

## Needs Assessment of Accounting Standards for small and medium-sized Entities (SMEs) from the Perspective of Creditors and Financial Information Providers<sup>1</sup>

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Research Paper

### Introduction

Section one of the International Financial Reporting Standards for small and medium-sized entities states that these companies are those groups of businesses that are not publicly accountable and do not publish general purpose financial statements to external users. General purpose financial reporting is designed primarily for large businesses, while financial reporting for small and medium-sized entities should be prepared and presented according to the ability to understand its users to meet their information needs. According to Accounting Standard No. 1 of Iran (How to submit financial statements), the purpose of submitting financial statements is general purposes. Therefore, small and medium-sized entities in Iran, which do not have general purposes, follow the standards that have been prepared for general purposes. Small and medium-sized entities face many obstacles and problems on their way to promotion. One of the most important barriers is financing and access to capital. One of the main strategies to remove these barriers, is to improve the quality of financial reporting because improving the quality of financial reporting reduces information asymmetry and thus reduces the cost of financing them. Business units need financial resources to survive and expand their activities, which increases the quality of accounting information and disclosure, the use of financial resources in business units increases. Since the existing accounting standards have been developed to meet the information needs of large companies and cannot meet the

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needs of users of small and medium-sized entities in Iran, so the development of accounting standards for these business units is very important. In research by Gassen (2017), Kaya and Koch (2015), Omoregie et al. (2014), Bunea et al. (2012), Thi Phuong Uyen (2010), Rennie and Senkow (2009), Deaconu et al. (2009), Di Pietra et al. (2008), Eierle (2008), Fearnley and Hines (2007), Maingot and Zeghal (2006), Zanzig and Flesher (2006), Mirshekary and Saudagaran (2005) and Delavari and Mahdavi (2019), the importance of small and medium-sized entities and the need for their different reporting compared to large business units has been discussed. According to the above, the purpose of this study is to investigate the need to develop accounting standards for small and medium-sized entities in the study population.

### **Methodology**

This research is descriptive and survey (questionnaire) in terms of applied purpose and in terms of data collection and analysis. On the other hand, the method used in this study, is to measure the gap between existing standards and the development of new standards, which is called needs assessment. Needs assessment means the distance between the current situation and the desired situation. In this study, the current situation means the compliance of small and medium-sized entities with the accounting standards of large companies (existing standards) small and medium-sized entities (development of new standards). In this study, two tools included interview and questionnaire were used to collect data. In order to assess the need of small and medium-sized entities for accounting standards, a questionnaire based on the results of studies and interviews was used. The statistical population studied in this study, includes two groups of creditors and financial information providers in the metropolis of Mashhad and the meaning of creditors, senior managers in the management of Mashhad banks and financial information providers were financial managers of Toos industrial town in Mashhad. In this study, content validity was used to determine the validity of the questionnaire and Cronbach's alpha was used to determine the reliability of the questionnaire. The research hypotheses are as follows:

Hypothesis 1) Creditors in the study population need to develop accounting standards for small and medium-sized entities.

Hypothesis 2) financial information providers in the study population need to develop accounting standards for small and medium-sized entities.

Hypothesis 3) there is a significant difference between creditors and financial information providers in the study population in terms of the need to develop accounting standards for small and medium-sized entities.

### **Results and Discussion**

To examine the first hypothesis, the mean items of the variables in the case of existing standards and the development of new standards in the group of

creditors should be compared with each other. This comparison is checked using the Token test. The test results showed that for the average of all items, the frequency of answers that the new standards are larger than the existing standards, is higher than other frequencies and also the significance level is less than five percent, so the first hypothesis is confirmed with 95% confidence. The study population needs to develop accounting standards for small and medium-sized entities. To test the second hypothesis, the mean of the items related to the variables in the case of existing standards and the development of new standards in the group of financial information providers should be compared with each other. This comparison is checked using the Token test. The test results showed that for the average of all items, the frequency of answers that the new standards are larger than the existing standards, is higher than other frequencies and also the significance level is less than five percent, so the second hypothesis is confirmed with 95% confidence and can be said, finance in the study population requires the development of accounting standards for small and medium-sized entities. To test the third hypothesis, the gap between the items related to the variables in the case of existing standards and the development of new standards should be calculated and this gap should be compared between the two groups of creditors and providers of financial information. This comparison is made using the Mann-Whitney test. According to the test results, because the level of significance for the difference between the two groups is less than five percent, so with 95% confidence level, we can say that, there is a significant difference between the two groups in terms of gap in general and the gap in creditors is higher than financial information providers. Therefore, the third hypothesis is confirmed with 95% confidence level and it can be said that there is a significant difference between creditors and financial information providers in the study community in terms of the need to develop accounting standards for small and medium-sized entities.

### **Conclusion**

According to the research results, creditors and financial information providers need to develop accounting standards for small and medium-sized entities and the need in the group of creditors is more than financial information providers. In Iran, a study was conducted by Delavari and Mahdavi (2019), which is somewhat similar to the present study. The results of Delavari and Mahdavi research indicate the need to simplify the financial reporting system of small companies and develop separate accounting standards for these companies in Iran. There are some differences between Delavari and Mahdavi research and present study. These differences include: 1. The purpose of their research is to identify the financial reporting needs of small companies, but the purpose of this study is to assess the need to develop accounting standards for small and medium-sized entities. . The statistical population of their research, is the accounting professors of public universities and the statistical population of this research is part of the users of financial information

of small and medium-sized entities, including creditors and providers of financial information. 3. Their research is about the necessity of developing accounting standards for small companies only, but this research is about the necessity of developing accounting standards for small and medium-sized entities. In the field of needs assessment, the development of accounting standards for small and medium-sized entities by measuring the gap between (existing standards) and (development of new standards) for comparison, no similar research has been done. The novelty of this research is that by studying and reviewing the accounting and auditing standards of Iran and international standards for small and medium business units, it was found that in Iran, small and medium-sized entities follow the standards that have been prepared for general purposes, while according to the International Standards and Iranian Auditing Standards, there are no general intentions for these entities. Also, no accounting standards have been developed for small and medium-sized entities in Iran and these business units use the standards of large business units. In terms of financial information users, this research includes research by Gassen (2017), Omoregie et al. (2014), Deaconu et al. (2009), Di Pietra et al. (2008), Eierle (2008), Maingot and Zeghal (2006), Zanzig and Flesher (2006), Mirshekary and Saudagaran (2005) and Nair and Rittenberg (1983) that have addressed the creditors and providers of financial information as part of the users financial information of small and medium-sized entities. In the research of Kaya and Koch (2015), the need to develop accounting standards for small and medium-sized entities has been determined in such a way that the use of accounting standards for large and medium-sized businesses reduces the quality of profits of these businesses. In the research of Bunea et al. (2012), the need to develop accounting standards for small and medium-sized entities has been determined in such a way that the information required by users of small and medium-sized entities is different from the information required by large business units. In the study of Rennie and Senkow (2009), the need to develop accounting standards for small and medium-sized entities has been determined in such a way that the cost of preparing financial statements by small and medium-sized entities is more than the benefits of their preparation. In the study of Fearnley and Hines (2007), the need for accounting standards for small and medium-sized entities has been determined in such a way that the preparation of financial statements of small and medium-sized entities based on the accounting standards of large companies is very complex. Regarding research knowledge enhancement, it can be said that the need for accounting standards development for small and medium-sized entities, will enable accounting standards developers to better identify the needs of users of financial information and in a specific direction, adapt standards to users' needs and prevent duplication.

**Keyword:** Accounting Standards, Creditors, Financial Information Providers, Small and Medium-Sized Entities.

**JEL Classification:** M41-M42-M49