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THE INTERNATIONAL FINANCIAL REPORTING STANDARD FOR SMALL AND MEDIUM-SIZED ENTITIES IN THE REPUBLIC OF SERBIA

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The paper is devoted to the review of the position of the International Financial Reporting Standard (IFRS) for Small and Medium-sized Entities (SMEs) in the financial reporting regulation and practice in the Republic of Serbia. After considering the global importance of this standard, its position in the regulatory framework for financial reporting in the Republic of Serbia, in which it was included in 2013, is analyzed, while a deeper insight into the position of the standard in practice is achieved by the empirical research on a sample of 175 enterprises. Since it has the potential to facilitate financial reporting to many companies that had previously had to apply the full IFRSs, its adoption in the Republic of Serbia is useful, but the potential problem arises from the fact that it is not adopted at the European Union (EU) level. The research in the paper reveals that the enterprises in the Republic of Serbia that can choose between the IFRS for SMEs and the full IFRSs, however, are more likely to choose the full IFRSs. This finding should be considered in the context of the long-term application of the full IFRS before the implementation of the IFRS for SMEs. Subsidiary enterprises less often choose the IFRS for SMEs than the enterprises that do not have this characteristic.

Keywords: small and medium-sized entities (SMEs), IFRS for SMEs, full IFRSs, Accounting Law

JEL Classification: M41

INTRODUCTION

For a long time, the International Financial Reporting Standards (IFRS) were being developed primarily with respect to the information needs of the investors and creditors of the large companies listed on capital markets. At the beginning of the 20th century, their setter, the International Accounting Standards Board (IASB), expanded the focus of its activities by devoting greater attention to the specificities of the other profit-oriented entities that prepare general-purpose financial statements (Obradović, 2016, 165-166) and the information needs of the users of their financial statements. In this regard, after the discussion had

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begun in 2004 by drafting the preliminary document (Quagli & Paoloni, 2012, 148) the IASB published the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs) in 2009, and revised it in 2015.

The IASB dedicated the IFRS for SMEs to those entities that prepare general-purpose financial statements, but are not publicly accountable, i.e. to those whose securities (stocks and bonds) are not traded on public markets and which do not hold the assets of a broad group of outsiders while performing their primary activities (International Accounting Standards Board, 2015, 10). The attitude of the IASB regarding the purpose of the standard has only the character of a recommendation because, as an international private body, the IASB cannot impose its standards on anyone. National financial reporting regulators decide whether to accept (adopt) the IFRS for SMEs or not, and which entities have an obligation or opportunity to apply this standard.

The IFRS for SMEs is a concise version of the IFRSs in a wider sense as a set of documents labeled with IFRS, IAS (standards), IFRIC and SIC (interpretations), based on the Conceptual Framework for Financial Reporting. Unlike the full IFRSs, the IFRS for SMEs is a single document in about 240 pages, which is significantly less extensive than the documents that make up the full IFRSs taken together in about 3000 pages (Chand, Patel, & White, 2015, 139), but is also written in a more accessible style (Tan, Chatterjee, Wise, & Hossain, 2016, 57). The objective of financial reporting is differently defined in it than in the full IFRSs - while in the full IFRSs the objective is primarily related to the information needs of investors and creditors as capital providers, in the IFRS for SMEs the objective is related to the information needs of a wider range of stakeholders (Obradović, 2016, 167). In addition, the IFRS for SMEs:

- does not provide guidelines for some of the accounting problems that the full IFRSs deal with - "earnings per share, interim financial reporting, segment reporting, insurance, and assets held for sale" (Seifert & Lindberg, 2010, 34);
- provides simpler and partially modified guidelines in relation to the full IFRSs (according to the IFRS for SMEs, goodwill is written off regularly, whereas according to the full IFRSs, it is only written off if it is found to be impaired);
- requires the disclosure of a smaller amount of information than the full IFRSs do (Pacter, 2017, 27).

The aforementioned simplifications are conditioned by the fact that, as an extensive set of the documents requiring an extensive disclosure (Melville, 2017, 417), the full IFRSs are complicated and expensive for many SMEs, whereby the users of the financial statements of those entities do not need all the information required by the full IFRSs.

The IFRS for SMEs has relatively recently been incorporated into the regulatory framework for financial reporting in the Republic of Serbia (RS). The experiences in the application of this standard in the mentioned country are exactly the research subject in this paper.

The aim of the research is to examine whether the decision to include this standard in the regulatory framework for financial reporting in the RS is correct and whether it represents an attractive option for profit-oriented entities in the RS that the IASB had in mind when they developed it.

In this respect, starting from the mentioned IASB's position regarding the scope of the IFRS for SMEs, the research hypothesis is formulated as:

H When the entities which are not publicly accountable, but prepare general-purpose financial statements, the IFRS for SMEs is a more acceptable option than the full IFRSs.

The hypothesis is tested by applying a quantitative research methodology, which is based on descriptive statistical analysis and non-parametric group comparison tests. In addition, by applying the induction method, the notion of the general features of the process of the global expansion of the IFRS for SMEs is provided on the basis of the cases of individual countries. The comparative method is also used in the paper and is based on the comparison of the relevant regulations in the RS with the provisions of the IFRS for SMEs.

Hereafter, the global importance of the IFRS for SMEs is discussed first in order to make the basis for perceiving the correctness of the decision to include this standard in the regulatory framework for financial reporting in the RS. Subsequently, the position of the IFRS for SMEs in the regulatory framework for financial reporting in the RS is considered. In the last segment of the paper, the results of the empirical research related to the position of the IFRS for SMEs in the financial reporting practice in the RS are presented and discussed.

THE GLOBAL IMPORTANCE OF THE IFRS FOR SMES

Small and medium-sized enterprises are significant drivers of the modern economy (Marinkovic & Senic, 2012, 15). According to the IASB's estimate, they make up over 95% of the total number of enterprises and account for more than 65% of employment in the world (Bonito & Pais, 2018, 116). This means that there is room for the IFRS for SMEs to become globally very significant, i.e. to be substantially more disseminated in practice than the full version of the IFRSs. F. K. Jermakowicz and B. J. Epstein (2010, 72) note that the IASB adopted this standard as a reaction to the strong demands from both developed and developing countries, following a five-year development process, and with wide-ranging consultations with small and medium-sized enterprises around the world. On the basis of the foregoing, it is reasonable to expect the standard to become widely disseminated worldwide. However, the path the IFRS for SMEs has to pass in order to reach the targeted entities is not simple. In order to be available for use in one country, this standard has to be adopted, or at least it should not be forbidden, by the national institutions responsible for the financial reporting regulation.

A good basis to overview the current global importance of the IFRS for SMEs is the profiles of jurisdictions (which mainly, but not exclusively, coincide with the countries) in relation to the application of the IFRSs (in both the full and the concise versions), which is developed and updated by the IFRS Foundation (IFRS Foundation, 2018), as the body that elects the IASB's members and finances and oversees the work of the IASB. In October 2018, 166 profiles are available, wherein the application of the IFRSs in the European Union (EU) is considered through the profile of the EU and the profiles of all its member countries. In order to avoid data duplication, the EU profile is excluded from the analysis, whereas all the profiles of the member countries are considered. Table 1 shows that the IFRS for SMEs has not been officially adopted in one-half of the analyzed jurisdictions. In some jurisdictions, entities may apply this standard although it has not been officially adopted. These are the jurisdictions that do not have a clearly defined financial reporting framework for SMEs, which makes it impossible to say that the IFRS for SMEs is forbidden. In some jurisdictions, it was the basis for the development of the national standard for SMEs. Of the jurisdictions where the IFRS for SMEs has not been officially adopted (90), the adoption is being considered in 20, whereas in three additional jurisdictions the adoption has been recommended by the World Bank. In 11 jurisdictions in which it has been adopted, including the RS, the standard is more or less modified. Although the RS is not labeled as the country in which the modified IFRS for SMEs is being applied in the profile prepared by the IFRS Foundation, the analysis presented in the next section of the paper demonstrates that the standard, however, has been modified. Finally, in most jurisdictions where the IFRS for Small and Medium-sized Enterprises is being applied (over 50), SMEs are permitted to choose between it and the full IFRSs.

The previous analysis shows that, in less than one (the first) decade upon its publishing, the IFRS for SMEs has not become a single global financial reporting basis for SMEs. In many jurisdictions, this standard is not applied and there is no intention to have it adopted. The IFRS for SMEs is considerably less disseminated across the jurisdictions than the full IFRSs, which have been adopted in the 149 out of the 165 jurisdictions considered (90.3%). In a significant number of the jurisdictions, the full version of IFRSs has been adopted, but their concise version, i.e. the IFRS for SMEs, has not. In this context, the two groups of countries - the countries of the EU and the countries of West and Central Africa - are impressionable.

Table 1 The status of the IFRS for SMEs in the jurisdictions

Status of the IFRS for SMEs	Number of jurisdictions	Percentage share
Officially adopted	74	44.8
It has not been officially adopted, but at least some entities have the right to apply it	13	7.9
It has not been adopted, but it was the basis for the national standard	6	3.6
It has not been adopted and it is not used	72	43.6
Total	165	

Source: Author, based on the IFRS Foundation (2018)

As early as in 2010, namely in the year following the adoption of the first version of the IFRS for SMEs by the IASB, the evaluation of this standard was carried out in the EU, showing that it was not in compliance with the accounting directives (IV and VII), which were given a priority. The European Commission took a stance that the IFRS for SMEs was too complex and that its adoption would generate too high costs (Masca, 2012, 574). Later, i.e. in 2013, a new (single) accounting directive, which was less divergent from the IFRS for SMEs than the directives it replaced, was adopted (Obradović, 2016, 258-259). According to G. Kaufhold (2013, 1945), although the differences between the IFRS for SMEs and the EU regulations are diminishing, the problem of the complexity of this standard still remains. However, the same author believes that the growing importance of the standard worldwide will probably influence the EU institutions to (re)consider its adoption. For the EU entities that do not apply the full IFRSs (which were adopted in the EU), the national regulations (standards) based on the accounting directive are applicable. The directive does not explicitly prohibit the IFRS for SMEs, which means that the EU countries may incorporate all those parts of the IFRS for SMEs that are not contrary to the directive into their regulations (standards) (Obradović & Karapavlović, 2015, 419). There are four EU countries to have developed the national standards for SMEs by modifying (adjusting) the IFRS for SMEs, whereas the additional three countries are considering doing so (IFRS Foundation, 2018).

In 17 West and Central African countries, the members of the Organization for the Harmonization of Business Law in Africa (OHADA), SMEs apply the regional standard developed by the Organization. The Standard (labeled as SYSCOHADA) was published in French in 2017, and is significantly more extensive than the IFRS for SMEs, although it is not as extensive as the full IFRSs - 1246 pages (IFRS Foundation, 2018).

In the analyzed jurisdictions worldwide, in which the IFRS for SMEs has not been adopted, SMEs generally apply respective national (e.g. in EU countries) or regional standards (in the mentioned African countries). In three jurisdictions, only the full IFRSs are applied, which means that SMEs do not have a possibility to apply a simpler standard.

A research study conducted by H. Bohušová and V. Blašková (2012) in the first years after the publication of the IFRS for SMEs reveals that the gross domestic product (GDP) *per capita* in the countries that have adopted the standard is generally significantly lower than the same indicator in the countries that have not adopted the standard. Based on linking the data on the status of the IFRS for SMEs in the jurisdictions with the available data on the GDP *per capita* by the jurisdictions, Table 2 shows that the situation is the same nowadays. This means that there is a relationship between the level of the economic development of a country and the country's interest in the IFRS for SMEs.

H. Bohušová and V. Blašková (2012) find that the adoption of the IFRS for SMEs is related to the level of the quality of a country's financial reporting system measured by the strength of audit, whereby the countries that have adopted the IFRS for SMEs have a financial reporting system of a lower quality. The results of the research study conducted by A. Bonito and C. Pais (2018) provide an explanation for the previous findings. Namely, the research study shows that the countries that have not developed a financial reporting standard for SMEs are particularly interested in the IFRS for SMEs. Therefore, the greater the economic development of a country, the greater the likelihood that it will have its own financial reporting standard for SMEs, and the lesser is its interest in the IFRS for SMEs.

Table 2 The GDP *per capita* and the status of the IFRS for SMEs

The status of the IFRS for SMEs	Number of jurisdictions	Arithmetic mean of GDP *per capita*	Median of GDP *per capita*
Officially adopted	69	$ 12,336.36	$ 5,589.40
It has not been adopted and it is not used	69	$ 20,626.98	$ 13,294.50
Total	138		

Source: Author, based on the IFRS Foundation (2018) and the World Bank (2018)

A. Bonito and C. Pais (2018) also find that the countries with experience in the application of the full IFRSs and common-law countries are particularly interested in the IFRS for SMEs, and that there is no big likelihood that the EU countries will adopt this standard, either. The mentioned authors point out the fact that the IFRS for SMEs is mainly used in developing countries, and that its application is more often an option rather than an obligation, which is also evident from the fact that SMEs may choose between that standard and the full IFRSs in a large number of jurisdictions. P. Chand, A. Patel, and M. White (2015) also point out the fact that the application of the IFRS for SMEs is related to the non-existence or inadequacy of the national standard for SMEs. The survey conducted by Y. M. Sellami and Y. Gafsi (2018, 34) on a sample of 70 countries reveals that "SMEs' importance, a country's reliance on external funding, and the external openness degree positively affect the adoption of the IFRS for SMEs", whereas the tax system and the quality of corporate governance have a negative impact. Unlike the research study conducted by A. Bonito and C. Pais (2018), the same research study reveals the fact that the previous adoption of the full IFRSs does not significantly affect the decision on adopting the IFRS for SMEs, nor does the level of education in a country affect that decision, either.

The analysis of the profiles of the jurisdictions shows that, in addition to the previous factors, the readiness of a country to accept the IFRS for SMEs is influenced by the country's belongingness to a certain regional economic group. In addition to the cases of the member countries of the EU and the countries of West and Central Africa as the members of the groups that have not accepted the standard, the case of the member countries of the Organization of the Eastern Caribbean States, which adopted the IFRS for SMEs and offered it to SMEs as an alternative (the second alternative being the full IFRSs), is impressive.

The fact that the IFRS for SMEs is not applied in a significant part of the world suggests that there is no general agreement that the global financial reporting standard for SMEs is actually needed. J. Strouhal, M. Pasekova, and Z. Crhova (2015, 237) sublimate the factors for and against the need for a global financial reporting standard for SMEs, ascertaining that, on the one hand, SMEs do not play a significant role "in the world of globalization and international trade", whereas on the other, such entities often seek to attract foreign investors, and these investors need financial statements in a form suitable for consolidation. In addition, the application of the IFRS for SMEs facilitates possible later reporting on the basis of the full IFRSs, which the entity will be faced with if it grows from a small or medium-sized to a large one.

The partial success of the IFRS for SMEs on a global scale can also be linked with the objections asserted to it. In addition to certain technical difficulties arising from differences in the capacities of financial markets and regulatory arrangements around the world, D. Perera and P. Chand (2015) point to the difficulties of the conceptual nature that the standard brings with itself. One of them relates to the fact that it does not only differ from the full IFRSs by the extent of disclosure, but also by the recognition and measurement guidelines. In a situation where the full and the concise versions of the IFRSs differing in these guidelines coexist, the principle of a "true and fair view" is derogated since the different versions of the IFRS (the full and the concise ones) lead to different "true and fair views". This position coincides with the stance taken by M. J. Aitken and M. A. Islam (1996, 55) at the time when the IFRS for SMEs was even impossible to envisage. Namely, they noted that the information in the financial statements of SMEs might differ from the information in the statements of large entities by the volume, but that it should not differ in their nature. However, due to the application of various accounting procedures, the information generated under the IFRS for SMEs may differ in its nature from the information generated under the full IFRSs. D. Perera and P. Chand (2015) further note that, although the IFRS for SMEs is simpler than the full IFRSs, it is difficult to apply for medium-sized, small and, especially micro- entities. P. Walton (2011, 131) points to the present opinion that the standard is complex, and emphasizes the fact that the IASB ignored the information needs of the company's managers and tax authorities during its development despite the fact that some research studies show that these interested parties are the very important users of the financial statements of small and medium-sized enterprises. Starting from the fact that the IASB focused on the enterprise with about 50 employees when creating the IFRS for SMEs, H. Bohušová and V. Blašková (2012, 39) note that the standard "cannot not be suitable for all kinds of entities in the SMEs spectrum, especially not so for very small entities (micro-entities)" because "the entities of this kind prepare financial statements especially for taxation purposes".

The coexistence of the full and the concise versions of the IFRSs in one and the same country in the sense that some entities follow the full and some follow the concise IFRSs does not only affect faithful representation as a qualitative characteristic of financial statements (by raising the question of what view is really "true and fair"), but also affects comparability both amongst entities (because different entities apply different financial reporting bases) and in time (because the same entity may change the basis, i.e. it may shift from the full IFRSs to the IFRS for SMEs, or vice versa, for example because of entering into the stock exchange or due to exiting it). When changing the financial reporting basis, an entity may face the need to change its accounting policies and, therefore, recalculate comparative amounts in its financial statements and reclassify its financial statements, by which the problem of the time comparability is softened, but the entity is exposed to additional costs.

Exploring the views expressed in the process of public consultations on the adoption of the IFRS for SMEs in the EU, A. Quagli and P. Paoloni (2012) find that the opinions on this standard were divided. While the preparers of financial statements are against the standard, the users are supportive of it. In addition, it is more supported in the United Kingdom, the Netherlands and the countries of Scandinavia than it is in Germany, Austria, France, Luxembourg, Belgium, Spain, Italy, Portugal, and Greece. The attitudes of the respondents discovered by that research study coincide with the actions of the regulators. Namely, just in the United Kingdom and Sweden (as well as in Ireland and Estonia), the IFRS for SMEs served as the basis for the national standard, whereas Denmark and the Netherlands (along with Hungary, as well as Norway, Iceland, and Liechtenstein, as three countries that are not the EU members, but are closely related to the EU as a part of a single market) are considering the adoption of this standard. E. Masca (2012) considers the attitudes of institutions (public authorities, standard-setters, associations of accountants, auditors and other stakeholders) in the process of evaluating the IFRS for SMEs in the EU, and finds that the attitudes are diverse and under the influence of the accounting culture and the geographical area. The findings of those two studies indicate that the IFRS for SMEs does not fit equally well in each national environment. On the basis of the analysis of the attitudes expressed in the process of the evaluation of the IFRS for SMEs in the EU, H. Bohušová (2011) also states that the standard is mostly supported by the companies that have subsidiaries in different EU countries, the companies seeking to attract foreign capital, and the companies listed on non-regulated markets, stressing that the application of this standard facilitates consolidation. On the other hand, according to the same author, the application of the IFRS for SMEs in the EU would make financial reporting more complex and would increase the cost of preparing and auditing financial statements, especially for small companies.

A. Uyar and A. H. Güngörmüs (2013) investigate the knowledge and perceptions of Turkish accountants in relation to the IFRS for SMEs and find that there are more supporters of than the opponents of the standard, but also that the respondents are not fully informed about the standard. The research indicates the importance of the professional education of accountants which implies that such education should be organized by professional accountancy associations in order for the standard to be appropriately implemented. Considering the implementation of the IFRS for SMEs in developing countries, N. Albu and C. N. Albu (2012) also point to the importance of the continued education of accounting professionals.

The problems related to the implementation of the IFRS for SMEs are not equally important in all countries. In addition to the fact that the mentioned standard is not equally adapted to all countries, the previous regulatory arrangement, i.e. the regulatory arrangement prior to its adoption, has great significance in the given context. If, prior to its adoption, SMEs applied the national standard, the problems related to faithful representation and comparability would in fact become milder, as it is probably closer to the full IFRSs than to the national standard. On the other hand, if those entities applied the full IFRSs (which is the characteristic of the RS) prior to the adoption of the IFRS for SMEs, the mentioned problems would appear. We should also bear in mind the fact that the financial reporting of SMEs in one country after the adoption of the IFRS for SMEs would only become more complex and more expensive if these entities previously followed a simpler standard.

THE IFRS FOR SMES IN THE REGULATORY FRAMEWORK FOR FINANCIAL REPORTING IN THE REPUBLIC OF SERBIA

The IFRS for SMEs was officially adopted in the RS in 2013 by the adoption of the Accounting Law, wherein this standard became valid from the financial statements for the accounting year ending on December 31, 2014. Since the standard began to be applied in the RS five years after it had been published by the IASB, it means that in a relatively long period many entities in the RS had not had an opportunity to experience the benefits of applying the standard (Obradovic, 2014, 237).

The application of the full IFRSs in the RS had begun a decade earlier, namely in 2004. In some countries, the full IFRSs have gradually been implemented by a gradual expansion of the range of the enterprises applying them. By contrast, the RS is characterized by a comprehensive introduction of the full IFRSs with a subsequent reduction in the scope of their application. Initially, all companies applied the full IFRSs only to later, but before the introduction of the IFRS for SMEs, give small enterprises an opportunity to apply a special regulation, i.e. the Ordinance of the Minister of Finance, "which is, in effect, a national standard" (Obradovic, Cupic & Dimitrijevic, 2018, 50-51).

According to the Accounting Law (2013, Article 6), entities are classified into micro-sized, small, medium-sized and large entities on the basis of the average number of employees, their revenue, and the average value of their assets in the current accounting year, wherein the classification affects the financial reporting basis in the next year. The IFRS for SMEs is mandatory for small entities, whereas medium-sized entities are allowed to choose between that standard and the full IFRSs, whereas micro-entities (including the entrepreneurs who are treated as micro-entities in the Accounting Law) may opt between that standard and the Ordinance of the Minister of Finance, whose current version ("Ordinance on the Method of the Recognition, Valuation, and Presentation and Disclosure of the Positions in the Separate Financial Statements of Micro and Other Legal Entities") was published in 2013. The full

IFRSs have remained mandatory for large entities, as well as for listed entities (the entities whose securities are traded on the capital market), and the entities in the process of preparation for listing, financial institutions, and the entities that as parent entities prepare consolidated financial statements irrespective of their size. The medium-sized entities that choose the full IFRSs should continuously adhere to them, and the small entities that choose the IFRS for SMEs should continuously observe this standard (Accounting Law, 2013, Articles 20-22). Considering the regulatory framework for financial reporting in the RS that preceded the introduction of the IFRS for SMEs, T. Đukić and M. Pavlović (2014, 477) expressed their expectation that this standard would facilitate financial reporting for SMEs.

According to the Accounting Law (Article 3), the translation of the IFRS for SMEs (as well as the translations of the full IFRSs) is published by the Ministry of Finance. At the end of 2013, the Ministry of Finance published the translation of this standard, which created the conditions for the beginning of its implementation within the deadline provided by the Law. Shortly thereafter, i.e. in 2015, the IASB published the modified (revised) IFRS for SMEs and stated that it entered into force for the financial statements prepared for the "annual periods beginning on or after 1 January 2017" (International Accounting Standards Board, 2015, 219). However, the translation of the revised standard was only published in October 2018. In November 2016, the Ministry of Finance of the Republic of Serbia (2016, 155) issued an opinion that the entities which had "the possibility and the necessary capacities" could apply the revised IFRS for SMEs prior to the publication of its translation. Otherwise, the same is true for the full IFRSs, whose translations have not been published since 2014, although the IASB constantly changes and amends them. In practice, the opinion of the Ministry created room for the coexistence of the old and the current IFRS for SMEs, in the sense that entities might choose the version they want, and room for the coexistence of the old and the current full IFRSs is created as well. A significant difference between the old and the current IFRS for SMEs is that the current version provides an opportunity for the application of a revaluation model for the subsequent measurement of property, plant, and equipment (Obradović, 2016, 168), and the guidelines for the write-off of intangible assets with an indefinite useful life, including goodwill, are also different (Obradović, 2018, 718).

The Ordinance on the Content and Form of the Financial Statements Templates for Enterprises, Co-operatives, and Entrepreneurs of 2014 abolishes some options offered by the IFRS for SMEs. Thus, entities in the RS are not entitled to:

- present comprehensive income through a single statement (they have to present it through two statements),
- classify expenses in the income statement by function (they have to classify them by nature),
- replace the statement of comprehensive income and the statement of changes in equity with a single statement of income and retained earnings, and
- apply the indirect method for presenting the cash flows from operating activities (they have to apply the direct method).

In addition, in the original IFRS for SMEs, both the initial from the year 2009 and the revised from the year 2015, in paragraph 4.2, wherein the minimum items of the statement of the financial position (i.e. the balance sheet, according to the regulations in the RS) are specified, it is stated in brackets that deferred tax assets and liabilities are presented as non-current items. In the translations of the initial and the revised standards, there is no text in brackets, and the above-mentioned items are separately presented according to the Ordinance, between fixed (non-current) and current assets (deferred tax assets) and long-term (non-current) and short-term (current) liabilities (deferred tax liabilities), which is not in accordance with the original standard. It follows that the modified IFRS for SMEs is practically applied in the RS.

Within the ongoing process of reforming financial reporting in the RS, the position of the IFRS for SMEs is expected to be redefined. In this regard, the

Center for the Financial Reporting Reform of the World Bank states in its study on financial reporting in the RS (Center for Financial Reporting Reform, 2015, 43) that the current legal requirement for small entities to apply the IFRS for SMEs is burdensome and unrealistic. In the same study, it is emphasized that it is necessary to examine whether it is justified for all large companies to apply the full IFRSs. The mentioned attitudes, which are supported by the institution that has significant participation in the financial reporting reform project (the World Bank), suggest a change in the scope of the application of the IFRS for SMEs in the RS.

THE IFRS FOR SMES IN FINANCIAL REPORTING PRACTICE IN THE REPUBLIC OF SERBIA

In order to examine the position of the IFRS for SMEs in the financial reporting practice in the RS, an empirical research was conducted. The focus of the research is on the entities that have the right to choose between the full IFRSs and the IFRS for SMEs, i.e. the unlisted medium-sized entities other than financial institutions that do not prepare consolidated financial statements. Given the fact that the IFRS for SMEs is shorter, less demanding, and cheaper to apply than the full IFRSs are, that standard could be assumed to be readily accepted by the entities that have the right to choose between it and the full IFRSs. Accordingly, the hypothesis presented in the introductory part of the paper is formulated.

The research was conducted on a sample of 175 randomly selected enterprises classified as medium-sized entities according to the data for 2016 and fulfilling all the other foregoing conditions. The data available on the website of the Serbian Business Registers Agency (www.apr.gov.rs) were used in the analysis. The structure of the sample from the aspect of the legal form is shown in Table 3. Since, according to the Accounting Law (2013), the classification of the entities by the size is valid for the next year, it is examined for each enterprise on the basis of the notes to the financial statements for 2017, which of the financial reporting basis - either the full IFRSs or the IFRS for SMEs - was applied in the financial statements for 2017. In two cases it was impossible to discern the basis applied from the notes to the financial statements, which is unacceptable practice. In one case, the enterprise states that it complies with both the full IFRSs and the IFRS for SMEs, which is also unacceptable since, according to the Law, an entity should choose between the full and the concise IFRSs, which means that it can only follow one single basis.

Table 3 The sample structure by the legal form

Legal form	Number of companies	Percentage share
Limited liability company	135	77.1
Public utility enterprise	39	22.3
Social enterprise	1	0.6
Total	175	

Source: Author

According to the empirical data presented in Table 4, only one-fifth of the enterprises in the sample with a single and clear financial reporting basis apply the IFRS for SMEs, whereas four-fifths apply the full IFRSs. It follows that the starting hypothesis cannot be accepted. The IFRS for SMEs has not succeeded, at least not so until now, in being imposed as the dominant financial reporting basis for those medium-sized enterprises that can choose the financial reporting basis. Hence, many companies have decided to apply the full IFRSs although, under the Accounting Law, they had the right to choose their concise version.

When starting from the current regulatory framework for financial reporting in the RS, the ownership structure of an enterprise is imposed as the factor that affects the selection of the financial reporting basis (either the full or the concise IFRSs). Under the Accounting Law, the enterprises in the RS that prepare consolidated financial statements should follow the full IFRSs. An important prerequisite for preparing consolidated statements is that all the enterprises included in the scope of consolidation apply the same accounting policies.

Table 4 The application of the full and the concise versions of the IFRSs

Financial reporting basis	Number of companies	Percentage share in the sample	Percentage share in the enterprises with a single and clear basis
Full IFRS	137	78.3	79.7
IFRS for SMEs	35	20.0	20.3
Unclear	2	1.1	
Both	1	0.6	
Total	175		

Source: Author

Accounting policies may differ if companies apply different financial reporting bases, i.e. if they follow different standards. If accounting policies differ, separate financial statements have to be converted to the same basis before consolidation. Since parent companies in the RS have to apply the full IFRSs, they can be expected to influence the selection of the financial reporting basis by their subsidiaries by their use of their control power. Some companies in the sample are the subsidiaries of domestic companies, whereas some are the subsidiaries of foreign companies (which may not apply the IFRSs in any version whatsoever). In any case, medium-sized subsidiaries may generally be expected to more frequently apply the full IFRSs than the medium-sized entities that are not subsidiaries do. The empirical data confirm the aforementioned assumption. Table 5 shows that the IFRS for SMEs is more prevalent in the entities in the RS that are subsidiaries than it is in the entities that are not subsidiaries.

A chi-square test of independence is carried out so as to determine whether the influence of the characteristics of the entity in the above-mentioned sense (subsidiary/non-subsidiary) is statistically significant or not. The preconditions for running this test have been met since no cell has an expected value lesser than 5. Since both variables (the characteristics of the entity and the financial reporting basis) have two categories (the subsidiary/non-subsidiary and the full IFRSs/the IFRS for SMEs), the so-called Yates' correction is applied. The test shows that the characteristics of the entity have a statistically significant impact on the selection of the financial reporting basis, but also that their effect on the size is small ($\chi^2_{(1,\, n = 172)} = 6{,}904;\ p = 0{,}009;\ phi = 0{,}215$). In other words, the subsidiaries slightly less frequently choose the IFRS for SMEs.

Table 5 The application of the full and the concise IFRSs in subsidiaries and non-subsidiaries

Category	Apply full IFRS	Apply IFRS for SMEs	Total
Subsidiary	59 (90.8%)	6 (9.2%)	65
Non-subsidiary	78 (72.9%)	29 (27.1%)	107
Total	137	35	172

Source: Author

Table 6 shows that the frequency of the IFRS for SMEs is slightly higher for limited liability companies than for public utility enterprises (the social enterprise is excluded from this analysis). The chi-square test of independence (the condition is fulfilled again because no cell has an expected value lesser than 5) shows (with Yates' correction) that the influence of the legal form is not statistically significant, being very small ($\chi^2_{(1,\, n = 171)} = 0.047;\ p = 0.827;\ phi = -0.034$).

The fact that the vast majority of medium-sized entities in the RS have not shifted to the IFRS for SMEs regardless their legal right to do so can be explained by the influence of many factors. The ten-year application of the full IFRSs, which preceded the introduction of the IFRS for SMEs, had made enterprises in the RS get accustomed to these standards. Although the IFRS for SMEs can generate the lower costs of financial reporting, this effect is reflected in the long-term. In the short run, the situation can be quite different. With respect to this, it is noted in the study carried out by the World Bank's Centre for Financial Reporting Reform that some preparers of financial statements in the RS believe that the transition from the full IFRSs to the IFRS for SMEs can cause problems regarding the reclassification of certain items and adjustment to different reporting guidelines in general (Center for Financial Reporting Reform, 2015, 40).

Table 6 The application of the full and the concise IFRSs in the entities of a different legal form

Category	Apply full IFRS	Apply the IFRS for SMEs	Total
Limited liability company	104 (78.8%)	28 (21.2%)	132
Public utility enterprise	32 (82.1%)	7 (17.9%)	39
Total	136	35	171

Source: Author

Short-term problems and costs, therefore, could make the IFRS for SMEs repellent for companies, although long-term benefits could outweigh these costs. With regard to the provisions of the Accounting Law, we should keep in mind the fact that a non-parent unlisted entity may apply the IFRS for SMEs until it becomes listed, until it becomes large, or until it becomes a parent entity. Whenever any of the above occurs, the entity has to shift to the full IFRSs. For the medium-sized entity which has been applying the full IFRSs for years (and has got used to them), and which (for example because of its growing) might have to reapply them in the future, the continuous use of the full IFRSs could be a cheaper option as problems with changes in accounting policies and the reclassification of financial statements when shifting from the full IFRSs to the IFRS for SMEs and a subsequent return to the full IFRSs are avoided by adhering to them. Inertia, resistance to change, and the insufficient knowledge of the IFRS for SMEs and its advantages could also influence entities to continue to apply the full IFRSs.

CONCLUSION

The research study shows that, as a concise and also modified version of the International Financial Reporting Standards, the International Financial Reporting Standard for SMEs has been adopted in a number of countries around the world although there are also a number of countries whose SMEs apply a national or regional standard, where it has not been adopted yet. Economically developed countries with a developed financial reporting system have mostly developed their financial reporting standards for SMEs, which are favored over the IFRS for SMEs. For those countries that do not have an adequate standard for SMEs, the adoption of the IFRS for SMEs is a way to quickly, easily and cost-effectively obtain the necessary standard. One country's decision on the adoption of this standard is also influenced by its membership in a particular regional group. The IFRS for SMEs does not fit equally well in each national environment. Although it is simpler than the full IFRSs, many consider it to be too complex, especially when small and micro-entities are concerned. The process of spreading this standard worldwide also indicates that there is still no general consensus on the need for the same financial reporting standard for all SMEs throughout the world.

When we bear in mind the fact that prior to the introduction of the IFRS for SMEs the RS had not had an adequate financial reporting standard for the entities concerned, i.e. that it had not had an adequate national alternative to the IFRS for SMEs, and that it had had a ten-year experience in the application of the full IFRSs, which had forced preparers of financial statements to adopt the IFRS philosophy (which has significantly been transferred to the IFRS for SMEs), the decision to adopt this standard can be considered as correct and logical. On the other hand, the adoption of the IFRS for SMEs in the RS should also be considered in the context of the accession of this country to the EU, where the standard is not adopted. If the EU remained firm in its attitude regarding the IFRS for SMEs and if the discrepancies between this standard and the EU regulations were not eliminated (by changes in the EU regulations and/or changes in the IFRS for SMEs), the RS would need to adopt a different standard for SMEs before accessing the EU, whereby the IFRS for SMEs could be the basis for the development of that standard.

Some of the options offered by the IFRS for SMEs are abolished by the bylaw (ordinance), thus disabling entities in the RS to further simplify their financial reporting, especially their reporting on earnings and other changes in equity. Through the bylaw, as well as through the translation of the standard, the standard was practically modified. The publication of the translation of the revised IFRS for SMEs in the RS was notably late.

The most important result of the research conducted and presented in the paper is that the entities in the RS that have the right to choose between the full IFRSs and the IFRS for SMEs prefer the full IFRSs, which means that the starting hypothesis of the research study cannot be accepted. Without any doubt, the previous long-term experience in the application of the full IFRSs has contributed to this situation. Although the IFRS for SMEs is offered as a simpler, more affordable and cheaper version of the IFRSs when its application is concerned, these benefits may not always be sufficiently visible or significant to the entities in the RS that have the right to choose. Accustomed to the full IFRSs and familiar with them, entities are reluctant to decide to have them replaced with their simpler version, especially when taking into consideration the fact that shifting to that concise version, as well as a possible subsequent return to the full IFRSs, may bring about problems and generate costs. The research study also shows that non-subsidiaries choose the IFRS for SMEs more often than subsidiaries do. The influence of the characteristics of an entity in the described sense is statistically significant, but relatively small. The entity's legal form does not affect the choice between the full and the concise IFRSs. In the given context, and in line with the experience of other countries, the education of accountants in terms of making them familiar with the advantages (as well as the shortcomings) of the IFRS for SMEs and the essence of this standard can be very important. Professional accountancy organizations play a key role in such education.

The fundamental contribution of the paper reflects in the examination of the preference of the entities that can choose between the full IFRSs and the IFRS for SMEs, as well as the impact of the characteristics of an entity on these preferences. The contribution of the paper also manifests in examining the current position of the IFRS for SMEs in the world and, in particular, in the European Union, as well as the factors that have conditioned this position. Finally, the contribution of the paper is also evident in the comprehensive review of the position of the IFRS for SMEs in the financial reporting regulation and practice of the RS in the first years after its adoption.

The most important limitation of the empirical research study presented in the paper is that the entity's commitment to either the full or the concise IFRSs is examined on the basis of the notes to the financial statements, where pieces of information on what the entity decided, but not why it made such a decision, can be found. Further research by means of a questionnaire should investigate which factors have led the preparers of financial statements to select the one or the other basis of financial reporting, whether they have felt the benefits and if they are being faced with problems due to their decision. Taking into account the fact that the research study presented in this paper was conducted in the period of the IFRS for SMEs being still a relatively new element of the regulatory framework for financial reporting in the RS, a similar research study should be repeated in the future in order to detect possible changes.

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