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### Research Overview on Applying International Accounting Standards (IFRS) to Small and Medium Enterprises in Vietnam

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#### Abstract

In accounting, globalization is expressed through the process of applying a unified system of accounting standards to many countries and territories. The development of this issue and the requirements of production and business activities in the process of globalization have affected all organizations and individuals doing business in the Vietnamese economy today, requiring make appropriate adjustments when joining the global economy. International accounting standards are a set of standards established to help businesses make financial statements more convenient. IAS standards were gradually changed to IFRS since 2001 to establish a common accounting language, common to all businesses in countries around the globe. These standards help make a company's financial statements more transparent, consistent, and easier

to compare across different countries. However, the scope of application of this IFRS is limited mainly to large enterprises, corporations, commercial banks... and medium, small, and micro enterprises that do not have the need and conditions to apply IFRS are not included. Applicable objects of the project. However, reality shows that there are still small and medium-sized enterprises interested in preparing financial statements according to IFRS in the process of participating in globalization and international economic integration. Enough will cause many hardships and challenges for this group of people. Therefore, IFRS for SMEs will be suitable and convenient for small and medium-sized enterprises to apply, helping SMEs have more opportunities to join globalization.

**Keywords:** International Accounting Standards, Small and Medium Enterprises, Financial Report

#### 1. Overview of studies on IFRS application for small and medium enterprises (SMEs) and intention to apply IFRS for domestic SMEs

Tran Dinh Khoi Nguyen (2010) built a model of factors affecting the application of accounting standards in SMEs in Da Nang. Research shows the decisive role of human factors, while policy factors such as guiding documents, or financial characteristics of businesses, etc. do not have a significant impact. The author also emphasized that the value of financial statement information (financial statements) of SMEs to the business community is really not much <sup>[1]</sup>.

Tran Dinh Khoi Nguyen (2013) analyzed the scale of non-financial factors affecting the application of accounting standards in SMEs in Vietnam. The author has identified four non-financial factors that can affect the application of accounting standards, including: The quality of accounting human resources, practice guidance documents, consulting the accounting community and awareness of business owners, in which the quality of human resources is the main influencing factor <sup>[2]</sup>.

Vo Van Nhi and Tran Thi Thanh Hai, (2017), research article "Discussion on the issue of establishing a set of accounting standards for small and medium-sized enterprises in Vietnam following the IFRS for SMEs approach", research group mentioned the development of a separate set of accounting standards for SMEs compared to the general set of standards applicable to large enterprises, on the basis of IFRS for SMEs. The group aims to establish its own that can be appropriately applied to Vietnamese SMEs on the basis of existing capacity and ensure reasonable compliance with IFRS for SMEs issued by the IASB. The article has pointed out the most necessary contents to be able to establish a separate set of standards for SMEs and established the most basic issues in establishing Vietnam's own set of standards according to IFRS for SMEs <sup>[3]</sup>.

MSc. Le Thi Ngoc Phuong (2017), International financial reporting standards for small and medium enterprises (IFRS for SME) Applicability in Vietnam, the author has generalized the history of birth and development of IFRS for SMEs as issued

by IASB. At the same time, the author also mentioned the main differences between IFRS applied to large enterprises and IFRS for small and medium enterprises, including: Differences arising from the deletion of policies alternative accounting; The difference arises from the partial exclusion of areas and reports in which SMEs do not arise; The difference concerns the simplification of IFRS for SMEs; The difference is related to the process of updating and applying the IFRS system for SMEs.

The article analyzes the perspective on small and medium-sized enterprises (SMEs) according to IFRS for SMEs and according to Vietnam's Law on Support for SMEs. Analyze the situation of SMEs in Vietnam. At the same time, the article provides an assessment of the possibility of applying IFRS for SMEs in Vietnam.

Accounting and Auditing Magazine (April 2017), Financial reporting standards for large and small enterprises International experience and lessons for Vietnam, distinguishing the differences between IFRS and IFRS for SMEs, as well as international experiences and lessons for Vietnam.

Dr. Ho Xuan Thuy (2018), Applying IFRS to SMEs in Vietnam - Issues of concern, mentions main issues related to applying IFRS to SMEs in Vietnam. The author mentions issues related to application such as human resources, costs, obstacles...<sup>[4]</sup>.

Dr. Ho Xuan Thuy (2018), Developing a set of financial reporting standards (IFRS) for small and medium-sized enterprises (SMEs) for Vietnam. The author has conducted statistics on the system of financial reporting standards that are different from the full Financial Reporting Standards (applied specifically to SMEs), and at the same time researched international experiences in establishing and applying them. Applying different standards for SMEs in different countries based on international standards or national standards. From the research results, the author has drawn experiences for Vietnam, which are very practical experiences for relevant parties to develop financial reporting standards suitable for Vietnamese small and medium enterprises to increase opportunities. For Vietnamese SMEs in world economic integration and global accounting<sup>[5]</sup>.

The above studies have mentioned the knowledge of IFRS for small and medium enterprises, the differences with full IFRS, difficulties and challenges when applying, through the research provided to the author group. General understanding of IFRS for SMEs. Research is often conducted on a wide scale throughout Vietnam. The authors also determined that up to now there has been no research on applying IFRS to SMEs in Hanoi city.

## 2. Overview of studies on IFRS application for SMEs and intention to apply IFRS for SMEs from abroad

### 2.1 Research on IFRS for SMEs (IFRS for SMEs)

Jensen & Meckling (1976)-Agency theory. According to Jensen & Meckling (1976), agency theory refers to the relationship between the owner (the principal) and should be authorized through a contract. At that time, the owner must delegate the authority to operate the business to the authorized party and this party has the right to make economic decisions affecting the operations of the business. According to agency theory, both parties want to maximize their benefits, so disagreements also arise, and it is likely that managers will find ways to influence financial

statements to achieve their desired goals by How to choose policies that are beneficial to managers when preparing reports. This theory mentions a number of factors that affect the ability to apply IFRS such as business size, ownership, type of business...

Albu, N., Nicolae Albu, C., Bunea, Ș., Artemisa Calu, D., & Mădălina Girbina, M. (2011), Lessons on implementing IFRS in Romania, mentioning experiences in implementation IFRS in Romania, the advantages and disadvantages associated with the specific characteristics of this country<sup>[6]</sup>.

Bassemir, M. (2018). Why do private enterprises apply IFRS? The author has outlined the reasons for using IFRS with private enterprises<sup>[10]</sup>.

Auditing company Deloitte (2023) conducted summaries of IFRS for SMEs, giving overviews of its history, structure, characteristics, and how to apply<sup>[24]</sup>.

Conclusion: The content of research on IFRS specifically for SMEs in the world often focuses mainly on research by professional consulting service providers for IFRS application, the rest are mostly lessons learned. Arising from the application of IFRS.

### 2.2 Studies on factors affecting the application of IFRS for SMEs (IFRS for SMEs) and influencing factors

In the world, there are many studies on IFRS for SMEs based on country characteristics about factors affecting the application of IFRS for SMEs. Specifically, there are the following comments:

Salter & Niswander (1995), the authors commented that in countries where equity capital dominates, information disclosure models are at a higher level, or information disclosure requirements are also higher. Was built<sup>[11]</sup>.

Adhikari & Tondkar (1992). The authors, when researching international stock markets, pointed out that the size of the capital market is very important in explaining the expansion of information disclosure and listing requirements<sup>[12]</sup>.

The adoption of a particular accounting system (such as adoption of IFRS) is also influenced by educational level (Dounnik & Salter, 1995; Adhikari & Tondkar, 1992).

Zeghal & Mhedhbi (2006) identified factors affecting the application of IFRS in developing countries or emerging economies based on a research sample of 64 emerging countries, including 32 emerging countries. Have applied IFRS and 32 emerging countries have not yet applied. The results of the study show that the level of educational development is a factor that has a relatively positive impact and goes along with the application of IFRS. At the same time, the author also points out that countries with highly educated populations that receive good education will require more complex accounting standards to meet their information needs<sup>[13]</sup>.

Aggarwal & colleagues (2005) researched on measuring tools for socio-economic status. This study showed that a very important tool to measure each country's socio-economic status is socio-cultural level<sup>[14]</sup>.

Smith & Runyan (2007) in their research article in International Journal of Accounting, Auditing & Performance Evaluation, Vol. 4, No. 6, pp. 572-588, 2007 found a normative trend for countries in globalization that is, the globalization of financial markets will be promoted in an environment where compliance with uniform regulations for the establishment of financial markets will be promoted. Financial statements aim to bring benefits to investors,

creditors, financial analysts, and accounting and auditing organizations to help compare and contrast financial statements across countries<sup>[15]</sup>.

Economic characteristics, legal systems and cultural characteristics of each country also affect the issuing agency, the issuance process and the effectiveness of implementing accounting standards (Chand & Patel, 2008)... These factors include: Legal system, taxes, economic development, education, culture, politics and inflation, ...

Madawaki (2012) in the article "Adoption of international financial reporting standards in developing countries: The case of Nigeria" learned about the application of IFRS by Nigerian businesses. Research has identified that the biggest challenge for countries when applying IFRS to SMEs is the need to develop a legal system of standards and corresponding legal documents that must be strict, complete and specific. To guide users<sup>[16]</sup>.

Sharing the same view as Madawaki (2012), Zakari (2014) also studied the application of standards in developing countries and the experimental case in Libya, also found that the influence of the legal system is one of the challenges in developing countries when applying IFRS to SMEs<sup>[8]</sup>.

Albu & colleagues (2011) investigated the perceptions of parties related to the application of IFRS for SMEs, the results showed differences between stakeholders and opinions of subjects related to the application of IFRS for SMEs. Financial statements affect the acceptance of IFRS application for SMEs. According to the research team. The attitudes of stakeholders are very important<sup>[6]</sup>.

Jarvis & Collis (2003) in their research article confirm that research on the impact of stakeholders on application is quite fragmentary. There needs to be a study that helps clarify the correlation and connection between the parties. The article also argues that banks and managers/owners are the main users of financial statements of units<sup>[17]</sup>.

Quagli & Paoloni (2012) in their study Implementation of IFRS for Emerging Economies found that the application of IFRS for SMEs in the European Union (EU) has influential factors. The authors state that accountants have expressed stronger opposition to IFRS for SMEs, while users of financial statements strongly agree to apply IFRS for SMEs. Kim Shima & David C. Yang (2012), Factors Affecting the Adoption of IFRS mentioned that applying IFRS helps increase investor confidence and reduce financial reporting costs<sup>[9]</sup>.

Fatma & Jamel (2013) aimed to identify factors affecting the application of international accounting standards IFRS in developing countries. The analysis results found that the level of education has a relative influence on the application of international accounting standards. IFRS application in these countries.

Albu & colleagues (2013) show a significant relationship in costs incurred with the appropriateness of applying IFRS for SMEs, in this study users and preparers of financial statements are the subjects surveyed. Most closely observed, and identified as the stakeholders of SMEs<sup>[6]</sup>.

Young & Guenther (2003), researched information on financial statements and the relationship with international capitalization, the results showed that countries with accounting and financial environments converging with international IFRS applies to SMEs a lot and tends to provide very transparent information, information that can be compared with each other, and has the ability to attract a lot of investment capital from abroad<sup>[23]</sup>.

Samujh & Devi (2015) conducted research with the aim of discovering the suitability of IFRS for SMEs for SMEs in growing countries, based on synthesizing the results of previous works, the results This study shows that the qualifications of accountants affect the application of IFRS for SMEs, and poor qualifications of accountants is one of the reasons why ASEAN countries are not ready to apply IFRS for SMEs<sup>[18]</sup>.

Uzma E & Asif A.K (2016) Impact of Unethical Practices on Business environment: A case study on TOYOTA. The research team evaluated the costs incurred and benefits gained from applying IFRS and made typical choices at TOYOTA - A global enterprise. The group has affirmed that besides the legal system factors affecting IFRS application, there are also many factors such as corporate governance, fair value recognition, business environment and especially cost relationships. Cost – benefit when applied. The cost-benefit relationship and analysis of this relationship with all stakeholders are also carried out in Uzma's subsequent studies. Studies all confirm the importance of the cost relationship with the application of IFRS in general and IFRS for SMEs<sup>[19]</sup>.

Eierle & Schultze (2018) in their research on IAS18 emphasized that managers of small companies are very interested in information in financial statements. This is the basis for managers to make decisions. The authors also suggest that functional parties in developing financial reporting standards for SMEs should pay attention to the information requirements of managers in the process of developing standards for preparing financial statements<sup>[20]</sup>.

Uyar & Güngörmüş (2011) in the study Factors Associated with Student Performance in Financial Accounting Course and 2013 "Perceptions and knowledge of accounting professionals on IFRS for SMEs: Evidence from Turkey" found that the lack of qualified accountants is one of the big challenges when applying IFRS for SMEs in Turkey in the process of implementing the entire IFRS version for SMEs here<sup>[21, 7]</sup>.

Litjens (2017) in his research on the field of preparing financial statements in health care, showed that financial statement preparers have carefully considered the cost and benefit relationship, especially with SMEs. The relationship between costs and benefits is very important when choosing financial reporting standards, but evaluating costs is always more specific and easier than evaluating expected benefits<sup>[22]</sup>.

Kim Shima & David C. Yang (2012)<sup>[9]</sup> also affirm that when accounting standards are more complex, the ability to apply those standards requires a country with a high level of social culture and education. At the same time, when the level of social culture and education is high, the cost of application will be minimized, so the benefits obtained will likely be higher than the costs. Therefore, education is positively related to IFRS application, contributing to improving the cost-benefit relationship.

Zakari (2014)<sup>[8]</sup> in his research also concluded that companies with unprofessional accountants are a challenge for owners of SMEs in Libya in applying IFRS. For SMEs.

Stainbank (2021) has conducted research on identifying factors affecting the application of standards in African countries. The research model is a regression analysis conducted on 32 African countries with random sampling. The results conclude that educational level has an impact on the application of IFRS in African countries.

Dheyaa Lama Mohsin, Mohammad Hosein Vadieli & Mohammed Reza Abbaszadeh (2022), identifying the effective factors to apply the International Financial Reporting Standards from the Accountants' perspective in Iraq. The study addresses factors: Economic, political, social, human resources, information technology, and international factors.

### 3. Conclude

Through an overview of foreign topics related to the research field, the authors identified two groups of factors that influence the application of IFRS for SMEs. With macro factors, the content includes factors of integration, law, education... With micro factors, the content includes the qualifications of accountants, cost-benefit relationships, and partners. Objects and needs for using information, forms of capital ownership...

With the content analyzed and commented in the overview of research topics related to the topic carried out by the author group, the research gap was discovered as follows: Currently there is no research in and fully implement the proposed research issue of studying the factors affecting the level of IFRS application for SMEs in Hanoi.

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