

Perspectives of accounting professionals about the adoption of IFRS for SMEs: the case of Romania

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Abstract

Purpose – The aim of the study is to highlight the perspectives of accounting professionals in Romania on adopting a single set of financial reporting standards for small and medium-sized entities (SMEs).

Design/methodology/approach – The study included a combination of qualitative and quantitative methodologies. A qualitative approach was employed to examine the perspectives of accounting professionals on their inclination toward international standards for SMEs or national regulations. The quantitative approach involved doing content analysis on interviews to provide empirical support for the implementation of these standards in a national context.

Findings – Romanian accounting professionals want an improvement in financial reporting, but not necessarily through the use of an international standard. And although the level of convergence between the International Financial Reporting Standard (IFRS) for SMEs and national regulations is medium, it is not desirable to apply an international financial reporting standard for SMEs.

Originality/value – This study stands out as one of the few papers that delve into the perspectives of accounting professionals about adopting IFRS for SMEs in a specific country, offering a unique and engaging perspective.

Keywords IFRS for SMEs, Accounting professionals, Convergence, Financial reporting

Paper type Research paper

1. Introduction

In the context of increased globalization, an essential aspect of the economic environment, it has been recognized that a common accounting language is needed to make financial information as understandable and comparable as possible. To meet the requirements of small and medium-sized entities (SMEs), the International Accounting Standards Board (IASB) has developed the International Financial Reporting Standard for Small and Medium Entities (IFRS for SMEs). The widespread adoption of IFRS standards, a global movement for accounting standardization, has been a model among many countries with different regulatory systems. The increasing spread of IFRS standards globally has contributed to increased academic interest in the determinants and the effects of their adoption (Barth *et al.*, 2008; Daske *et al.*, 2008). Thus, adopting IFRS for SMEs is essential to transparency in financial reporting and global standardization (Akpan *et al.*, 2023).



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Classifying small and medium-sized companies as SMEs is a complex and varied process globally. The criteria for their classification and sizing as small or medium are established according to the country in which they operate, leading to many definitions for SMEs worldwide. These definitions are often based on quantitative criteria, such as the number of employees, total asset value and annual turnover, which allow for a clear distinction between SMEs (Buculescu, 2013; Montenegro and Moncayo, 2016).

The global application of IFRS for SMEs represents a significant alternative to financial reporting for entities whose securities are not traded on a regulated market and is a topic of current interest for the research area of harmonization of SMEs financial reports globally. The requirements of IFRS for SMEs have been adapted from the IFRS standards to suit the information needs of financial statement users. This has simplified numerous asset recognition and valuation principles, making it easier for accountants to adhere to these standards.

This study aims to highlight the perspectives of accounting professionals in Romania on adopting a single set of financial reporting standards for SMEs, answering the question: What do Romanian accountants think about adopting an international financial reporting standard addressed to SMEs in the national context? In addition to the primary goal, a secondary goal is examined, which is whether Romanian professionals in accounting would prefer to use a set of international standards over national regulations. Understanding their perspectives will provide valuable insights for policymakers and standard-setting bodies in making informed decisions on financial reporting regulations. By comparing the preferences of Romanian professionals to international standards, policymakers can assess the level of readiness for adoption and implementation. This analysis can also help identify any potential challenges or barriers that may need to be addressed to facilitate a smooth transition towards global harmonization, a process in which the audience plays a crucial role.

The paper is structured as follows: in Section 2, we present a review of the literature; in Section 3, we explain the background and context of the study. In Section 4, we present the research design, data collection methods, sample selection and data analysis techniques. The results and discussion are explained in Section 5. Finally, in Section 6, we summarize the contributions, limitations and future research directions of this study.

2. Literature review

The adoption of IFRS for SMEs is an important topic because the standard can help to establish new partnerships with entities with foreign capital and can encourage their international development, improving the comparability of financial information of SMEs at both national and international levels (Bartuňková, 2012; Bohusova and Blaskova, 2012; Perera and Chand, 2015). Also, the adoption of the standard is supported by entities owned by international groups that conclude financial statements by IFRS (Bartuňková, 2012), all leading to an increased level of confidence of investors and analysts in financial reports (Mahmood *et al.*, 2018).

The adoption of the standard has been seen as a way to increase SMEs' access to international finance through high-quality and harmonized financial information (Paananen *et al.*, 2016). This reporting language is also considered to enhance the international comparability of SMEs. If adoption benefits are recognized nationally, it represents a development for the SME sector (Perera and Chand, 2015).

An advantage is also the facilitation of the contractual environment, namely increasing the capacity of a country to borrow locally (Mawutor *et al.*, 2019) or from international organizations such as the World Bank and the International Monetary Fund (Kaya and Koch, 2014), but also the emergence of new opportunities to increase investment (Mandilas *et al.*, 2010). Adopting IFRS for SMEs could reduce the costs of developing its financial accounting

standards because countries without a national set of financial accounting standards are more likely to adopt IFRS for SMEs (Bonito and Pais, 2018).

For the adoption process to be successful and effective, it requires the joint efforts of regulatory bodies, professional accountants and SMEs. Accounting professionals, in particular, play a crucial role in this process, with their training being an essential component (Mahmood *et al.*, 2018).

The obstacles identified in the adoption process were the significant differences between IFRS for SMEs and national regulations, the costs of applying the standard (Atik, 2010; Kiliç and Uyar, 2017), lack of knowledge and limited resources (Mandilas *et al.*, 2010), lack of trained staff (Kiliç *et al.*, 2016), but also the high cost of hiring and keeping accounting professionals with IFRS skills, the level of education (Oyewo, 2015), the complexity of the standard posing a challenge for SMEs (Masca, 2012), the orientation of financial reporting towards compliance with tax rules and neglect of accounting standards (Hoxha, 2014).

Numerous studies have questioned the IASB's actions in establishing the IFRS for SMEs, with the primary concern being whether the standard is acceptable on a worldwide scale (Gassen, 2017; Ram and Newberry, 2017). For this reason, countries must carefully consider whether they should adopt IFRS for SMEs. Therefore, Hasan *et al.* (2014) suggested that developing countries that encounter difficulties in adopting IFRS for SMEs should consider a practical response to future standard revisions to benefit from it (Hasan *et al.*, 2014).

The lack of interest of SMEs in adopting the standard may be a consequence of how the IASB developed the standard. Furthermore, prior research by Gassen (2017), Sellami and Gafsi (2018) and Bautista-Mesa *et al.* (2019) has shown that SMEs are not at all motivated to adopting an international standard. Mainly because these types of entities do not have international activities and are not interested in seeking foreign investors, being part of an international group or becoming publicly listed (Aboagye-Otchere and Agbeibor, 2012; Bautista-Mesa *et al.*, 2019; Brouwer and Hoogendoorn, 2017; Gassen, 2017; Sellami and Gafsi, 2018).

3. Background and context

3.1 Background of the SME definition

The global recognition of SMEs in the economy is well established. However, the literature highlights a significant challenge in defining these entities due to the terminology used for entities that do not qualify as large entities. The terms “small entities,” “small and medium-sized entities,” or “micro-SMEs” are widely used; however, the meanings differ even though they have a similar point of reference.

The ongoing debate over the definition of SMEs on an international scale is not just a scholarly exercise, but a crucial discussion that underpins our understanding of the business landscape. The diverse quantitative criteria applied in different jurisdictions, from number of employees to sector of activity, have sparked intriguing discussions. Given the dynamic nature of business, technological progress and economic evolution, the ongoing validity of utilizing these quantitative variables to define SMEs is a thought-provoking question that demands our attention.

There are numerous arguments in the literature that support the application of the quantitative criterion of the number of employees. One of the arguments favoring this is its autonomy from additional macroeconomic indicators, such as the inflation rate. Moreover, it is regarded as one of the criteria that can be easily provided and controlled. In addition, the criterion is easily verifiable and widely understood (European Commission, 1992; Filion, 1990; Ganguly *et al.*, 1985). However, it is essential to note that there are arguments in the literature that emphasize the criterion's limitations and propose that it be supplemented with additional quantitative criteria (Osteryoung and Newman, 1993).

Turnover and total assets are commonly used as quantitative criteria. The use of turnover as a criterion was subject to arguments in favor and against, similar to the discussions surrounding the number of employees. The arguments supporting the use of turnover as a criterion are based on its verifiability and easy observability. It is seen as a realistic measure that is accessible to the public and can be easily extrapolated (European Commission, 1992; Gibson and Van der Vaart, 2008). On the other hand, the arguments against its use highlight its insufficiency. Turnover is a variable indicator that varies across different sectors of activity and its use as a criterion needs to be tailored to each specific sector.

Additionally, it is suggested that turnover should be used in conjunction with another indicator, such as total assets, to accurately reflect the size of the entity (European Commission, 1992; Hauser, 2005). According to the European Commission, the inclusion of total assets as an indicator, along with turnover, can address the issue of not specifying the sector of activity (European Commission, 2003). This allows entities to be classified into categories, regardless of their industry.

In 1992, the European Commission proposed limiting definitions for SMEs at the community level. This recommendation, 96/280/EC of 1996, was a significant step in addressing inconsistencies in using different definitions at community and national levels. The practical implications of this classification, which sets the threshold for micro-enterprises and SMEs at fewer than 250 employees, a turnover of less than EUR 50 million and/or total assets not exceeding EUR 43 million, are not just noteworthy, but crucial for understanding the current landscape of SMEs.

The significance of the number of employees as a criterion was still acknowledged; however, it appeared to be an inadequate measure. The introduction of a financial criterion was deemed necessary to accurately assess the performance and position of an entity in a competitive environment. This ongoing and lively debate about the most appropriate criteria for defining SMEs keeps the field of economics, business and entrepreneurship dynamic and engaging, ensuring that no one is left out of the conversation.

Defining an entity as an SME is not solely a matter of numbers. It also involves qualitative criteria, such as capital independence, which demonstrate the entity's autonomy. Since 2005, the European Commission has defined small and medium-sized enterprises within the European Union as entities with less than 250 employees, a net annual turnover of up to EUR 50 million and/or total assets of not more than EUR 43 million. The European Commission has been monitoring the implementation of Recommendation 2003/361/EC at the Member State level since 2005, highlighting the necessity for integrated alignment. This comprehensive approach, considering both quantitative and qualitative factors, underscores the complexity of the SME definition debate.

3.2 Defining SMEs in national context

Over the past two decades, Romania has been diligently working to establish a simplified accounting system for micro entities. This journey began with the issuance of OMFP No. 1880/2001 (Order of Public Minister no. 1880/2001 for the approval of the Methodological Norms regarding the organization and management of accounting in micro-entities), which outlined the structure of a simplified chart of accounts tailored for these entities. Subsequently, in 2002, OMFP No. 306/2002 in 2002 was adopted to align the principles, accounting rules and format of the simplified annual financial statements with the European accounting directives, ensuring harmonization. The eligibility criteria for this offer are as follows: entities must meet at least two of the following conditions: an average number of employees <50, turnover < EUR 5 million and total assets < EUR 2.5 million.

In 2006, OMFP No. 1752/2005 replaced OMFP No. 306/2002, introducing simplified annual statements. The criteria for preparing these statements were entities with an average number of employees <50, turnover < EUR 7.3 million and total assets < EUR 3.65 million. If two of

these criteria were exceeded, entities had to prepare a more comprehensive set of financial statements, reflecting the changing needs of micro entities.

In 2009, the Ministry of Public Finance released OMFP No. 3055/2009, which aimed to endorse Accounting Regulations aligned with European Directives. The aforementioned criteria were reiterated in OMFP No. 1752/2005, including three quantitative measures: an average number of employees <50, a turnover < EUR 7.3 million and total assets < EUR 3.65 million. Additionally, the requirement to provide financial statements remains unchanged.

The introduction of OMFP No. 3055/2009 marked a significant shift in Romanian accounting regulations. This order, aligned with European Accounting Directives IV and VII, not only provided additional clarifications but also established guidelines for identifying and valuing assets, liabilities and capital. It addressed the qualitative attributes of annual financial statements and standards for presenting items in annual financial reports, providing a description for their users. Additionally, it included specific provisions pertaining to management accounting, underlining the influence of European accounting directives on Romanian regulations (Hlaciuc and Deac, 2014).

Currently, OMFP No. 1802/2014, which repealed OMFP No. 3055/2009, is the key regulation governing the Romanian accounting system. This order is structured around major themes, including the scope of the regulation, definitions and size criteria for micro-enterprises, small entities and large and medium-sized entities are found, followed by small and medium groups and large groups. It also addresses accounting principles, qualitative characteristics, explicit recognition and valuation requirements, but only partially transposing the provisions of Directive 2013/34/EU (Albu and Albu, 2017). The novelty of this regulation is that it introduces value thresholds for classifying entities into categories from the accounting point of view, as well as specific reporting requirements according to size criteria (Table 1).

Table 1 reveals that entity classification thresholds in Romania differ from those of the European Commission, even when the same quantitative characteristics are considered. For instance, if IFRS for SMEs is questioned, it relies on qualitative criteria, while OMFP No. 1802/2014, the Romanian regulation uses quantitative criteria. These differences in approach can lead to varying classifications of entities, which is a crucial aspect to consider in entity classification.

In Romania, Law No. 346/2004 plays a pivotal role in entity evaluation and classification. It specifies conditions that are often overlooked, but are crucial for ensuring a fair and equitable distribution and national support measures and favorable policies. These conditions, introduced in EU legislation and subsequently incorporated into Member State legislation, including Romania, are designed to direct support to entities that truly need them, fostering a more balanced economic landscape.

The complexity of entity classification in Romania is further compounded by the variety and intricacy of relationships between entities. An entity may have very low quantitative criteria, such as turnover and number of employees, but if it has access to significant additional resources, it may not qualify as an SME. Therefore, in addition to quantitative requirements, Law No. 346/2004's structural and control relationships must be carefully considered. This complexity underscores the necessity case-by-case assessments, which involve a detailed review of the entity's financial statements, ownership structure and strategic partnerships. These assessments provide a comprehensive understanding of the entity's economic state, including its resource access and SME status and are crucial in ensuring accurate and fair entity classification.

4. Methodology

4.1 Research design and data collection methods

The research methodology employed, the interview technique, is a significant aspect of this study. It is a part of a mixed research approach that combines primary and secondary data,

Category	Quantitative criteria	Annual financial statements
Micro entities	<p>Entities that do not exceed at least two out of the three criteria (size criteria)</p> <ul style="list-style-type: none"> ● total assets: LEI 1,500,000 (EUR equivalent 338,310) ● net turnover: LEI 3,000,000 (EUR equivalent 676,620) ● average number of employees during the financial year: 10 	<ul style="list-style-type: none"> ● Abridged balance sheet ● Abridged profit or loss account ● Notes to the annual financial statement
Small sized entities	<p>Entities that are not micro entities and do not exceed at least two out of the three criteria (size criteria)</p> <ul style="list-style-type: none"> ● total assets: LEI 17,500,000 (EUR equivalent 3,946,963) ● net turnover: LEI 35,000,000 (EUR equivalent 7,893,906) ● average number of employees during the financial year: 50 	<ul style="list-style-type: none"> ● Abridged balance sheet ● Profit or loss account ● Statement of change in equity - optional ● Cash flow statement - optional ● Notes to the annual financial statement
Large and medium-sized-entities	<p>Entities that exceed at least two out of the three criteria (size criteria)</p> <ul style="list-style-type: none"> ● total assets: LEI 17,500,000 (EUR equivalent 3,946,963) ● net turnover: LEI 35,000,000 (EUR equivalent 7,893,906) ● average number of employees during the financial year: 50 	<ul style="list-style-type: none"> ● Balance sheet ● Profit or loss account ● Statement of change in equity ● Cash flow statement ● Notes to the annual financial statement ● reports related to the payments towards governments ● additional information requested by the MFP and other regulatory bodies

Table 1.
Categories of reporting
entities according to
OMFP No. 1802/2014

Source(s): OMFP No. 1802/2014

qualitative and quantitative methods and both parallel or sequential use (Saunders *et al.*, 2009).

This study, conducted in two stages, has practical implications for financial reporting practices. In the first phase, a qualitative method with semi-structured interviews with accounting professionals and trainees who are members of the Romanian Chamber of Certified and Chartered Accountants (Corpul Expertilor Contabili si Contabililor Autorizati din Romania) CECCAR was used to explore their perceptions of financial reporting of SMEs in the national context. The study also investigated whether they would prefer the use of a set of regulations used internationally for financial reports of SMEs. In the second phase, a quantitative method was used through a content analysis of the information obtained during the interviews to obtain empirical evidence on how to apply the standard more easily in the national context.

The interview, a key component of qualitative research, is one of the most widely used data collection methods. Its popularity is related to the fact that the interviewees speak naturally (Griffie, 2005). Also, one of the advantages of this method is that it explores respondents' actions, ideas, opinions and perspectives on the research subject. Essentially, an interview is defined as a conversation conducted to collect data by the interlocutor asking the questions (the interviewer) and the presence of one or more persons is required to answer the questions asked by the interviewee (Easwaramoorthy and Zaporinpush, 2006). Within this data collection method, quantitative or qualitative questions can be asked. Most of the time, the quantitatives are closed, while the qualitatives are open and respondents answer using their own words (Doody and Noonan, 2012).

In the literature, interviews can be classified into quantitative and qualitative (Bryman, 2006; Easwaramoorthy and Zaporinpoush, 2006). Quantitative interviews answer a specific set of questions in a form the researcher prepares. These can be face-to-face or online so that the interviewer can build and maintain a relationship with the interviewees, and this type of interview takes the form of structured interviews (Bryman, 2016). Creating a relaxing and friendly environment for respondents is essential in encouraging them to speak freely and as openly as possible about the proposed topic, which is essential in data collection (Qu and Dumay, 2011; Wijekoon, 2018). The use of face-to-face interviews enables to obtain points of view from respondents. It offers some flexibility in adjusting and explaining questions, especially when respondents seem reluctant to answer because they need more understanding of questions or are reluctant to reveal more sensitive information (Wijekoon, 2018).

Qualitative interviews, a powerful tool in understanding and analyzing the factors and phenomena of human behavior, offer a unique space for participants to voice their personal concerns. These interviews, which focus on ideas and opinions, provide a platform for participants to share their experiences and perspectives, fostering a sense of empathy and understanding (Denzin, 2009).

As a research method, interviews offer the interviewer a unique opportunity to delve into the perspectives of the interviewees. However, like any method, interviews have their limitations. For instance, even if the interview is conducted in a common language, the words used by the interviewer and the interviewee can have different cultural interpretations, leading to potential miscommunication. This highlights the importance of cultural sensitivity and understanding in the interview process (Qu and Dumay, 2011).

The semi-structured interview, a type of qualitative interview, has been widely used to obtain the opinions and experiences of many researchers in the field of accounting. Notable studies that have utilized this method include those by Abraham and Adeiza (2020), Albu *et al.* (2013) and Gassen (2017). These studies demonstrate the versatility and effectiveness of the semi-structured interview in gathering rich and nuanced data in the field of accounting.

For this study, twenty semi-structured interviews were conducted in person or over the phone with accounting professionals (trainees and CECCAR members - Body of Expert and Licensed Accountants of Romania). The choice of semi-structured interviews was driven by several factors. Firstly, the lack of a national standard and the inability to evaluate historical data led us to believe that semi-structured interviews would be more effective in exploring perspectives on its application for SMEs in Romania. Secondly, these interviews provided a platform to expand the questions throughout the interview by offering additional information. Thirdly, the flexibility of semi-structured interviews allowed the researchers to thoroughly and unrestrictedly investigate the respondents' opinions, empowering them in the research process.

4.2 Sample selection and ethical consideration

For this study, the "snowball approach", a significant method in qualitative research, was employed. This approach involves selecting participants through the network of contacts of researchers who possess knowledge related to the topic. It is particularly useful in qualitative research as it provides a homogeneous sample and aids in understanding social phenomena in detail (Goodman, 1961; Kend and Nguyen, 2020).

The interviews targeted accounting professionals who are members of CECCAR and trainees within CECCAR. These individuals, with their valuable insights and experiences in financial reporting of SMEs, formed the backbone of our study.

After the target group for the interviews was identified, a comprehensive communication strategy was implemented. Various means of communication, such as telephone and e-mail,

were used to reach out to potential participants. E-mails were sent to the participants that included the study purpose, the purpose of the interviews and details of the interviews, such as the time and manner of the interview.

A total of twenty semi-structured interviews were conducted with the selected target group between March 2022 and June 2022, with each participant's duration being 15–20 min. To ensure the validity of the results, the demographic data of each participant was carefully recorded and made available in Table 2, providing a comprehensive overview of their characteristics and backgrounds.

The purpose of the interviews in this study was to provide valuable information on the possible use of an international financial reporting standard by SMEs. As the interviews were conducted, it became apparent that the data were becoming repetitive and no new insights were being gained. This is known as data saturation. At this point, we stopped conducting additional interviews as the data obtained were sufficient to shape a conclusion.

Ensuring ethical standards in research is crucial to maintain the integrity of the study. Our interviews were conducted with strict adherence to these standards. We provided detailed information to the participants about the study's objective, the privacy of their responses and their voluntary participation. It is important to note that all participants provided informed consent. We implemented data privacy and security measures to ensure confidentiality and privacy. To further protect participants' identities, all potentially sensitive information was anonymized and securely stored.

4.3 Data analysis techniques

The analysis of the data obtained (transcriptions of interviews) was efficiently carried out using a QCA software, Nvivo (12 Plus), which served as a robust tool for conducting qualitative research. Its use not only streamlined the process of organizing and managing large amounts of data but also ensured a high level of accuracy. However, it's important to note that the software also requires manual data handling during analysis, which underscores the need for meticulousness in the research process.

Interview participants	Age	Education
I1	25	Master's degree
I2	28	Master's degree
I3	29	PHD degree
I4	35	Master's degree
I5	30	Master's degree
I6	38	Master's degree
I7	40	Master's degree
I8	40	Master's degree
I9	37	Master's degree
I10	41	Master's degree
I11	57	Master's degree
I12	35	Master's degree
I13	36	Master's degree
I14	47	Master's degree
I15	36	Master's degree
I16	30	Master's degree
I17	40	Master's degree
I18	30	Master's degree
I19	26	Master's degree
I20	33	Master's degree

Table 2.
Demographic data of
interview participants

Source(s): Authors analysis

In order to meet the aim of this analysis, the researchers have adopted a systematic approach known as thematic analysis. This method, as outlined by Braun and Clarke (2006), helps the researcher identify, analyze and find patterns or themes within the analyzed data. The steps proposed by Braun and Clarke (2006) are familiarizing oneself with the data, generating the initial codes, searching the themes, reviewing the topics, defining and naming them and making the final report. This systematic approach ensures a comprehensive and rigorous analysis of the data.

After the steps were completed, the information in Table 3 was obtained.

5. Results and discussion

5.1 Profile of the interviewees – descriptive analysis

The study involved conducting a total of 20 semi-structured interviews with the selected target group. Each interview was conducted for a duration of 15–20 min, allowing for ample time to gather insightful information from the participants.

According to the data presented in Table 4, 75% of the interviewees are female. Moreover, more than half of the total (55%) possess 6–10 years of experience in the accounting profession. Additionally, 75% of the interviewees are active members of the CECCAR, while the remaining 25% are currently enrolled in a training course.

5.2 Satisfaction with the present SME definition

In order to capture the valuable viewpoints of our participants in the interviews about the degree of satisfaction with the definition and value thresholds for classifying entities into

Theme	Sub-theme
SME definition – criteria	Qualitative criteria (Organizational form, Form of ownership) Quantitative criteria (Sufficient/Appropriate, Inadequate/Insufficient)
Information and financial statements	Trial balance Balance sheet Profit or loss account Tax Information Wage Contributions Information Income and Expenditure Information VAT Statement Information Payment and Income Level Information (Weekly or Monthly) Supplier Status Information, Customer Information and Default Deadlines (Weekly or Monthly) Stock Information and Value (Weekly or Monthly) Notes to the financial statements General journal
Users of financial statements	Internal Users (Managers, Owners) External users (Banks and other credit institutions, Clients, Suppliers, Potential Investors, Capital Providers, State and tax administration institutions)
Using an international standard as an alternative in the national context	Agreement Disagreement Undefined
Application of an international standard in the national context	Mandatory adoption of the standard Voluntary adoption of the standard Convergence with the standard

Source(s): Authors analysis

Table 3.
Themes and sub-themes identified

Table 4.
Profile of interviewees
– descriptive analysis

Interviewee characteristics		No.	%
Gender	Male	5	25
	Female	15	75
	<i>Total</i>	<i>20</i>	<i>100</i>
Experience in the field	Between 1–5 years	5	25
	Between 6–10 years	11	55
	More than 10 years	4	20
	<i>Total</i>	<i>20</i>	<i>100</i>
Membership of CECCAR	Active member	15	75
	Trainee	5	25
	<i>Total</i>	<i>20</i>	<i>100</i>

Source(s): Authors analysis

categories used in the national regulation and if they consider it more appropriate to use also qualitative criteria in the definition, the following question was used: “According to OMFP no. 1802/2014, entities are delimited by quantitative criteria such as total assets, turnover and number of employees. In the current context, do you think these criteria are sufficient/suitable for classifying entities into categories of SMEs, or should they be amended/replaced?”

To find out more about the criteria that the participants believe should be used, the question “If the quantitative criteria are no longer sufficient, then what criteria do you think should be taken into account for the delimitation of entity types?” was used.

After the interviews, eighteen out of the twenty participants were satisfied with the current definition, value thresholds and the quantitative criteria for classifying SMEs. The arguments were as follows:

- (1) The quantitative criteria clearly define entity categories, with fewer obligations for firms with less activity, referring to the abridged balance sheet and abridged profit or loss account (I5)
- (2) The current indicators are sufficient and easy to use, but adding more would make their job more challenging (I9)
- (3) Abridged financial statements suit small firms with fewer employees and restricted activity (II5).

However, two participants also said that they were not satisfied with the current way of defining SMEs. One of them stated that he had not considered any other way of defining, and the other suggests that financial reporting should now incorporate more quantitative criteria in tax matters, ensuring uniformity and increased transparency. They also proposed considering ownership forms, such as capital divided into shares, although they acknowledged the potential challenge of setting differentiated thresholds for SMEs. This suggests that further examination of this issue could potentially lead to significant improvements.

5.3 Use of financial information/statement

Understanding tax information is crucial for stakeholders and managers when it comes to SMEs. This is the most frequently requested information and accountants play a vital role in determining and communicating tax obligations. Additionally, other key information includes revenue and expenditure levels and details about the business’s liquidity, such as payment status, receipts, clients and suppliers.

Upon analyzing the responses, it was evident that accounting professionals, with their deep understanding of financial matters, consider tax information the most requested, along

with those related to the level of income and expenses recorded or the maturity of suppliers or customers. This underscores their expertise and the reliability of the findings. Furthermore, it was found that around 50% of the participants identified the profit and loss account and balance sheet as financial statements that were frequently consulted. Therefore, based on the estimation of these accounting specialists, tax information is the most frequently requested topic. Moreover, previous studies have observed that accounting practitioners commonly ascertain and relay the precise amount of tax obligations in practice, providing further evidence for this conclusion (Buculescu, 2013).

5.4 Users of the financial statements of SMEs

During the interviews, the goal of analyzing the types of users of Romanian SMEs' financial statements was to determine whether the interest of specific categories of users has increased over time and whether new categories of users have emerged who would like easier access to financial data.

The analysis of user types utilizing the financial statements of Romanian SMEs yielded significant findings. It was found that state and tax administration institutions are universally recognized as the primary users, with 85% of respondents mentioning managers, stakeholders, banks and other credit institutions as secondary users. This underscores the importance of understanding the primary and secondary users of financial statements and their specific interests, as evidenced by the following arguments:

- (1) The state, associations, administrators and managers primarily use financial statements for financial information (I3)
- (2) The state is the primary user of financial statements of SMEs, as they are primarily created for tax purposes (I10)
- (3) SMEs primarily use financial statements for tax returns, with the state, managers, shareholders and banks being key users for analyzing a company's economic situation (I11).

This conclusion aligns with the study of Gassen (2017). In his study, Gassen (2017) found that respondents identified the state, particularly tax authorities and banks, as the primary users of SMEs' financial statements. He also observed that SME stakeholders are likewise considered as primary users but to a lesser degree compared to the aforementioned user categories. Deaconu and Cuzdriorean (2016) have recognized the state as the primary consumer of financial statements in emerging nations, particularly in Central and Eastern European countries. Similarly, Albu *et al.* (2010) conducted a comprehensive analysis of the potential adoption of the standard in Romania, shedding light on the state's role as the primary user of financial information for most SMEs.

The responses from the participants reveal a diverse range of interests in specific financial information. These insights, which have direct implications for preparing and presenting financial statements, are crucial for professionals in the field. For instance, state and tax administration institutions focus on determining taxes and ensuring adherence to the law, whereas banks and other credit institutions prioritize the financial status of the company, including its liquidity and solvency indicators. Contrary to the two user categories, stakeholders of SMEs typically align themselves with managers. They prioritize making managerial decisions and show a particular interest in information pertaining to the company's overall situation. Due to their familiarity with the company, they frequently request tax-related information.

Deaconu *et al.* (2009) noted that each user of a SME's financial statements is interested in specific financial accounting information, supporting these claims. To ascertain the primary

users of financial statements at the national level, research has been undertaken to identify the subsequent groups:

- (1) State (Bunea *et al.*, 2012; Deaconu *et al.*, 2012)
- (2) Banks (Deaconu *et al.*, 2012; Masca *et al.*, 2010)
- (3) Managers/Stakeholders (Albu *et al.*, 2013; Deaconu *et al.*, 2012)

More than a decade ago, Albu *et al.* (2010) conducted a comprehensive analysis of the potential adoption of the standard in Romania. The study aimed to identify potential distortions in the standard's application and associated issues. The findings, which underscore the role of the state as the primary user of financial information for most SMEs, revealed that while other entities, such as banks and creditors, also utilize financial statements, the state stands out due to its coercive methods to obtain necessary information. Therefore, the potential application of IFRS for SMEs would primarily benefit entities with multiple users categories, as the state already obtains the information it needs for tax purposes (Albu *et al.*, 2010, 2013).

5.5 Use of an international standard as an alternative in the national context

In today's global economy, it's important for businesses to have a consistent and reliable financial reporting system. That's why the use of an international financial reporting standard for SMEs is gaining attention as a viable alternative for entities whose securities are not listed on a regulated market. This approach is considered to have enormous potential in harmonizing financial reporting for SMEs worldwide.

In Romania, the study by Albu *et al.* (2010) serves as crucial reference point. This study, conducted more than a decade ago, examined the circumstances surrounding the potential adoption of the standard, identifying potential deviations in its application and the associated challenges. It was utilized in the present research to address whether implementation of an international financial reporting standard for SMEs can be considered a viable alternative in the present national context. This was based on the practicality of applying the standard within a national framework and the insights provided by accounting professionals. The aim was to assess what the participants think of the potential adoption of the international standard currently.

The question "Do you consider that the use of an international financial reporting standard for small and medium-sized entities can be seen as an alternative in the current national context?" was used in the interview and allowed for an evaluation of the respondents' viewpoints. Furthermore, the responses are intended to assist accounting and tax regulatory entities in determining the most effective approach to applying this standard, ensuring that it is user-friendly for SMEs and accounting professionals while simultaneously not affecting the interests of all parties engaged in the accounting process. The majority of participants to the interview expressed satisfaction with the national accounting standards for SMEs, while they believed that certain simplifications were necessary within these regulations. Thus, it can be concluded that there is a need for improvements in financial reporting, reiterating the ongoing efforts.

After examining the responses, it was discovered that 60% of the participants believe that implementing an international financial reporting standard for SMEs might be a possible option within the country's framework. The arguments presented were as follows, highlighting the potential benefits that could inspire confidence in the audience:

- (1) Using an international financial reporting standard for SMEs would simplify accounting work by adopting international standards and performing one report for all entities, regardless of their type (I5);

- (2) There is high de jure convergence between national and international regulations; the issue arises when material convergence is achieved due to tax rules, particularly in SMEs, which may be challenging to solve (I9);
- (3) While aligning with European directives, applying an international standard would be easy, requiring consideration of firm-specific features and stakeholder concerns. This could make international standards an alternative in the Romanian context, emphasizing the importance of stakeholder concerns (I15);
- (4) International accounting treatments are similar to national ones (I18);
- (5) Smaller businesses can expand and secure financing from foreign investors, eliminating discrepancies in reports. Implementing these standards in all countries can achieve this goal (I19);

The application of the standard is a potential advantage for entities as it enables them to overcome challenges in seeking cross-border funding sources and expanding their business internationally. Limited access to financial resources poses a significant challenge for the growth of SMEs, restricting their progress in emerging markets and developing nations (World Bank, 2020). Due to the increased difficulty for SMEs to get bank loans, they often depend on domestic cash or financial support from family to initiate and initially grow their businesses.

Additionally, participants brought up the connection between accounting and taxation, a connection that also presents a challenge in the use of national regulations. In general, the link between taxation and accounting is seen as the main obstacle in the adoption of the IFRS for SMEs because it is considered that they have different objectives, namely that financial accounting provides useful information for management and control and taxation provides information for collecting taxes (Bohusova and Svoboda, 2016; Kotowska and Martyniuk, 2016). Even if most countries adopted the standard, there would still be mistrust that material convergence would be ensured because entities are likely to continue to use tax rules to the detriment of accounting ones (Albu *et al.*, 2010; Girbina *et al.*, 2010).

Within the group of participants who have a favorable view towards the adoption of the international standard, a subset asserts that if the Romanian accounting system has already been harmonized with the European regulations, it can also be harmonized with the widely accepted international standards. While the role of accounting professionals is widely recognized, the Romanian regulatory authorities will act according to the context in which they are.

In this scenario, normative isomorphism is observed, wherein shared ideals result in conformity in both thought processes and behaviors inside institutional settings (DiMaggio and Powell, 1983). One argument in favor of this case is that the European Commission does not recognize the use of IFRS for SMEs as a substitute for financial reporting in the European Union. Therefore, the restrictions outlined in European directives are endorsed. For this purpose, the European Financial Reporting Advisory Group (EFRAG) and the European Commission produce analyses and reports about many elements of financial reporting. These reports are related to both the European accounting directives and the IFRS issued by the IASB.

As an alternative in the national context, using an international financial reporting standard for small and medium-sized enterprises was rejected by another 25% of the participants. The reasons for this rejection were varied and included:

- (1) Romania's financial statements are primarily tax-based and can be submitted to the Ministry of Finance's territorial units, making international reporting unnecessary (I3);
- (2) International standards increase comparability and transparency, but their use may not be seen positively by firms' stakeholders due to potential negative impacts on their economic situation (I4);

- (3) Using an international standard for SMEs is unsuitable because the entities need more resources to attract foreign investment and use abridged financial statements (I13).

Furthermore, 15% of the participants provided evasive responses, which did not fit into any of the aforementioned categories of agreement or disagreement regarding the IFRS for SMEs as an alternative in the national context.

The study shows that 60% of Romanian SMEs acknowledge the potential of an international standard for financial reporting, but there is a degree of hesitation about its adoption. Despite the evolution of the Romanian accounting system, stakeholders' attitudes and the ongoing connection between accounting and taxation, accounting professionals in Romania want improvements in financial reporting but may not necessarily advocate for an international standard. Therefore, considering the arguments mentioned above, the aim is achieved, despite the moderate level of alignment between national regulation and IFRS for SMEs.

5.6 Adoption of an international standard in the national context

Similar to the study conducted by [Albu et al. \(2013\)](#), the interview concluded by examining various scenarios regarding the potential adoption of IFRS for SMEs and the interviewees discussed the consequences of these scenarios. The variables studied proposed by [Albu et al. \(2013\)](#), were as follows:

- (1) Scope: full or partial application of the standard;
- (2) The degree of coercion: mandatory or voluntary adoption;
- (3) Tax character: recognition of the standard as the tax base;
- (4) Adoption of a standard or adaptation of the local (national) context: adoption refers to applying the standard without altering the IASB's established form, whereas adaptation or convergence refers to modifying it to suit the national context.

The variables mentioned above were combined to create three scenarios that were presented to the participants. The three scenarios presented as alternatives are as follows:

- (1) Scenario 1: Mandatory adoption of the standard. This approach involves some SMEs using the IFRS for SMEs only, while others continue to apply only national regulations.
- (2) Scenario 2: Voluntary adoption of the standard. Voluntary adoption implies accepting of the standard as a tax base, with no need for national regulations, or applying dual reporting, requiring two sets of financial statements.
- (3) Scenario 3: Convergence with the standard. Convergence involves developing national regulations based on IFRS for SMEs, in which only some treatments within the standard are modified.

Interestingly, none of the participants favored the first scenario, which involved mandatory standard adoption. A significant majority, 60%, expressed a preference for scenario no. 2, which involved voluntary adoption. The remaining 40% chose scenario no. 3, which involved convergence with the standard. These findings underscore the practical implications of our research.

The voluntary adoption of IFRS for SMEs presents a host of advantages over mandatory adoption. It empowers the entity to assess whether IFRS for SMEs is a suitable standard version for its specific information requirements. Moreover, adopting a standard voluntarily is less financially burdensome for the organization compared to a forced or necessary adoption, as evidenced by studies ([Kaya and Koch, 2014](#); [Masca and Gall, 2008](#)).

The interviews reveal that respondents emphasize the importance of voluntary adoption of international financial reporting standards, stating that once benefits are perceived, the effort is considered insignificant. They also suggest that firms should prepare financial statements based on the needs and interests of SME users, aligning with the IASB's view of meeting external user needs (Albu *et al.*, 2013; Litjens *et al.*, 2012). This information equips the audience with a deeper understanding of the benefits of voluntary adoption.

The interviews underscore the importance of voluntary adoption of international financial reporting standards. Respondents stress that the effort is considered insignificant once the benefits are perceived. They advocate for firms to prepare financial statements based on the needs and interests of SME users, aligning with the IASB's view of meeting external user needs. This emphasis on user-centric financial reporting highlights the relevance and impact of the research on the accounting profession.

Our findings also shed light on the concept of mimetic isomorphism, which involves entities or countries adopting similar financial reporting standards to enhance the comparability of financial statements. However, our research suggests that relying solely on mimetic isomorphism, without any forms of coercive and/or normative isomorphism, would be insufficient. Voluntary adoption, in this context, would not meet the expectations of the IASB or regulatory authorities, highlighting the limitations of this approach.

The third scenario discusses the closely related concepts of harmonization and convergence. Harmonization aims to remove discrepancies between current accounting standards, while convergence involves gradually reducing differences by applying a new accounting approach through the collaborative efforts of the IASB and other groups working towards resolving accounting and reporting issues (Choi and Meek, 2011). Therefore, it is argued that harmonization and convergence do not involve replacing national standards with international standards, as they can exist together.

The benefits of the convergence process include transparency and a better understanding of financial statements, a lower cost of capital, increased credibility of domestic markets for foreign investors and greater mobility of economic personnel. In addition to these advantages, there is an improvement in accounting quality, which highlights the information asymmetry between managers and stakeholders through proper management of assets and revenues, lower capital costs and increasing the ability to predict future profits of the company (Odia and Ogiedu, 2013).

The reasons presented are specifically linked to the existing treatments and unique characteristics that are already employed to achieve convergence with the standard. Despite the parties involved' lack of enthusiasm for adhering to this standard, they still wish to maintain these practices.

The necessity of accounting convergence has arisen due to the requirements of financial statement users. The need for accounting convergence arises from the globalization of the capital market and the demand for the financial statements of the economy to be comparable, enabling easier access to funding sources across international borders (Devi and Samujh, 2015; Ferrer, 2016; Oliva, 2018).

Accounting professionals often prioritize voluntary adoption over convergence; however, there is already some progress being made towards convergence at a moderate level.

6. Conclusion

The aim of the research was to determine whether accounting professionals in Romania would prefer to use international financial reporting standards instead of national regulations. The study also aimed to examine their perspectives on adopting IFRS for SMEs and to identify their concerns about current legislation.

The research revealed that Romanian accounting professionals are knowledgeable and satisfied with national accounting regulations. They effectively manage the five most

important categories of financial information, including tax information, the balance sheet, profit and loss accounts, supplier maturity and income and expenditure levels. Based on the data obtained, all participants emphasized that the state and tax administration institutions are considered the primary users in the case of SMEs.

The study also revealed a nuanced perspective on the potential of an international standard for Romanian SMEs' financial reporting. However, the hesitation to adopt an international standard was attributed to the rich history of the Romanian accounting system, the unique characteristics of the continental accounting system, the stakeholder mindset and the intricate link between accounting and taxation. Participants expressed concerns that adopting an international standard may not align with the specific needs and practices of Romanian SMEs. Additionally, they highlighted the importance of ensuring that any changes in financial reporting standards do not create additional burdens for small businesses.

Despite the convergence between national regulations and IFRS for SMEs, applying an international financial reporting standard is not preferable. The participants, recognizing the importance of their role in shaping the future of financial reporting, chose voluntary adoption or convergence with the standard, excluding the idea of mandatory adoption. They believed this approach would better suit the needs and characteristics of SMEs. Grasping the rationale behind their perspectives provides policymakers and standard-setting bodies with valuable insights, aiding them in making well-considered decisions on financial reporting regulations.

The results of our study may be of particular interest for regulatory bodies. Moreover, by giving local standard setters some factual support, our work may help increase interest in IFRS for SMEs voluntary adoption in Romania.

It is important to interpret our findings with caution as in-depth qualitative studies have some inherent limitations. These limitations include a small sample size, the non-probabilistic nature of the study and the subjectivity inherent in perceptions that restrict the potential to generalize the results.

The findings of the research could be further explored in terms of how accounting professionals in Romania view the benefits and drawbacks of implementing international financial reporting standards compared to national regulations. It would be interesting to look deeper into the specific concerns raised by participants regarding current legislation and analyze how these concerns impact their day-to-day work as accounting professionals.

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