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Türkiye Örnegi

AUTHORS: Aylin POROY ARSOY,Baris SIPAHI

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INTERNATIONAL FINANCIAL REPORTING STANDARDS X FOR SMALL AND MEDIUM SIZED ENTITIES AND THE TURKISH CASE

Dr. Aylin Poroy Arsoy
Uludağ Üniversitesi
İktisadi ve İdari Bilimler Fakültesi

Doç. Dr. Barış Sipahi
Marmara Üniversitesi
İktisadi ve İdari Bilimler Fakültesi

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Küçük ve Orta Büyüklükteki İşletmeler İçin Uluslararası Finansal Raporlama Standartları ve Türkiye Örneği

Özet

Bu çalışmada Türkiye'de küçük ve orta büyüklükteki işletmeler tarafından uluslararası finansal raporlama standartlarının benimsenmesi incelenmektedir. Uluslararası finansal raporlama standarlarının uyumlaştırılması global sermaye piyasalarının ihtiyaçlarına cevap vermek için bir zorunluluk halini almıştır. Türkiye'de uluslararası finansal raporlama standartlarına uyum süreci halka açık şirketler için 2003 yılında başlamıştır. Halen halka açık şirketler uluslararası finansal raporlama standartları ile uyumlu finansal raporlama yapmaktadırlar. Ancak Türkiye'de uluslararası finansal raporlama standartlarının KOBI ler tarafından uygulanması daha karmaşık bir süreç olacaktır. Çalışmada, Türkiye'de KOBI muhasebe standartlarının benimsenmesi ile ilgili olarak Güçlü Yönler-Zayıf Yönler-Fırsatlar-Tehditler (SWOT) analizi yapılmıştır. Yapılan SWOT analizine dayalı olarak hazırlanan anket cevaplayıcılara uygulanmış ve Türkiye'de KOBI muhasebe standartlarının benimsenmesinin güçlü yönleri, zayıf yönleri, fırsatları ve tehditlerini önem sırasına göre sıralamaları istenmiştir.

Anahtar Kelimeler: Uluslararası finansal raporlama standartları, KOBI'ler için UFRS, finansal raporlama, yakınsama, muhasebede uyumlaştırma.

Abstract

This study examines the adoption of international financial reporting standards (IFRS) for small and medium sized entities (SMEs) in Turkey. The harmonization of international financial reporting standards is a necessity for answering the requirements of global capital markets. The convergence to IFRSs in Turkey began in 2003 for listed companies. Currently the listed companies in Turkey are fully adopting the IFRS in their financial reporting framework. However the adoption of IFRS by SMEs in Turkey will be a more complex process. In the study we have provided an analysis of the Strengths-Weaknesses-Opportunities and Threats (SWOT)in adoption of IFRS for SMEs in Turkey. We also prepared a questionnaire based on the SWOT analysis and asked the respondents to rank the strengths, weaknesses, opportunities and threats of adopting IFRS for SMEs in Turkey.

Keywords: International financial reporting standards, IFRS for SMEs, financial reporting, convergence, accounting harmonization.

International Financial Reporting Standards X for Small and Medium Sized Entities and the Turkish Case

1. Introduction

The similarity in financial reporting framework and convergence of accounting standards is a vital requirement for companies to deal with the globalization efforts of capital markets (Street, 2002: 78), to enhance their financial communication (Gebhart, 2000 : 342), to support them to obtain financial resources from foreign capital markets (Gorrido et al, 2002 : 2) and to meet their need for a common international language of accounting (Whittington 2005 : 128).

International Accounting Standards Board (IASB) has been serving to generate globally accepted international financial reporting standards since its establishment in 1973. The IFRSs issued by the Board received a "significant step" (Brackney/Witmer, 2005; Casabona/Shoaf, 2002; Whittington, 2005; Schipper, 2005) in 2002 by the regulation of the EU requiring all member states to apply IFRSs in their consolidated accounts. The IFRSs have been accepted as a key for reliable, understandable and transparent financial reporting and they have interactions with independent auditing and corporate governance. However the IFRSs have been designed for publicly listed companies of developed countries, hence the adoption of IFRSs in developing countries seems to be more complex because of the complicated nature of the standards, the insufficient educational, cultural and legal environments and the less developed capital markets (see Zeghal/Mhedhbi, 2006; Chamisa, 2000; Street 2002;, Joshi/Ramadhan, 2002; Aljifri/Hhaskarmeh, 2006; Sipahiı/Poroy, 2006).

On February 15th 2007 the IASB published the Exposure Draft (ED) of "IFRS for Small and Medium Sized Entities" (IFRS for SMEs) which will be an important support for the adoption of IFRSs in developing countries. This draft is a result of an active agenda project of the Board which began in July 2001. The Board stated the aim of the proposed standards as: (IASB 2007a: 1)

"... to provide a simplified, self-contained set of accounting principles that are appropriate for smaller, non-listed companies and are based on full IFRSs, developed primarily for listed companies."

The aim of this study is to examine the efforts of adoption of IFRS for SMEs and emphasize the situation in Turkey. In the study we have provided an analysis of the Strengths-Weaknesses-Opportunities and Threats (SWOT)in adoption of IFRS for SMEs in Turkey. We also prepared a questionnaire based on the SWOT analysis and asked the accountants to rank the strengths, weaknesses, opportunities and threats of adopting IFRS for SMEs in Turkey.

2. International Financial Reporting Standards (IFRS) for Small and Medium Sized Entities (SMEs)

The ED of the IASB has started a new age in the accounting world especially for the SMEs. The full set of IFRSs issued by the IASB was not useful for the SMEs because of their complicated nature. On the other hand, the SMEs around the world also need to perform accurate, transparent and reliable financial reporting which could be achieved by the accounting standards of the IASB.

The adoption of IFRSs would provide the following benefits to SMEs: (Prıcewaterhousecoopers 2006: 5-6, IASB 2007c: 3)

- Adoption of IFRS for SMEs will improve the comparability of financial information of SMEs at either national or international levels.

- Adoption of IFRS for SMEs will make easier to implement planned cross-border acquisitions and to initiate proposed partnerships or cooperation agreements with foreign entities.

- Adopting IFRS for SMEs can help SMEs to reach international markets.

- Adoption of IFRS for SMEs will have a positive effect on the credit rating scores of enterprises, this will strength SMEs' relationships with credit institutions.

- Vendors want to evaluate the financial health of buyers before they sell goods or services on credit. The adoption of IFRSs will enhance the financial health of the SMEs.

The main objective of the IASB is (IASB 2006:3):

> *"to develop, in the public interest, a single set of high quality, understandable and enforceable global accounting standards that require high quality, transparent and comparable information in financial statements and other financial reporting to help participants in the world's capital markets and other users make economic decisions"*

This objective clearly highlights that the IFRSs are not relevant to the needs of SMEs. SMEs do not have "*public accountability*" hence they do not need to disclose as much information as the listed companies do. On the other hand the application of IFRSs by SMEs would not be beneficial for them from the view of cost-benefit analysis. SMEs generally have limited staff and resource and they will face significant costs while adopting IFRSs. Goh/Holt (2006 : 44) define this as "a unique financial burden" that is placed on SMEs because they must pay a proportionally higher cost than multinational companies for the same benefit.

Apart from the listed companies, the users of SME financial statements would be creditors, suppliers, employees and the tax authorities. Users of SME financial statements focus on different information compared with the users of financial statements of listed companies. They may be more interested in short-term cash flows, liquidity and interest coverage (Sivaram, 2006: 1). The differences in the requirement of financial disclosure generate the need for differential financial reporting framework for SMEs. Cheney (2004 :14) mentions the goal of IFRS for SMEs project of the IASB as:

> *"..to reduce the burden of disclosure for smaller companies, while preserving the recognition and measurement principles of international standards"*

2.1. Definition of SMEs

Although there is no "universally agreed" definition of an SME, most of them are based on measures such as number of employees, balance sheet total or annul sales. Size measures are weak indicators of determining what an SME is where these measures are not internationally comparable. Recognizing this fact the IASB defines the SME not based on size measures. The IASB believes that the identification of any size criteria should be left to the national standard setters of each jurisdiction (Sealy-Fısher, 2007 :26)

The IASB has defined the SME in Scope of the ED. According to the definition: (IASB 2007b:14)

The IFRS for SMEs is intended for use by small and medium-sized entities (SMEs). SMEs are entities that:

a)   *do not have public accountability; and*

b)   *publish general purpose financial statements for external users.*

Examples of external users include owners who are not involved in managing the business, existing and potential creditors, and credit rating agencies.

An entity has public accountability if:

a)   *it files, or it is in the process of filing, its financial statements with a securities commission or other regulatory organization for the purpose of issuing any class of instruments in a public market; or*

b)   *it holds assets in a fiduciary capacity for a broad group of outsiders, such as a bank, insurance entity, securities broker/dealer, pension fund, mutual fund or investment banking entity.*

IASB does not define the SME based on size measures, but mentions that it focused on a typical entity with about 50 employees. The Board also states that it does not consider a brief standard for the micro-sized entities (fewer than 10 employees) particularly in developing countries: (IASBc, 2007 : 6-7)

"Such a standard would necessarily be limited to broad principles of accrual basis accounting (some even suggest a cash basis or modified cash basis) and specific recognition and measurement principles for only the most basic transactions, requiring perhaps only a balance sheet and an income statement with limited note disclosures. While this approach might result in relatively low costs to SMEs in preparing financial statements, the resulting statements would not meet the objective of decision-usefulness. Such statements would not provide adequate information about the entity's financial position, performance and cash flows that is useful to a wide range of users in making economic decisions. Moreover, financial statements prepared using such a simple and brief set of accounting requirements might not serve the entity by improving its ability to obtain capital."

Although the Board did not take into account the micro-sized entities while preparing the ED, the entities that have fewer than 10 employees have a significant place in developing countries. According to the results of the research of the Turkish State Statistical Institute in 2003, there are totally 1,720,598 entities in Turkey, 99.8% of them are SMEs and further 94.94% are

micro sized. Table 1 presents the entities in Turkey based on employee-size measure.

Table 1 : The Distribution of Entities in Turkey
Source: Turkish Statistical Institute, www.die.gov.tr

Number of employees	*Number of entities*	*%*
Only the owner of the entity	23,762	1.38
1-9	1,633,509	94.94
10-49	53,246	3.09
50-99	5,080	0.30
100-150	1,804	0.10
151-250	1,387	0.08
250-	1,810	0.11
Total	1,720,598	100.00

Preparing IFRS for SMEs is very significant and beneficial for increasing the adoption of IFRS in developing countries, but unfortunately the Board did not take into account the needs and environments of developing countries. Grant (2006: 2) mentions that developing a common global accounting standard set for SMEs, based on IFRS, could cripple the drive towards global convergence. Chand et al (2006: 8) argued "a two-tier model" that encompasses the distinctive characteristics of developing and developed countries:

> *"If distinctions between developed and emerging economies are not made, then SME IFRSs may have deplorable shortcomings, especially when applied in emerging economies"*

2.2. Structure of IFRS for SMEs

The structure of full IFRS is based on full financial disclosure and complex fair value accounting requirements. Recognizing the fact that the SMEs do not need to disclose as much information as listed companies and could only apply simpler accounting requirements, the IASB provided a simplified version of full IFRS for SMEs. The simplifications are as follows : (KPMG, 2007 :1)

- Transactions that the Board considers less relevant to SMEs are omitted from the ED or are cross-referenced to full IFRSs in the event that such transactions occur.
- Simplifications have been made to the recognition and measurement requirements of full IFRSs in some areas.
- The ED includes the simpler option and cross-reference to full IFRSs for details on applying the more complex option.

Table 2 presents a summary of topics that have been simplified, significantly reduced by eliminating choices and removed in the ED.

Table 2 Simplifications and Modifications in IFRS for SMEs
Source: Ernst&Young, (2007), "A Supplement to Global Eye on IFRS", IFRS Alert, Issue 10

Topic that have recognition and measurement simplifications
Financial instruments
Goodwill impairment
Research and development costs
Investment in associates
Investments in joint ventures
Leases
Agriculture
Employee benefits
Share-based payment
First-time adoption
Topics with only the simpler IFRS accounting policy option
Investment property
Property, plant and equipment
Intangible assets
Borrowing costs
Accounting for government grants
Presentation of operating cash flows
Topics not addressed in the ED (i.e. cross-referenced to full IFRS)
Hyperinflation
Equity-settled share-based payment
Application of the fair value method for agriculture
Interim financial reporting

Lessor accounting for finance leases
Earnings per share
Segment reporting
Insurance

By eliminating accounting treatment choices, removing some topics that are not relevant to SMEs and simplifying methods for recognition and measurement, the Board reduces the volume of IFRS for SMEs by more than 85 per cent when compared with the full IFRSs. The IASB is inviting comments on the ED by October 1st, 2007. During the exposure period, the Board will conduct round-table meetings with SMEs small firms of auditors to discuss the proposals. The final IFRS for SMEs is expected in mid 2008.

The modifications largely simplify the adoption of IFRSs. The simplifications will enhance the adoption of IFRSs especially in developing countries which do not have sufficient background to apply full set of IFRSs.

3. Convergence to IFRS and IFRS for SMEs in Turkey

Like in many other developing countries, the development of financial reporting framework and the adoption of IFRSs in Turkey have taken a long time and have not been completed yet (see Gücenme, 2000; Şimga/Akman, 2005; Akdoğan, 2006; Koç Yalkın et al, 2006; İbiş/Özkan, 2006; Pekdemir, 2007). As Turkey became an official candidate for European Union membership, the financial statements of Turkish companies are required to be prepared and presented according to globally accepted international accounting standards (Uslu, 1999 : 18).

Turkey is in the convergence process to the IFRSs with her two bodies: Turkish Capital Market Board (CMB) and Turkish Accounting Standards Board (TASB).

On October, 15th, 2003 the Turkish Capital Market Board issued the "Communiqué XI/25 about Accounting Standards in Capital Market" in order to make Turkish accounting regulations compatible with international financial reporting standards. This communiqué is the most important step taken to harmonize international accounting standards in Turkey. It consists translation of 33 IFRS and became effective for those companies following Capital Market Board regulations for financial reporting covering the period of January, 1st, 2005 and afterwards. The CMB highly encouraged the early application of

IFRSs, so most of the listed companies began to follow IFRSs by the end of 2003.

TASB which was founded in April 2002 also translated the IFRSs to Turkish. Since January 2005 Turkish Accounting Standards (TASs) have been issued in Turkish Official Journal. TASs will become effective for all private and public sector companies after 2007. The aims of TASB are: (a) to develop and adopt national accounting principles which will make financial statements real, reliable, balanced, comparable and understandable, (b) to set national accounting standards which will be applied to the interest of public.

Although the Turkish accounting environment is familiar to the IFRSs since 2003, the convergence process has not been completed yet. According to the results of a recent survey (Sipahi/Poroy, 2006 :7) unwillingness for preparing transparent financial statements, complicated nature of particular standards and insufficiency of education about accounting standards are the main obstacles of convergence to IFRSs in Turkey.

The adoption of IFRS for SMEs is vitally important for the financial reporting environment in Turkey. Most of the companies activating in Turkey are SMEs (see Table 1) and they provide significant sources to the national economy. Also there are two main regulations that will lead SMEs to follow IFRS for SMEs in near future: The Revised Turkish Trade Law and Basel II Criteria.

Basel II largely affects the banking sector of the countries. It has not only have effects on lending, but also interactions with accurate financial reporting by requiring companies to have "internal rating scores". According to Mısırlıoğlu (2006 : 21) preparing financial statements in compliance with IFRS is very important for the risk assessment performed by banks and other financial institutions under Basel II Standards. In order to have high rating scores from risk assessments, the companies are required to disclose reliable and transparent financial information that could be achieved by the IFRSs. Doyrangöl/Saltoğlu (2006: 129) states that:

> *"The SMEs could start the process by going through an assessment such as preparing their financial statements in conformity with the IFRS and having them audited"*

Turkish Commercial Code 6762 has been effective since 1957 and it has had several revisions since then. When Turkey became an official candidate of European Union on December 11, 1999 in Helsinki, it was required to apply the

Acquis Communautaire[1] to Turkish Law. On 3 October 2005, membership negotiations were symbolically opened with Turkey, so this requirement became urgent. In the context of this urgency, a new Turkish Trade Law which will supersede 6762 Code has been prepared. In order to prepare a new Turkish Trade Law, a commission was established including the members from the Ministry of Justice, universities, the Court of Appeals, Capital Markets Board, Notaries Union of Turkey, Turkish Accounting Standards Board, Banking Regulation and Supervision Agency, Ministry of Industry and Trade, Ministry of Communications, Turkish Treasury and The Union of Chambers and Commodity Exchanges of Turkey. The Turkish Trade Law Draft was prepared in June 2005 by this commission. The effective date of the Draft is not specified, but it is expected to be effective in near future. According to the Draft, companies in Turkey are required to prepare balance sheet, income statement, statement of changes in stock holder's equity, cash flow statement and explanatory notes. Valuation of assets, liabilities, equity items, revenues and expenses in the financial statements, presentation bases of financial statements and required information which should be presented in notes to financial statements will be performed according to Turkish Accounting Standards issued by TASB.

The TASB has been following the IFRS for SMEs project of the IASB. Recently the IFRS for SMEs Commission in TASB is translating the ED to Turkish. The Turkish Draft is expected to be disclosed to the public in order to invite comments.

To summarize our perceptions we have provided an analysis of the Strengths-Weaknesses-Opportunities and Threats (SWOT)in adoption of IFRS for SMEs in Turkey (see Table 3).

1 Acquis Communautaire is the entire body of legislation of the European Communities and Union. Applicant countries must accept the *acquis* before they can join the EU. Following the accession of Turkey to the European Union, Turkish will be one of the official languages of the European Union and Turkish version of Acquis Communautaire will be published in the Official Journal of European Union. In the framework of the pre-accession period, the proper translation of European Union legislation into Turkish has importance for the harmonization of Turkish legislation with that of the European Union.

Table 3 SWOT Analysis for Adoption of SME Standards in Turkey

Strengths	**Opportunities**
• SMEs will be able to perform internationally comparable, accurate and transparent financial reporting. • IFRS for SMEs will increase lending opportunities of SMEs. • IFRS for SMEs will ease the transition to IFRS for the growing SMEs. • IFRS for SMEs will provide SMEs to perform financial reporting according to Turkish Trade Law Draft and Basel II Criteria.	• The SMEs will have opportunity to perform financial reporting according to the needs of financial statement users. • The financial reports of the SMEs will be comparable in sectors at international level. • The SMEs will be able to reach cross border markets. • The SMEs will have opportunity to be in business combinations or cooperation agreements with foreign entities.
Weaknesses	**Threats**
• The SMEs in Turkey will not be willing to adopt IFRS for SMEs because of their widespread unregistered accounts. • The SMEs will not be willing to adopt IFRS for SMEs because "financial reporting for tax purposes" approach is adopted instead of "financial reporting for information" in Turkey. • The SMEs in Turkey will not be able to employ accountants that are qualified in IFRSs. • The translation weaknesses will make the adoption of IFRS for SMEs difficult.	• The cost of adopting IFRS for SMEs will exceed the benefits of them. • The transition to the IFRS for SMEs will be difficult because of the low corporate level of SMEs. • While generating the IFRS for SMEs not recognizing the Turkish uniform system of accounts make them difficult to adopt. • The differences between tax legislation and IFRS for SMEs will make the standards difficult to adopt.

4. Research Methodology

This study examines the analysis of adoption of IFRS for SMEs in Turkey. In this section we discussed the reasons of the sample selection and presented the research questions and the questionnaire design.

4.1. Sample Selection

The sample of our study was the accountants attending to the January-February-March 2007 training courses of the Istanbul Chambers of Certified Public Accountants (ICCPA). Totally 482 accountants was attending the courses and 156 of them responded to our questionnaire (a response rate of 32.4 %). Our reason to choose accountants for our research is that the accountants are more familiar to the accounting systems of the SMEs than their managers and they will perform financial reporting according to the IFRS for SMEs.

4.2. Research Questions

In the study we aimed to find out the answers of the following questions by our SWOT analysis:

- What will be the strengths of adopting IFRS for SMEs in Turkey?
- What will be the weaknesses of adopting IFRS for SMEs in Turkey?
- What will be the opportunities of adopting IFRS for SMEs in Turkey?
- What will be the threats of adopting IFRS for SMEs in Turkey?

4.3. The Questionnaire Design

The questionnaire is based on receiving perceptions of respondents about the SWOT analysis that we designed earlier. In the questionnaire we asked the respondents to rank the strengths, weaknesses, opportunities and threats of adopting IFRS for SMEs in Turkey.

5. Findings

In this section we discuss the findings of the questionnaire in the light of the SWOT analysis.

5.1. Strengths of Adopting IFRS for SMEs in Turkey

Table 4 presents the perception of respondents concerning the strengths of adopting IFRS for SMEs in Turkey. According to the results the most important strength is "*SMEs will be able to perform internationally comparable, accurate and transparent financial reporting*". The most important aim of the adoption of IFRS is to provide *high quality, transparent and comparable* financial reporting framework. The adoption of IFRS especially for SMEs will largely change the financial reporting climate in

Turkey. The respondents gave the least importance to the "*providing SMEs to perform financial reporting according to Turkish Trade Law Draft and Basel II Criteria*". This finding gives us evidence that the accountants have not yet recognized the significance of IFRS in the framework of Turkish Trade Law Draft and Basel II Criteria.

Table 4 Strengths of Adopting IFRS for SMEs in Turkey

	Mean	*Standard Deviation*	*Rank*
SMEs will be able to perform internationally comparable, accurate and transparent financial reporting.	1,94	1,12	1
IFRS for SMEs will ease the transition to IFRS for the growing SMEs.	2,15	1,06	2
IFRS for SMEs will increase lending opportunities of SMEs.	2,67	1,23	3
IFRS for SMEs will provide SMEs to perform financial reporting according to Turkish Trade Law Draft and Basel II Criteria.	2,71	1,25	4

5.2. Weaknesses of Adopting IFRS for SMEs in Turkey

Table 5 presents the perception of respondents concerning the weaknesses of adopting IFRS for SMEs in Turkey. The respondents agreed that the most important weakness is *"performing financial reporting for tax purposes"*. In Turkey accounting has been accepted as a tool for calculating the taxable income because of the largely adoption of tax-accounting approach. The results of a study (Özkan 2006) gives us evidence that in Turkey, the accountants largely adopt the "tax accounting approach" by following tax legislation while preparing the financial statements. On the other hand, unregistered economy is widespread in Turkey and especially SMEs have large amount of unregistered accounts. The results give us evidence that the SMEs will not be willing to change their accounting systems.

Table 5 Weaknesses of Adopting IFRS for SMEs in Turkey

	Mean	Standard Deviation	Rank
The SMEs will not be willing to adopt IFRS for SMEs because "financial reporting for tax purposes" approach is adopted instead of "financial reporting for information" in Turkey.	1,83	1,02	1
The SMEs in Turkey will not be willing to adopt IFRS for SMEs because of their widespread unregistered accounts.	1,97	1,18	2
The SMEs in Turkey will not be able to employ accountants that are qualified in IFRSs.	2,75	0,99	3
The translation weaknesses will make the adoption of IFRS for SMEs difficult.	3,07	1,11	4

Although the translation problems mentioned as the least weakness, according to our earlier experiences[2], we think that this factor will largely effect the adoption level of IFRS for SMEs in Turkey.

5.3. Opportunities of Adopting IFRS for SMEs in Turkey

Table 6 presents the perception of respondents concerning the opportunities of adopting IFRS for SMEs in Turkey. According to the results, "*comparability of financial information*" and "*performing financial reporting for the needs of financial statement users*" were found as the most important opportunities. The respondents agreed that business combinations or cooperation agreements with foreign entities and reaching cross border markets are less important SMEs, because the SMEs in Turkey are not tended to have foreign relationships.

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2 In Turkey both the Turkish Accounting Standards Board and the Capital Market Board translated the full set of IFRSs to Turkish but unfortunately both of them do not have an understandable Turkish. This is also supported by a survey (see Sipahi and Poroy 2007) providing evidence that "unclear language of standards because of translation difficulties" serves as an obstacle to the convergence process.

Table 6 Opportunities of Adopting IFRS for SMEs in Turkey

	Mean	Standard Deviation	Rank
The financial reports of the SMEs will be comparable in sectors at international level.	2,05	0,94	1
The SMEs will have opportunity to perform financial reporting according to the needs of financial statement users.	2,07	1,30	2
The SMEs will have opportunity to be in business combinations or cooperation agreements with foreign entities.	2,65	1,20	3
The SMEs will be able to reach cross border markets.	2,81	1,11	4

5.4. Threats of Adopting IFRS for SMEs in Turkey

Table 7 presents the perception of respondents concerning the threats of adopting IFRS for SMEs in Turkey. The respondents agreed that the most important threat is "low *corporate level of SMEs*". The SMEs in Turkey generally micro sized (see Table 1) and managed by their owners. The corporate level of companies has a significant effect on the adoption level of IFRSs. According to the respondents, differences between the Turkish uniform system of accounts and IFRS for SMEs will serve as an obstacle to the adoption of the standards. The Turkish uniform system of accounts should be revised according to the requirements of IFRS for SMEs in order to contribute to the adoption process of standards.

Table 7 Threats of Adopting IFRS for SMEs in Turkey

	Mean	Standard Deviation	Rank
The transition to the IFRS for SMEs will be difficult because of the low corporate level of SMEs.	1,82	1,07	1
While generating the IFRS for SMEs not recognizing the Turkish uniform system of accounts make them difficult to adopt.	2,23	1,00	2
The differences between tax legislation and IFRS for SMEs will make the standards difficult to adopt.	2,44	1,12	3
The cost of adopting IFRS for SMEs will exceed the benefits of them.	3,08	1,24	4

6. Conclusion

Accounting in Turkey has traditionally been strongly influenced by the need to produce information, which is acceptable to the fiscal authorities and is in accordance with commercial and tax regulations. Consequently, little consideration was given to the concept of full disclosure from the point of view that financial statements should be clear and comprehensive for users to make decisions.

The convergence to IFRS in Turkey began in 2003 by the Communiqué XI/25 for the listed companies. This was an important step in adopting IFRS, but SMEs in Turkey couldn't benefit from this convergence. The Turkish Accounting Standards Board is following the project of IASB concerning IFRS for SMEs. After the IASB published the IFRS for SMEs for public comment on February 15th, 2007, the TASB began to translate this draft in order to disclose to the public. These are important milestones for the accounting practices of Turkish SMEs.

In this study we examined IFRS for SMEs and the process in Turkey. We performed a SWOT analysis in order to emphasize the strengths, weaknesses, opportunities and threats in adoption of IFRS for SMEs in Turkey. We also tested our SWOT analysis by asking the perceptions of accountants.

Our findings indicate that the SMEs are recognizing the fact that their financial reporting framework is not sufficient in order to perform high quality, comparable and transparent financial information. The adoption of IFRS for SMEs in Turkey will largely change the accounting system and meet the needs of the users of SME financial statements. Unfortunately the adoption process will be complex, because of the corporate structure of SMEs and the limited education opportunities about IFRS. Not recognizing Turkish uniform system of accounts and tax legislation while setting standards will also serve as an obstacle to the convergence process. Behind the difficulties and obstacles of the convergence process, we expect that the SMEs in Turkey will achieve in adopting IFRS like listed companies.

One of the limitations of this study is low response rate of questionnaire; however this problem exists as a major shortcoming of similar studies. Another limitation of this study is high standard deviation scores. This limitation causes from the differences in the answers of the respondents.

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