reduction if there was adoption of the IFRS for SMEs (see Chapter 5, Table 5.60).

Evidence from the literature relating to other countries, however, has been mixed. In South Africa, for instance, Van Wyk and Rossouw (2009) found that only 45 per cent of respondents (out of 242 respondents) expected that the IFRS for SMEs would reduce the burden of preparing financial statements for SMEs. This low level of expectation was attributed to the fact that the IFRS for SMEs was not considered fully applicable to the micro-entities of South Africa. Similar results have been reported from Ghana where Aboagye-Otchere and Agbeibor (2012) found that Ghana needs even more simplified reporting standards than that provided by the IFRS for SMEs because of limited relevance to small entities.

7.3.3 Net benefit

This section examined the net benefits expected from the IFRS for SMEs under two headings: Net benefits for users (Question 26) and Net benefits for SMEs (Question 24). Each of these subjects is discussed in turn.

7.3.3.1 Question 26: Net benefit for users

Respondents expected an above medium net benefit for information users if there was adoption of the IFRS for SMEs (see Chapter 5, Table 5.62).

7.3.3.2 Question 24: Net benefit for SMEs

Respondents expected an above medium net benefit to SMEs if there was adoption of the IFRS for SMEs (see Chapter 5, Table 5.64). Thus, users expected an above medium net benefit to both users (Question 26) and SMEs (Question 24). However, in response to Question 19 the respondents indicated that the information provided under current standards provided only medium net benefit. Therefore, adoption of the IFRS for SMEs was expected to secure improvement over the current requirement to report under full IFRS (Question 19).

7.3.4 Compliance with the IFRS for SMEs

Compliance with the IFRS for SMEs was addressed in Level of compliance with the IFRS for SMEs (Question 21) and Factors expected to increase compliance with the IFRS for SMEs (Question 20) (see Chapter 4, Figure 4.1). Each of these subjects is discussed in turn.

7.3.4.1 Question 21: Level of compliance with the IFRS for SMEs

The findings show that respondents expected an above medium increase in compliance with reporting standards if there was adoption of the IFRS for SMEs (see Chapter 5, Table 5.66). While both set of respondents indicated an above medium expected increase in the level of compliance, the results from Question 3 and 4 indicated that account preparers held a higher assessment of compliance with existing standards than did accounting practitioners.

Findings to date with respect to compliance with the IFRS for SMEs have a greater focus on the suitability of the standard to different jurisdictions. Suitability to jurisdiction has been a matter of ongoing concern as adoption with the IFRS for SMEs largely depends on perceptions of the standard's suitability. Evidence from the literature concerning this issue is mixed. MAZARS (2008), for instance, found a high degree of support for adoption of the IFRS for SMEs in six European countries. In South Africa, Schutte and Buys (2011) found that the IFRS for SMEs is suitable for the reporting needs of SMEs due to the fact that respondents regarded 70 per cent of the requirements as either of "high" or "moderate" importance. However, Quagli and Paoloni (2012) and Deaconu, et al. (2012) found that the IFRS for SMEs would not be suitable for European countries.

As regards expected compliance with the IFRS for SMEs if it were adopted, INT 1 commented that this was an issue to be investigated and the other interviewees did not offer a view.

7.3.4.2 Question 20: Factors to increase compliance

The listed factors to increase compliance were all rated as being important. The most important was *more useful financial statements for decision-making*; while the least important was *more specific recognition and measurement principles.* The test of Hypothesis 41 of no difference among the listed factors showed that the differences were statistically significant (see Chapter 5, Table 5.69).

The responses on the first three of the listed factors were consistent with the responses to earlier related questions on the expected benefits from adoption of the IFRS for SMEs and also the literature on adoption of the standard.

7.4 Economic characteristics

Tests were conducted on the impact of respondent and associated entity variables 'the economic characteristics of SMEs' on the responses given to each of the substantive survey questions. The characteristics were group (account preparer versus accounting practitioners), work experience, number of employees, longevity of the entity, annual sales revenue, CPA, degree in accounting and English proficiency. The hypotheses are listed in Table 4.2 (see Chapter 4): H_2, H_4, H_5, H_7, H_9, H_{11}, H_{13}, H_{15}, H_{17}, H_{19}, H_{20}, H_{21}, H_{23}, H_{25}, H_{27}, H_{29}, H_{30}, H_{32}, H_{34}, H_{36}, H_{37}, H_{38}, H_{39}, H_{40}, and H_{42}.

The results of the tests have been detailed in Chapter 5. In most cases the hypothesis of no impact was not rejected. Overall, the important characteristics in shaping responses to the survey questions were group membership, work experience, number of employees, English proficiency and industry sector. The impact of group membership was reported in the results for each question and was in most cases consistent with the findings in the multivariate tests of the economic characteristics as a set. Number of employees can be regarded as a proxy for size, which is a variable that has been considered in many of the empirical studies especially these focusing on compliance with standards. The importance of English proficiency indicates the key role of translation. Sections 7.4.1 - 7.4.3 below report on the cases where the hypotheses were rejected in each of parts 2, 3, and 4 of the questionnaire respectively.

7.4.1 Uses, cost/burden, and net benefit

Question 1: Purposes of preparing financial statements

Hypothesis 2 examined the impact of the economic characteristics of entities on the listed purposes of preparing financial statements. The study rejected this hypothesis only for the *borrowing* purpose. For that purpose, the number of employees and education were statistically significant. This is consistent with

Allee and Yohn (2009) who found that size of the entity and education of the owner-managers had significant impacts on the preparation of financial statements by a sample of small US entities, particularly for obtaining external finance.

Question 8: Preparation cost

Hypothesis 9 examined the impact of economic characteristics of entities on the *preparation costs* of preparing financial statements. The study rejected this hypothesis only for *audit costs*. For *audit costs*, respondent group and English proficiency of account preparers or accounting practitioners were significant.

Question 9: Burden component

Hypothesis 11 examined the impact of the economic characteristics of entities on burden components listed in Question 9. The study rejected this hypothesis for the case of *company law* and *bookkeeping* burden components. The study found that CPA certification and English proficiency of account preparers and accounting practitioners have statistically significant and positive impacts on the *bookkeeping* component. For *company law*, membership of the industry versus other sector was significant.

Question 11: Statutory requirement burden

Hypothesis 13 examined the impact of the economic characteristics of entities on disclosure requirements listed in the question. The results indicated rejection of the hypothesis only for the disclosure requirement *disaggregations of amount presented in financial statements of SMEs* in Mongolia. For that disclosure requirement, work experience of the account preparer or accounting practitioners and the memberships of finance and industry sectors versus other sector were statistically significant. To date, the existing literature has not examined this relationship.

Questions 13, 14 and 15: Hypothesis 17 examined the impacts of economic characteristics of entities on the overall burden associated with complying with requirements listed in questions. The study rejected this hypothesis only for the *auditing law* requirement for which respondent group and membership of finance versus other sector were significant. This result was consistent with the other findings on the requirement for audit. In terms of both cost and burden the auditing law requirement was found to be significant.

Question 16: Reduction of the burden associated with the preparation of financial statements

Hypothesis 19 examined the impact of the economic characteristics of entities on the possible ways of reducing the burden listed in Question 16. The study rejected this hypothesis for the case of *audit exemption* and *complete exemption.* The study found that respondent group, English proficiency of account preparers and accounting practitioners, and membership of service versus other sector were significant for the category of *audit exemption*; while respondent group, number of employees, and membership of industry versus other sector showed significant impact on the *complete exemption*.

Question 19: Net benefit of information

Hypothesis 20 examined the impact of economic characteristics of entities on the net benefit of preparing financial statements of SMEs within the existing IFRS. The test indicated rejection of the hypothesis with work experience having a significant impact.

7.4.2 Compliance with IFRS

Question 3: Level of compliance with IFRS

Hypothesis 21 examined the impact of economic characteristics of entities on the level of compliance with IFRS. The test indicated rejection of the hypothesis with respondent group having a significant impact.

Question 28: Compliance with individual standard

Hypothesis 23 examined the impact of economic characteristics of entities on the level of compliance with individual standard. The study rejected this hypothesis only for the eight standards: *IAS 18 Revenue, IAS 21, The effects of changes in foreign exchange rates, IAS 38 Intangible assets, IAS 19 Employee benefits, IFRS 10*

Consolidated financial statements, IAS 27 Consolidated and separate financial statements, IFRS 4 Insurance contracts, and *IAS 28 Investments in associates.*

The most frequent significant economic characteristics impacting on compliance were the number of employees, English proficiency, annual sales revenue, and industrial sector. These findings are consistent with various studies that found that size (Aljifri & Khasharmeh, 2006; Dumontier & Raffournier, 1998; Eierle, 2008); longevity (Holmes & Nicholls, 1988; Owusu-Ansah, 2005); accountancy proficiency (Eierle & Haller, 2009; Floropoulos & Moschidis, 2004; Holmes & Nicholls, 1988); knowledge of English (Aljifri & Khasharmeh, 2006; Tyrrall et al., 2007; World Bank, 2005, 2007a, 2008); and industrial sector (Holmes & Nicholls, 1988; Street & Gray, 2002) have impacts on the level of compliance with reporting standards.

Question 6: Reasons for not fully complying with IFRS

Hypothesis 27 examined the impact of economic characteristics of entities on the reasons for not fully complying with IFRS. The study rejected this hypothesis only for the reason that *IFRS is not understandable*, membership of industry versus other sector being the significant variable.

7.4.3 Impacts of the IFRS for SMEs

Question 22: Costs of implementation

Hypothesis 34 examined the impact of economic characteristics of entities on the costs of implementation listed in the question. Hypothesis 34 was rejected for *training costs* and *other implementation costs*. Respondent group and annual sales revenue of the entity have significant impacts on the *training costs*; while respondent group and CPA certification of the accounting preparers and accounting practitioners have significant impacts on *other implementation costs.*

Question 23: Burden reduction from the IFRS for SMEs

Hypothesis 37 examined the impact of economic characteristics of entities on the expected burden reduction from the introduction of the IFRS for SMEs. The study found a statistically significant association between economic characteristics of entities and burden reduction. The study found that respondent group, work experience, CPA and membership of the industry versus other sector were the significant variables.

Question 21: Level of compliance with the IFRS for SMEs
Hypothesis 40 examined the impact of economic characteristics of entities on the expected increase in compliance with the IFRS for SMEs. The study rejected this hypothesis with work experience and CPA certification as the significant variables.

7.5 Policy recommendations and implications of research findings

This section presents the recommendations and implications resulting from the research findings. The recommendations and implications are discussed in three sections in line with the three major parts of the survey questionnaire.

7.5.1 Uses, cost/burden, and net benefit

The findings on the existing financial reporting practice of SMEs show that entities prepare financial statements for a range of purposes with varying degrees of importance. However, there is doubt on the usefulness of financial reports because of low compliance with requirements. This implies that regulators should design and implement monitoring and enforcement systems to encourage business entities to prepare high quality financial information consistent with the legal requirements in Mongolia.

The study also found that the requirement for audit is regarded as being burdensome and costly. Audit clearly has the potential to ensure higher quality financial information but consideration should be given to smaller entities being exempted from the requirement to obtain an audit.

The interviewees indicated concern on the quality of audits. Thus, even with relaxation of the current requirements for an audit, attention should be given to ensuring that auditors are competent and independent. This would require review of training and the qualifications for licensing of auditors.

7.5.2 Compliance with IFRS

The present study indicates that although Mongolia adopted IFRS in 1993 and was thus an "early adopter", compliance with IFRS appears to be low. This outcome appears to result from a number of possible causes:

(1) a lack of training of both accountants and auditors;

(2) poor appreciation of the value of financial information;

(3) lack of a system of monitoring and enforcement of compliance with standards, and

(4) the standards are not appropriate for most smaller entities.

Training needs to be addressed both in the country's tertiary education system and by the profession. The education institutions need to ensure that teaching staff are appropriately qualified and have adequate opportunity to remain current. The MOF and the profession need to tighten the qualifications for conducting an audit. In addition to having requirements - from the law or the profession- on accounting and audit, it is essential that the system of monitoring and enforcement be improved to become more effective.

Among the younger generation in Mongolia, there is a growing number with good knowledge of the English language. However, among the generations involved in business there is very limited familiarity with English. Given that the IASB's standards are prepared in English, availability of high quality translations of the standards is a key prerequisite to achievement of improved compliance.

7.5.3 Impacts of the IFRS for SMEs

The study indicates the need for a system of simplified reporting. In respect of the IFRS for SMEs there is an expectation that, if adopted, it would be of benefit to users and preparers, there would be reduced burden and cost and improved compliance. However, the MOF is still to conduct an evaluation the case for adoption.

Adoption would require determination of the class of entities that would be required to comply with the standard. Given the relatively small size of most business entities in Mongolia, one regime that would appear to merit consideration is that listed companies be required to comply with full IFRS but all other entities of medium size be given the choice of compliance with full IFRS or the IFRS for SMEs. This would allow these entities, listed or not, to prepare financial statements that would have complete international comparability. For small entities, 'micro-entities,' they could apply the special guidance prepared by the IASB for such entities in following the IFRS for SMEs. Alternatively, micro-entities could be fully exempted from the requirement to prepare general purpose financial statements. However, that would leave a need for a standard to guide financial reporting for tax purposes. The cost to Mongolia of preparing such a special purpose standard and ensuring competence for compliance might be considerably greater than simply requiring compliance with the IFRS for SMEs.

If the IFRS for SMEs is adopted, success will depend on availability of training. This should be directed at not only the current members of the accounting profession but also accounting academics to ensure that the future members of the profession gain the required knowledge of this standard.

Ulaanbaatar has the highest concentration of population in Mongolia and therefore training programs offered in Ulaanbaatar reach a high proportion of the members of the profession. Nevertheless, to date, training of any kind for the profession has been almost exclusive in Ulaanbaatar. Thus, if adoption of the IFRS for SMEs is to be successful, training will need to be offered also to the members of the profession based outside Ulaanbaatar.

7.6 Contributions of the study

As outlined in Section 1.3 (see Chapter 1), the contributions of this thesis are fourfold. First, Mongolia requires all business entities including SMEs to comply with IFRS. No comprehensive studies have examined financial reporting issues of SMEs in Mongolia. This study extends the research on financial reporting in Mongolia by presenting an in-depth analysis of financial reporting by SMEs.

Second, the majority of studies on SME reporting have adopted either a *quantitative* approach (Aboagye-Otchere & Agbeibor, 2012; Collis & Jarvis, 2000; Dang, 2011; Eierle & Haller, 2009; Fulbier & Gassen, 2010; Holmes et al., 1991; Mullerova, Pasekova, & Cizevska, 2010; Rennie & Senkow, 2009) or a *qualitative* research design (Albu et al., 2010; Bohusova, 2011; Carsberg et al., 1985; Cordery & Baskerville, 2006; Dang et al., 2006; Devi, 2003; Eierle, 2005; Sian & Roberts, 2006, 2008, 2009). In contrast, the present study uses a mixed method approach employing both quantitative and qualitative designs.

Third, this study advances the literature on SME reporting by examining the likely impacts of the newly developed IFRS for SMEs on financial reporting in emerging economies. The study employs a range of statistical analysis techniques appropriate to the survey data set. In particular, it assesses the relative strength of responses between the respondent groups within questions, across components of questions, and the impact of economic characteristics on the responses to questions. The results of the study should be useful to the MOF in Mongolia in informing its evaluation of adoption of the IFRS for SMEs. Although focused on Mongolia, the findings may also prove to be relevant to other developing economies, in particular, former centrally planned and mineral rich economies. The results of the research can provide a basis for policy recommendations on regulations covering financial reporting by SMEs.

Fourth, the study builds on and contributes to the literature by following the practical application of Van Wyk and Rossouw (2009) to gather relevant data. Accessing suitable data samples on SMEs is challenging, particularly in developing countries. This is because up to date comprehensive lists of small entities are not available; the owners of small businesses are often sceptical of the value of academic research, and both mail and web based surveys are not popular and or impractical. Therefore, the present author presented free seminars outlining the development of the IFRS for SMEs. After the presentation, copies of the survey questionnaire were distributed to the attendees. As a result, usable responses were obtained from a total of 102 respondents comprising 67 account preparers of SMEs and 35 accounting practitioners and auditors of PAFs.

7.7 Limitations of the research

Ideally the study would have collected information from the owners of SMEs and the likely principal users of the financial information reported by SMEs. Contact with owners was not attempted because of difficulty in making contact and, in any case, most would not have had the knowledge necessary to provide informed responses to the survey questions. The interviews were intended to supplement the information obtained from the survey, but these were few in number and limited in range.

The use of seminar presentations to obtain access to sample respondents meant that the sample was an informed and interested group of persons. However, this also meant that the views expressed, while well-informed, are not generalisable. The same concern applies to the small sample size for both the survey and the interviews. Even if the results of the present study are representative for Mongolia, generalisability to other countries is open to question. Particularly given that Mongolia adopted full IFRS early, has not had any form of DR, and has achieved only low compliance.

7.8 Suggestions for the further research

There are many areas remaining for future research. Specific suggestions concern:

(1) Wider canvassing of the views of both business owners and users of financial information;

(2) Further consideration of the impact of the economic characteristics including consideration of other characteristics such as ownership structure and foreign connections;

(3) Consideration of the actual costs and benefits of preparing financial information and hence development of a basis for determining who should report and what they should report; and

(4) Investigation of the impact of the role of the MOF in the regulation of financial reporting and ways of strengthening the profession.

APPENDICES

1. Seminar presentation

Exposure Draft

February 2007

- The IASB published for public comment an ED of a proposed *IFRS for SMEs*.
- The **proposed standard**:
  - Self-contained set of accounting principles
  - Omitted topics
  - Simplification of many of the principles for recognizing and measuring assets, liabilities, income, and expenses
  - Substantially fewer disclosures
  - Simplified redrafting

- ED was translated into 5 languages
- Comments on ED due on 30 November 2007

9

Responses to the ED

- The Board received 162 letters of comment on the ED.
  - Stand-alone
  - Accounting policy options
  - Anticipating changes to IFRS
  - Disclosures
  - Scope
  - Fair value measurements
  - Implementation guidance
  - Comments on specific sections of the ED

10

Field test

November **2007**

- The IASB completed a field test programme
- Involved 116 small entities from 20 countries
- Goal is to assess:
  - Understandability of the ED
  - Appropriateness of the scope of topics
  - The burden of applying the draft
  - The impact of the proposals (current reporting)
  - Accounting policy choices
  - Any special problems
  - The adequacy of implementation guidance

11

Field test

- ❑ Provide information about business and reporting
- ❑ Submit annual financial statements
- ❑ Restate those financial statements with the ED
- ❑ respond questions and identify problems
- ❑ Annual re-measurement
- ❑ Disclosures
- ❑ Reference to full IFRS

12

Redeliberations of the proposals

March 2008 - April 2009

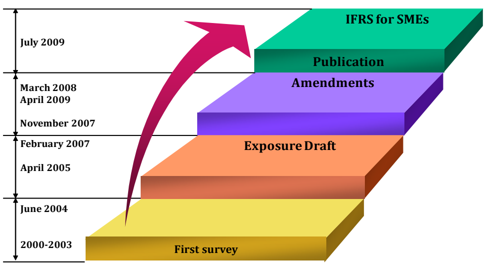
- Redeliberations of the proposals in the ED
- 13 Public Board meetings
- 44 Public meetings

13

Final IFRS for SMEs issued on July 2009

14

Standard development



15

Final IFRS for SMEs

- The main changes from the recognition, measurement and presentation principles proposed in the ED:
  - ➢ Making the final IFRS a stand-alone document
  - ➢ Eliminating most of the complex options
  - ➢ Omitting topics
  - ➢ Not anticipating possible future changes to IFRS
  - ➢ Eliminating reference to the pronouncements of other standard-setting bodies
  - ➢ Conforming to the presentation requirements of IAS 1 *Presentation of Financial statements*
  - ➢ Allowing different accounting policies for different types of investments
  - ➢ Restructuring of Section 11 *Financial Assets and Financial Liabilities (into 2 sections)*
  - ➢ Eliminating the requirement

16

Final IFRS for SMEs

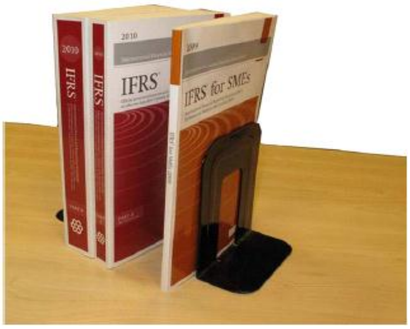
- Choose its accounting policy
- Recognizing expenses: research and development costs
- Allowing other than the straight-line method by lessees for operating leases
- Recognizing as expenses all borrowing costs
- Requiring all government grants to be accounted for using a single simplified model
- Eliminating the held-for-sale classification and related special measurement requirements
- Incorporating all the IFRS 1 *First-time adoption of IFRS exemptions into section 35 Transition to the IFRS*

Quantified size criteria

- The definition of SMEs does not include quantified size criteria for determining what is an SME
- Every jurisdictions may choose to prescribe quantified size criteria for SMEs

18

2. The IFRS for SMEs



19

The IFRS for SMEs

- 230 pages
- Simplified IFRS
- Stand – alone
- Designed specially for SMEs
- Internationally recognized
- Final standard issued 9 July 2009

20

Who is eligible to use it?

- Any entity that does not have **public accountability…**
  - Securities not publicly traded
  - Not a financial institution
- …and is required or chooses to produce General Purpose Financial Statements for **external users.**

21

Objective of IFRS for SMEs

- For ***non-publicly accountable entities*** that publish general purpose financial statements for external users:
  - Banks
  - Vendors
  - Credit rating agencies
  - Customers of SMEs
  - SMEs' shareholders

22

Simplified reporting standard for SMEs

- Omitted topics
- Simple policy options
- Recognition and measurement simplification
- Disclosure simplification
- Simplified drafting

23

1.Omitted topics

- Equity-settled share-based payment
- Share-based payment transactions with cash alternatives
- Fair value measurement of biological assets
- Hyperinflation
- Lessor accounting for finance leases
- The direct method of presenting operating cash flows

24

2.Accounting policy options

- ❑Associates
- ❑ Borrowing costs
- ❑ Development costs
- ❑ Intangible costs
- ❑ Investment property
- ❑ Jointly controlled entities
- ❑ Presenting operating cash flows
- ❑ Property, plant and equipment
- ❑ Government grants

25

3.Recognition and measurement simplifications

Financial instruments:

- ❑ Classification of financial instruments
- ❑ Derecognition
- ❑ Hedge accounting
- ❑ Derivative financial instruments
- ❑ Amortisation and impairment of goodwill and other
- ❑ Indefinite-lived intangible assets
- ❑ Non-current assets held for sale
- ❑ Borrowing costs

26

4.Disclosure simplifications

❑ Reduced disclosure requirements:

- ▪Covered in IFRSs
- ▪Related to recognition and measurement principles in full IFRS
- ▪Related to options in full IFRSs
- ▪The basis of users' needs or cost-benefit considerations

27

5.Simplified redrafting

❑ Ease of using the IFRS for SMEs

❑ Simplified without the details that are needed in full IFRSs

28

Comparison with full IFRSs

Full IFRSs:
- apply to the general purpose financial statements
- other financial reporting of ***all profit-oriented entities***.

The IFRS for SMEs
- apply to the general purpose financial statements only of entities that do not have ***public accountability***.

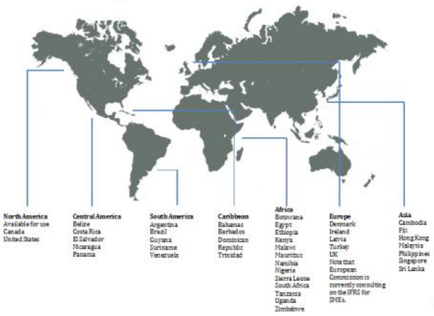
29

Effective date of IFRS for SMEs:

■Specified entities are *required* or *permitted* to use the *IFRS for SMEs* rest with legislative and regulatory authorities and standard-setters in individual jurisdictions.

30

Adoption of IFRS for SMEs



31

Thank you for your attention

32

Information sources

- **IFRS for SMEs (full standard, translations):**
  - http://go.ifrs.org/IFRSforSMEs
- **Training materials (35 modules):**
  - http://go.ifrs.org/smetraining
- **PowerPoint training modules (20 PPTs):**
  - http://go.ifrs.org/trainingppts
- **Board and staff presentations:**
  - http://go.ifrs.org/presentations
- **Update newsletter:**
  - http://go.ifrs.org/smeupdate
- **Implementation Group Q&As:**
  - http://go.ifrs.org/smeig

33

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34

2. Questionnaires

A. Questionnaire to account preparers of SMEs

This questionnaire is to be answered on the bases of your experience in working with SMEs.

I. Background

Please provide your answers by ticking the appropriate boxes.

B1. Are you Certified Public Accountant?

☐ Yes ☐ No

B2. Do you have an undergraduate or graduate degree in accounting?

☐ Yes (please go to question B4) ☐ No(please go to question B3)

B3. If you do not have an accounting degree, what is your major? *(Undergraduate or Graduate degree)*

……

B4. How many years experience do you have as an accountant?

☐ Less than 1 year ☐ 1-3 years ☐ 4-7 years ☐ 8-12 years
☐ 12-20 years ☐ More than 20 years

B5. What is the number of employees in your firm?

☐ Less than 5 ☐ 5 – 10 ☐ 11-20 ☐ 21-5 ☐ 50-100 ☐ More than 100

B6. What is the industrial sector of your firm?

☐ Agriculture, forest, fishing, hunting ☐ Mining
☐ Manufacturing ☐ Electricity, water supply
☐ Construction ☐ Wholesale trade
☐ Retail sale ☐ Hotel, cafe, restaurant
☐ Transport ☐ Communication
☐ Finance, insurance ☐ Education
☐ Property, business service ☐ Health
☐ Culture ☐ Other: ……………………………………

B7. When did your firm first start its operation?

☐ Since 2009 ☐ 2006-2009 ☐ 2003-2006 ☐ 2000-2003
☐ 1997-2000 ☐ Before 1997

B8. What was the amount of your firm's average annual sales revenue for the last five years?

☐ Up to 25 million Tugrug ☐ 25 – 30 million Tugrug ☐ 30-50 million Tugrug
☐ 50-80 million Tugrug ☐ 80-1 billion Tugrug ☐ 1-1.5 billion Tugrug
☐ More than 1.5 billion Tugrug

B9. What is your English level?

☐ Beginner ☐ Intermediate ☐ Upper intermediate ☐ Advanced

Scales*:* When you answer the questions below please **circle the one you prefer**, where

1 = not important 5 = very important

Not important	Minor importance	Moderate importance	Important	Very important
1	2	3	4	5

II. Uses, Cost/Burden, Net benefit, and Compliance with IFRS

1. What do you think are the **main purposes** that SMEs have in preparing financial statements?

Main purpose	Importance				
	Not	Minor	Moderate	Important	Very
Taxation	1	2	3	4	5
Borrowing	1	2	3	4	5
Decision-making	1	2	3	4	5
Planning	1	2	3	4	5
Review of performance	1	2	3	4	5
Paying dividends	1	2	3	4	5
Good internal control	1	2	3	4	5
Information to owners/shareholders	1	2	3	4	5
Information to customers	1	2	3	4	5
Information to employees	1	2	3	4	5
Compliance with regulations	1	2	3	4	5
Other (Please specify below):					
	1	2	3	4	5

2. How important do you think **external** financial statements are **in internal decision-making**?

Decisions	Influence on decisions (importance)				
	Not	Minor	Moderate	Important	Very
Planning	1	2	3	4	5
Cash management	1	2	3	4	5
Capital expenditure	1	2	3	4	5
Pricing	1	2	3	4	5
Staff pay	1	2	3	4	5
Directors pay	1	2	3	4	5
Other (Specify below):					
	1	2	3	4	5

3. To what extent does your firm **comply** with full IFRS?

No compliance	Minor compliance	Medium compliance	Above medium compliance	Full compliance
1	2	3	4	5

5. What kind of difficulties do you encounter when complying with full IFRS?

Problems	Important				
	Not	Minor	Moderate	Important	Very
Keeping up to date with standards	1	2	3	4	5
Poor translation of IFRS to Mongolian	1	2	3	4	5
Lack of qualified staff	1	2	3	4	5
Too costly	1	2	3	4	5
Other (Please specify below):					
	1	2	3	4	5

6. If your firm does **not fully comply** with full IFRS, what are the reasons for this?

Reasons	**Importance**				
	Not	Minor	Moderate	Important	Very
IFRS is not understandable	1	2	3	4	5
Information produced by IFRS is not relevant	1	2	3	4	5
Lack of qualified staff	1	2	3	4	5
Nobody values IFRS	1	2	3	4	5
Other (Please specify below):					
	1	2	3	4	5

7. Do you think **current reporting practices** for SMEs produce financial information that is **useful** to **users**?

Not useful	Minor usefulness	Medium usefulness	Above medium usefulness	Very useful
1	2	3	4	5

8. How important are the following **costs** in relation to preparing financial statements?

Costs	**Importance**				
	Not	Minor	Moderate	Important	Very
Information system costs	1	2	3	4	5
Financial statement preparation costs	1	2	3	4	5
Audit costs	1	2	3	4	5
Opportunity cost of time spent on compliance	1	2	3	4	5
Other (Please specify below):					
	1	2	3	4	5

9. Please indicate **how burdensome** each of the following components in preparation and reporting of financial information?

Components	Burdensome				
	Not	Minor	Medium	Above medium	Very
Bookkeeping	1	2	3	4	5
Accounting law requirements:	1	2	3	4	5
………………………….	1	2	3	4	5
………………………….	1	2	3	4	5
………………………….	1	2	3	4	5
Company law requirements:	1	2	3	4	5
………………………….	1	2	3	4	5
………………………….	1	2	3	4	5
………………………….	1	2	3	4	5
SME Act requirements:	1	2	3	4	5
………………………….	1	2	3	4	5
………………………….	1	2	3	4	5
………………………….	1	2	3	4	5
Other (Please specify below):					
	1	2	3	4	5

11. Which aspects of current **disclosure requirements** do you think are the **most burdensome?**

Requirements	Burdensome				
	Not	Minor	Medium	Above medium	Very
Disclosures about short-term cash flows and obligations	1	2	3	4	5
Disclosures about liquidity and solvency	1	2	3	4	5
Information on measurement uncertainties	1	2	3	4	5
Information about an entity's accounting policy choices	1	2	3	4	5
Disaggregations of some of the amounts reported	1	2	3	4	5
Other disclosures	1	2	3	4	5
Other (Please specify below):					
	1	2	3	4	5

12. Which aspects of the **auditing law requirements** do you think are the **most burdensome**?

Requirements	Burdensome				
	Not	Minor	Medium	Above medium	Very
Auditing requirements applied to all companies	1	2	3	4	5
Need for perceived independence	1	2	3	4	5
Tight year-end deadline	1	2	3	4	5
Other (Please specify below):					
	1	2	3	4	5

13. Do you think that complying with **"Accounting Standards"** places a burden on your firm?

Not burdensome	Minor burdensome	Medium burdensome	Above medium burdensome	Very burdensome
1	2	3	4	5

14. Do you think the **disclosure requirements** of the **"Company law"** place a burden on your firm?

Not burdensome	Minor burdensome	Medium burdensome	Above medium burdensome	Very burdensome
1	2	3	4	5

15. Do you think the **"Auditing Law"** requirements place a burden on your firm?

Not burdensome	Minor burdensome	Medium burdensome	Above medium burdensome	Very burdensome
1	2	3	4	5

16. In what ways could the **burden** of producing or preparing financial statements be reduced for SMEs?

Different ways	Importance				
	Not	Minor	Moderate	Important	Very
Promote use of technology to streamline process	1	2	3	4	5
Reduce disclosure	1	2	3	4	5
Reduce number of accounting standards	1	2	3	4	5
Special standards for SMEs	1	2	3	4	5
Reduce legal requirements (Accounting law, Company law, SME Act)	1	2	3	4	5
Audit exemption	1	2	3	4	5
Complete exemption	1	2	3	4	5
Other (Please specify below):					
	1	2	3	4	5

III. Impacts of the IFRS for SMEs

17. Do you think the new IFRS for SMEs will **reduce the cost** of reporting in respect of the following factors?

Simplifications	Importance				
	Not	Minor	Moderate	Important	Very
One choice of accounting treatment	1	2	3	4	5
Simplified disclosure	1	2	3	4	5
Simplified principles for recognition and measurement	1	2	3	4	5
Simplified required presentation	1	2	4	4	5
Other (Please specify below):					
	1	2	3	4	5

18. What **benefits** do you expect if the new IFRS for SMEs were adopted?

Benefits	Importance				
	Not	Minor	Moderate	Important	Very
Produce useful financial information	1	2	3	4	5
for internal decision-making	1	2	3	4	5
Reduced preparation costs for SMEs	1	2	3	4	5
Opportunity costs	1	2	3	4	5
Reduced cost for the national professional bodies	1	2	3	4	5
Improve reporting quality by SMEs	1	2	3	4	5
Other (Please specify below):					
	1	2	3	4	5

19. Do you think the **current benefits** of producing financial statements **outweigh** the **costs**?

No net benefit	Minor net benefit	Medium net benefit	Above medium net benefit	Important net benefit
1	2	3	4	5

20. Which of the following factors do you think will lead to increased **compliance** with adoption of the **new** IFRS for SMEs?

Factors	Important				
	Not	Minor	Moderate	Important	Very
Reduce the financial reporting burden on SMEs	1	2	3	4	5
More specific recognition and measurement principles	1	2	3	4	5
More useful financial statements for decision-making (client)	1	2	3	4	5
Enhance quality of financial information for external users	1	2	3	4	5
Other (Please specify below):					
	1	2	3	4	5

21. Do you think the **new** IFRS for SMEs will **increase compliance** with IFRS?

No increase	Minor increase	Medium increase	Above medium increase	Important increase
1	2	3	4	5

22. Rate the importance of the listed **implementation costs** of the new IFRS for SMEs?

Associated costs	**Importance**				
	Not	Minor	Moderate	Important	Very
Training costs	1	2	3	4	5
Information system costs	1	2	3	4	5
Other implementation costs	1	2	3	4	5
Other (Specify below):					
	1	2	3	4	5

23. Do you think the **new** IFRS for SMEs can **reduce the reporting burden** on SMEs?

No reduction	Minor reduction	Medium reduction	Above medium reduction	Important reduction
1	2	3	4	5

24. Do you think the **benefits** to SMEs of producing financial statements using the **new** IFRS for SMEs will **outweigh** the **costs?**

No net benefit	Minor net benefit	Medium net benefit	Above medium net benefit	Important net benefit
1	2	3	4	5

25. What types of **benefits** do you think **users** would derive from the adoption of the new IFRS for SMEs?

Benefits	**Importance**				
	Not	Minor	Moderate	Important	Very
Improved information relevance	1	2	3	4	5
Increased faithful representation	1	2	3	4	5
Improved comparability	1	2	3	4	5
Improved verifiability	1	2	3	4	5
Increased timeliness	1	2	3	4	5
Increased understandability	1	2	3	4	5

26. How much **benefit** do you think **users** will receive from adoption of the new IFRS for SMEs?

No net benefit	Minor net benefit	Medium net benefit	Above medium net benefit	Important net benefit
1	2	3	4	5

27. Do you think the **new** IFRS for SMEs will produce financial information that is **useful** to **users?**

Not useful at all	Minor useful	Medium useful	Above medium useful	Very useful
1	2	3	4	5

IV. Relevance and compliance with individual standard

28. Looking at the following list of IFRS, please indicate which standards you think are relevant and indicate the degree to which you comply with them.

	Compliance					
IFRS	Not relevant	No	Minor	Medium	Above medium	Full
IAS 1 Presentation of Financial Statements	0	1	2	3	4	5
IAS 2 Inventories	0	1	2	3	4	5
IAS 7 Cash Flow Statements	0	1	2	3	4	5
IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors	0	1	2	3	4	5
IAS 10 Events After the Balance Sheet Date	0	1	2	3	4	5
IAS 11 Construction Contracts	0	1	2	3	4	5
IAS 12 Income Taxes	0	1	2	3	4	5
IAS 14 Segment Reporting	0	1	2	3	4	5
IAS 15 Information Reflecting the Effects of Changing Prices	0	1	2	3	4	5
IAS 16 Property, Plant and Equipment	0	1	2	3	4	5
IAS 17 Leases	0	1	2	3	4	5
IAS 18 Revenue	0	1	2	3	4	5
IAS 19 Employee Benefits	0	1	2	3	4	5
IAS 20 Accounting for Government Grants and Disclosure of Government Assistance	0	1	2	3	4	5
IAS 21 The Effects of Changes in Foreign Exchange Rates	0	1	2	3	4	5
IAS 23 Borrowing Costs	0	1	2	3	4	5
IAS 24 Related Party Disclosures	0	1	2	3	4	5
IAS 26 Accounting and Reporting by Retirement Benefit Plans	0	1	2	3	4	5
IAS 27 Consolidated and Separate Financial Statements	0	1	2	3	4	5
IAS 28 Investments in Associates	0	1	2	3	4	5
IAS 29 Financial Reporting in Hyperinflationary Economies	0	1	2	3	4	5
IAS 31 Interests in Joint Ventures	0	1	2	3	4	5
IAS 32 Financial Instruments: Presentation	0	1	2	3	4	5
IAS 33 Earnings per Share	0	1	2	3	4	5

IFRS	Compliance					
	Not relevant	No	Minor	Medium	Above medium	Full
IAS 34 Interim Financial Reporting	0	1	2	3	4	5
IAS 36 Impairment of Assets	0	1	2	3	4	5
IAS 37 Provisions, Contingent Liabilities and Contingent Assets	0	1	2	3	4	5
IAS 38 Intangible Assets	0	1	2	3	4	5
IAS 39 Financial Instruments: Recognition and Measurement	0	1	2	3	4	5
IAS 40 Investment Property	0	1	2	3	4	5
IAS 41 Agriculture	0	1	2	3	4	5
IFRS 1 First-time Adoption of IFRS	0	1	2	3	4	5
IFRS 2 Share-based Payment	0	1	2	3	4	5
IFRS 3 Business Combinations	0	1	2	3	4	5
IFRS 4 Insurance Contracts	0	1	2	3	4	5
IFRS 5 Non-current Assets Held for Sale and Discontinued Operations	0	1	2	3	4	5
IFRS 6 Exploration for and evaluation of Mineral Resources	0	1	2	3	4	5
IFRS 7 Financial Instruments: Disclosures	0	1	2	3	4	5
IFRS 8 Operating Segments	0	1	2	3	4	5
IFRS 9 Financial Instruments	0	1	2	3	4	5
IFRS 10 Consolidated Financial Statements	0	1	2	3	4	5
IFRS 11 Joint arrangements	0	1	2	3	4	5
IFRS 12 Disclosure of Interests in Other Entities	0	1	2	3	4	5
IFRS 13 Fair Value Measurement	0	1	2	3	4	5

B. Questionnaire to accounting practitioners

This questionnaire is to be answered on the bases of your experience in working with SMEs.

I. Background

Please provide your answers by ticking the appropriate boxes.

B1. Are you Certified Public Accountant?

☐ Yes ☐ No

B2. Do you have an undergraduate or graduate degree in accounting?

☐ Yes (please go to question B4) ☐ No (please go to question B3)

B3. If you do not have an accounting degree, what is your major?

(*Undergraduate or Graduate degree)* ……………………………………………………………………………

B4. How many years experience do you have as an accountant?

☐ Less than 1 year ☐ 1-3 years ☐ 4-7 years ☐ 8-12 years
☐ 12-20 years ☐ More than 20 years

B5. What is the number of employees in your client's firm? *(If you have more than one SME client, please choose one you have worked for over a long period)*

☐ Less than 5 ☐ 5- 10 ☐ 11-20 ☐ 21-50 ☐ 50-100 ☐ More than 100

B6. What is the industrial sector of your client's firm? *(If you have more than one SME client, please choose the same firm as you reported on in B5)*

☐ Agriculture, forest, fishing, hunting ☐ Mining ☐ Manufacturing
☐ Electricity, water supply ☐ Construction ☐ Wholesale trade
☐ Retail sale ☐ Hotel, cafe, restaurant
☐ Transport ☐ Communication
☐ Finance, insurance ☐ Education
☐ Property, business service ☐ Health ☐ Culture
☐ Other: …………………………………………………………

B7. When did your firm's client first start its operation? *(If you have more than one SME client, please choose the same firm as you reported on in B5)*

☐ Since 2009 ☐ 2006-2009 ☐ 2003-2006
☐ 2000-2003 ☐1997-2000 ☐ Before 1997

B8. What was the amount of your firm's client's average annual sales revenue for last five year? *(If you have more than one SME client, please choose the same firm as you reported on in B5)*

☐ Up to 25 million Tugrug ☐ 25 – 30 million Tugrug ☐ 30 – 50 million Tugrug
☐ 50 – 80million Tugrug ☐ 80 – 1 billion Tugrug ☐ 1 – 1.5 billion Tugrug
☐ More than 1.5 bilion Tugrug

B9. What is your English level?

☐ Beginner ☐ Intermediate ☐ Upper intermediate ☐ Advanced

Scales: When you answer the questions below please **circle the one you prefer,** where:
1 = not important 5 = very important

Not important	Minor importance	Moderate importance	Important	Very important
1	2	3	4	5

II. Uses, Cost/Burden, Net benefit, and Compliance with IFRS

1. What do you think are the **main purposes** that SMEs have in preparing financial statements?

Main purpose	Importance				
	Not	Minor	Moderate	Important	Very
Taxation	1	2	3	4	5
Borrowing	1	2	3	4	5
Decision-making	1	2	3	4	5
Planning	1	2	3	4	5
Review of performance	1	2	3	4	5
Paying dividends	1	2	3	4	5
Good internal control	1	2	3	4	5
Information to owners/shareholders	1	2	3	4	5
Information to customers	1	2	3	4	5
Information to employees	1	2	3	4	5
Compliance with regulations	1	2	3	4	5
Other (Please specify below):					
	1	2	3	4	5

2. How important do you think external financial statements are in internal decision-making?

Decisions	Influence on decisions (importance)				
	Not	Minor	Moderate	Important	Very
Planning	1	2	3	4	5
Cash management	1	2	3	4	5
Capital expenditure	1	2	3	4	5
Pricing	1	2	3	4	5
Staff pay	1	2	3	4	5
Directors pay	1	2	3	4	5
Other (Specify below):					
	1	2	3	4	5

3. Do the accounts you prepare for clients generally **comply** with full IFRS?

No compliance	Minor compliance	Medium compliance	Above medium compliance	Full compliance
1	2	3	4	5

4. Do the accounts you audit for clients generally **comply** with full IFRS?

No compliance	Minor compliance	Medium compliance	Above medium compliance	Full compliance
1	2	3	4	5

5. What kind of **difficulties** do you encounter when complying with full IFRS?

Problems	Importance				
	Not	Minor	Moderate	Important	Very
Keeping up to date with standards	1	2	3	4	5
Poor translation of IFRS to Mongolian	1	2	3	4	5
Lack of qualified staff	1	2	3	4	5
Too costly	1	2	3	4	5
Other (Please specify below):					
	1	2	3	4	5

6. If your firm's clients do **not fully comply** with full IFRS, what are the reasons for this?

Reasons	Importance				
	Not	Minor	Moderate	Important	Very
IFRS is not understandable	1	2	3	4	5
Information produced by IFRS is not relevant	1	2	3	4	5
Lack of qualified staff	1	2	3	4	5
Nobody values IFRS	1	2	3	4	5
Other (Please specify below):					
	1	2	3	4	5

7. Do you think **current reporting practices** for SMEs produce financial information that is **useful** to **users**?

Not useful	Minor usefulness	Medium usefulness	Above medium usefulness	Very useful
1	2	3	4	5

8. How **important** are the following costs in relation to preparing financial statements?

Costs	Importance				
	Not	Minor	Moderate	Important	Very
Information system costs	1	2	3	4	5
Financial statement preparation costs	1	2	3	4	5
Audit costs	1	2	3	4	5
Opportunity cost of time spent on compliance	1	2	3	4	5
Other (Please specify below):					
	1	2	3	4	5

9. Please indicate how **burdensome** each of the following components in preparation and reporting of financial information?

Components	Burdensome				
	Not	Minor	Medium	Above medium	Very
Bookkeeping	1	2	3	4	5
Accounting law requirements:	1	2	3	4	5
………………………..	1	2	3	4	5
………………………..	1	2	3	4	5
………………………..	1	2	3	4	5
Company law requirements:	1	2	3	4	5
………………………..	1	2	3	4	5
………………………..	1	2	3	4	5
………………………..	1	2	3	4	5
SME Act requirements:	1	2	3	4	5
………………………..	1	2	3	4	5
………………………..	1	2	3	4	5
………………………..	1	2	3	4	5
Other (Please specify below):					
	1	2	3	4	5

10. Please indicate the level of **importance** of each of the following **components** of your total service to your clients?

Part of your service	Importance				
	Not	Minor	Moderate	Important	Very
Account preparation	1	2	3	4	5
Advice on tax returns	1	2	3	4	5
VAT work	1	2	3	4	5
Information for lenders	1	2	3	4	5
Other (Please specify below):					
	1	2	3	4	5

11. Which aspects of current **disclosure requirements** do you think are the **most burdensome?**

Requirements	**Burdensome**				
	Not	Minor	Medium	Above medium	Very
Disclosures about short-term cash flows and obligations	1	2	3	4	5
Disclosures about liquidity and solvency	1	2	3	4	5
Information on measurement uncertainties	1	2	3	4	5
Information about an entity's accounting policy choices	1	2	3	4	5
Disaggregations of some of the amounts reported	1	2	3	4	5
Other disclosures	1	2	3	4	5
Other (Please specify below):					
	1	2	3	4	5

12. Which aspects of the **auditing law requirements** do you think are the **most burdensome**?

Requirements	**Burdensome**				
	Not	Minor	Medium	Above medium	Very
Auditing requirements applied to all companies	1	2	3	4	5
Need for perceived independence	1	2	3	4	5
Tight year-end deadline	1	2	3	4	5
Other (Please specify below):					
	1	2	3	4	5

13. Do you think that complying with **"Accounting Standards"** place a burden on your client's firm?

Not burdensome	Minor burdensome	Medium burdensome	Above medium burdensome	Very burdensome
1	2	3	4	5

14. Do you think the **disclosure requirements** of the **"Company law"** place a burden on your clients' firm?

Not burdensome	Minor burdensome	Medium burdensome	Above medium burdensome	Very burdensome
1	2	3	4	5

15. Do you think the **"Auditing law"** requirements place a burden on your client's firm?

Not burdensome	Minor burdensome	Medium burdensome	Above medium burdensome	Very burdensome
1	2	3	4	5

16. In what ways could the **burden** of producing or preparing financial statements be reduced for SMEs?

Different ways	Importance				
	Not	Minor	Moderate	Important	Very
Promote use of technology to streamline process	1	2	3	4	5
Reduce disclosure	1	2	3	4	5
Reduce number of accounting standards	1	2	3	4	5
Special standard for SMEs	1	2	3	4	5
Reduce legal requirements (Accounting law, Company law, SME Act)	1	2	3	4	5
Audit exemption	1	2	3	4	5
Complete exemption	1	2	3	4	5
Other (Please specify below):					
	1	2	3	4	5

III. Impacts of the IFRS for SMEs

17. Do you think the new IFRS for SMEs will **reduce the cost** of reporting in respect of the following factors?

Simplifications	Importance				
	Not	Minor	Moderate	Important	Very
One choice of accounting treatment	1	2	3	4	5
Simplified disclosure	1	2	3	4	5
Simplified principles for recognition and measurement	1	2	3	4	5
Simplified required presentation	1	2	4	4	5
Other (Please specify below):					
	1	2	3	4	5

18. What **benefits** do you expect if the new IFRS for SMEs were adopted?

Benefits	Importance				
	Not	Minor	Moderate	Important	Very
Produce useful financial information	1	2	3	4	5
for internal decision-making	1	2	3	4	5
Reduced preparation costs for SMEs	1	2	3	4	5
Opportunity costs	1	2	3	4	5
Reduced cost for the national professional bodies	1	2	3	4	5
Improve reporting quality by SMEs	1	2	3	4	5
Other (Please specify below):					
	1	2	3	4	5

19. Do you think the **current benefits** of producing financial statements **outweigh** the **costs**?

No net benefit	Minor net benefit	Medium net benefit	Above medium net benefit	Important net benefit
1	2	3	4	5

20. Which of the following factors do you think will lead to **increased compliance** with adoption of the **new** IFRS for SMEs?

Factors	**Importance**				
	Not	Minor	Moderate	Important	Very
Reduce the financial reporting burden on SMEs	1	2	3	4	5
More specific recognition and measurement principles	1	2	3	4	5
More useful financial statements for decision-making (client)	1	2	3	4	5
Enhance quality of financial information for external users	1	2	3	4	5
Other (Please specify below):					
	1	2	3	4	5

21. Do you think the **new** IFRS for SMEs will **increase compliance** with IFRS?

No increase	Minor increase	Medium increase	Above medium increase	Important increase
1	2	3	4	5

22. Rate the importance of the listed **implementation costs** of the new IFRS for SMEs?

Associated costs	**Importance**				
	Not	Minor	Moderate	Important	Very
Training costs	1	2	3	4	5
Information system costs	1	2	3	4	5
Other implementation costs	1	2	3	4	5
Other (Please specify below):					
	1	2	3	4	5

23. Do you think the **new** IFRS for SMEs can **reduce the reporting burden** on SMEs?

No reduction	Minor reduction	Medium reduction	Above medium reduction	Important reduction
1	2	3	4	5

24. Do you think the **benefits** to SMEs of producing financial statements using the **new** IFRS for SMEs will **outweigh** the **costs?**

No net benefit	Minor net benefit	Medium net benefit	Above medium net benefit	Important net benefit
1	2	3	4	5

25. What types of **benefits** do you think **users** would derive from the adoption of the new IFRS for SMEs?

Benefits	**Importance**				
	Not	Minor	Moderate	Important	Very
Improved information relevance	1	2	3	4	5
Increased faithful representation	1	2	3	4	5
Improved comparability	1	2	3	4	5
Improved verifiability	1	2	3	4	5
Increased timeliness	1	2	3	4	5
Increased understandability	1	2	3	4	5

26. How much **benefit** do you think **users** will receive from adoption of the new IFRS for SMEs?

No net benefit	Minor net benefit	Medium net benefit	Above medium net benefit	Important net benefit
1	2	3	4	5

27. Do you think the **new** IFRS for SMEs will produce financial information that is **useful** to **users?**

Not useful at all	Minor useful	Medium useful	Above medium Useful	Very useful
1	2	3	4	5

IV. Relevance and compliance with individual standard

28. Looking at the following list of IFRS, please indicate which standards you think are relevant and indicate the degree to which your client firm complies with them (*if you have more than one SME client, please choose the same firm as you reported on in B5*).

IFRS	***Compliance***					
	Not relevant	No	Minor	Medium	Above medium	Full
IAS 1 Presentation of Financial Statements	0	1	2	3	4	5
IAS 2 Inventories	0	1	2	3	4	5
IAS 7 Cash Flow Statements	0	1	2	3	4	5
IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors	0	1	2	3	4	5
IAS 10 Events After the Balance Sheet Date	0	1	2	3	4	5
IAS 11 Construction Contracts	0	1	2	3	4	5
IAS 12 Income Taxes	0	1	2	3	4	5
IAS 14 Segment Reporting	0	1	2	3	4	5
IAS 15 Information Reflecting the Effects of Changing Prices	0	1	2	3	4	5
IAS 16 Property, Plant and	0	1	2	3	4	5

IFRS	***Compliance***					
	Not relevant	No	Minor	Medium	Above medium	Full
Equipment						
IAS 17 Leases	0	1	2	3	4	5
IAS 18 Revenue	0	1	2	3	4	5
IAS 19 Employee Benefits	0	1	2	3	4	5
IAS 20 Accounting for Government Grants and Disclosure of Government Assistance	0	1	2	3	4	5
IAS 21 The Effects of Changes in Foreign Exchange Rates	0	1	2	3	4	5
IAS 23 Borrowing Costs	0	1	2	3	4	5
IAS 24 Related Party Disclosures	0	1	2	3	4	5
IAS 26 Accounting and Reporting by Retirement Benefit Plans	0	1	2	3	4	5
IAS 27 Consolidated and Separate Financial Statements	0	1	2	3	4	5
IAS 28 Investments in Associates	0	1	2	3	4	5
IAS 29 Financial Reporting in Hyperinflationary Economies	0	1	2	3	4	5
IAS 31 Interests in Joint Ventures	0	1	2	3	4	5
IAS 32 Financial Instruments: Presentation	0	1	2	3	4	5
IAS 33 Earnings per Share	0	1	2	3	4	5
IAS 34 Interim Financial Reporting	0	1	2	3	4	5
IAS 36 Impairment of Assets	0	1	2	3	4	5
IAS 37 Provisions, Contingent Liabilities and Contingent Assets	0	1	2	3	4	5
IAS 38 Intangible Assets	0	1	2	3	4	5
IAS 39 Financial Instruments: Recognition and Measurement	0	1	2	3	4	5
IAS 40 Investment Property	0	1	2	3	4	5
IAS 41 Agriculture	0	1	2	3	4	5
IFRS 1 First-time Adoption of IFRS	0	1	2	3	4	5
IFRS 2 Share-based Payment	0	1	2	3	4	5
IFRS 3 Business Combinations	0	1	2	3	4	5
IFRS 4 Insurance Contracts	0	1	2	3	4	5
IFRS 5 Non-current Assets Held for Sale and Discontinued Operations	0	1	2	3	4	5

IFRS	***Compliance***					
	Not relevant	No	Minor	Medium	Above medium	Full
IFRS 6 Exploration for and evaluation of Mineral Resources	0	1	2	3	4	5
IFRS 7 Financial Instruments: Disclosures	0	1	2	3	4	5
IFRS 8 Operating Segments	0	1	2	3	4	5
IFRS 9 Financial Instruments	0	1	2	3	4	5
IFRS 10 Consolidated Financial Statements	0	1	2	3	4	5
IFRS 11 Joint arrangements	0	1	2	3	4	5
IFRS 12 Disclosure of Interests in Other Entities	0	1	2	3	4	5
IFRS 13 Fair Value Measurement	0	1	2	3	4	5

3. Code nodes compared by numbers of items coded

Nodes	Number of coding references	Number of items coded
Standard - setting		
Nodes\\1. Standard-setting\1.1 Compliance with IFRS\1.1.1 Level of compliance	16	6
Nodes\\1. Standard-setting\1.1 Compliance with IFRS\1.1.2 Factors influencing compliance	11	5
Nodes\\1. Standard-setting\1.1 Compliance with IFRS\1.1.2.1 Training	5	4
Nodes\\1. Standard-setting\1.1 Compliance with IFRS\1.1.2.2 Translation	7	3
Nodes\\1. Standard-setting\1.2 Regulation\1.2.1 Accounting sector regulation	12	2
Nodes\\1. Standard-setting\1.2 Regulation\1.2.2 Accounting standards committee	3	2
Implementation		
Nodes\\2. Implementation\2.1 Current implementation of IFRS\2.1.1 Knowledge	18	7
Nodes\\2. Implementation\2.1 Current implementation of IFRS\2.1.2 Experts	4	3
Nodes\\2. Implementation\2.2 Future implementation of the IFRS for SMEs\2.2.1 Knowledge about the IFRS for SMEs	13	8
Nodes\\2. Implementation\2.2 Future implementation of the IFRS for SMEs\2.2.2 Preparedness for adoption	9	2
Nodes\\2. Implementation\2.2 Future implementation of the IFRS for SMEs\2.2.3 Translation	9	3
Need for the IFRS for SMEs		
Nodes\\3. Need for IFRS for SMEs\3.1 Appropriateness	6	3
Nodes\\3. Need for IFRS for SMEs\3.2 Need for the IFRS for SMEs	11	7
Information		
Nodes\\4. Information\4.1 Use of financial information	8	4
Nodes\\4. Information\4.1 Use of financial information\4.1.1 Usefulness of information	12	5
Nodes\\4. Information\4.1 Use of financial information\4.1.2 Quality of information	8	5
Nodes\\4. Information\4.2 X-Balance	4	2
SME feature		
Nodes\\5. SME feature\5.1 Size of SMEs	20	7
Nodes\\5. SME feature\5.2 Environment	5	2

Nodes	Number of coding references	Number of items coded
Nodes\\5. SME feature\5.3 Lending policy to SMEs	11	2
Taxation		
Nodes\\6. Taxation\6.2 Taxation regulation	8	3
Nodes\\6. Taxation\6.4 Taxation knowledge	6	3

4. Summary of coding references and coding nodes

Sources	**Number of coding references**	**Number of nodes coding**
Internals\\INT2	30	16
Internals\\INT4	41	19
Internals\\INT6	45	21
Internals\\INT7	51	18
Internals\\INT8	67	22
Internals\\INT5	89	23
Internals\\INT3	123	26
Internals\\INT1	133	27

5. Node classification

Nodes

Name

Name

- 5.2 Environment
- 5.3 SME lending
- 5.4 SME reporting

- 6. Taxation

  Name

  - 6.1 Tax reporting
  - 6.2 Tax regulation
  - 6.3 Contradiction issue
  - 6.4 Tax knowledge

6. Tree map: Nodes compared by number of items coded

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