Al-Qadisiyah Journal for Administrative and Economic Sciences ISSN$_{Online}$: 2312-9883
QJAE, Volume 20, Issue 2(2018) ISSN$_{Print}$: 1816-9171

Effects of Application of IFRS on the Quality of Financial Statements in SMEs

Bashaeer Khuthair Abbas Al-Khafaji

Department of Materials Management Techniques/
Al-Dewanyia Technical Institute /Al-Furat Alawsat Technical University

Corresponding Author: Bashaeer Khuthair Abbas Al-Khafaji *Email: Masteraccounting88@yahoo.com*

Abstract : *Small and medium-sized entities (SMEs) are one of the most fundamental pillars of the economy of any country, whether developed or developing. They represent more than 95% of companies all over the world. Due to their importance, the International Accounting Standards Board issued an international special accounting standard for small and medium-sized entities in July 2009. The Board developed and issued a separate standard for application to the general-purpose financial statements and other financial reports prepared within these companies. Therefore, the current study aims to determine the impact of the application of IFRS for SMEs on the quality of their financial statements by conducting on a survey on four Iraqi banks (Gulf Commercial Bank, Islamic Bank of Iraq, United Investment Bank and Bank of the Economy) for the year 2016. Tests were conducted using the statistical program SPSS. The results show that there is a statistically significant positive association between the application of IFRS and the quality of accounting information. Three alternative hypotheses were proven: limiting profit management practices, increasing market liquidity, and reducing transaction costs for investors. This is reflected in the quality of the financial statements, which are of internationally high quality and reflect the economic realities of the company, thus allowing investors to make smart decisions and leading to easy international trade.*

Keywords: International Financial Reporting Standards, Quality Financial Statements

1 INTRODUCTION

Due to the phenomenon of globalization increasing in recent years, small and medium-sized companies have become prominent in modern economies. These companies play a significant role as a source of income, development, and the creation of new job opportunities, and contribute widely to the growth of the economy and the reduction of unemployment. Small and medium entities are defined as companies that are not publicly accountable and where general-purpose financial statements are issued for the external users. One example would be the owners who are involved in business management, current and potential creditors and credit rating agencies.

It can may facilitate the application of IFRS by small and medium-sized entities (SMEs) for the business' expansion into international trade, as these companies outsource funds from international stock markets by expanding global partnerships and encouraging foreign investors.

Investment decisions not only impact on the quality of accounting information, which is reflected in the impact of financial statements, but are also affected by the individual capabilities of investors. Because of the limited possibilities available in Iraq, attention is often directed to investment in small and medium-sized entities, which is of great importance in different countries, These companies contribute to realization strategies for economic growth, which helps to address unemployment and poverty, concentrates income, and solves inflation problems by expanding the production base and increasing exports.

The development of the accounting profession is dependent on the existence of accounting standards and assets. Hard work is required on the part of competent authorities to undertake the necessary procedures in the formulation of accounting standards to be applied by accountants to address their professional needs. The absence of these standards leads to differences in the ways events and the financial operations of different economic units are dealt with.

Some differences between countries in terms of their accounting and financial management make it difficult to establish coordination of and participation by different companies in the field of international trade. Different countries engage in various financing methods in the field of long-term investments, such as market capital and bank loans; some countries finance their long-term investments through the use of market capital, while others use bank loans. This leads to a difference in the methods used to evaluate the assets of the company. Therefore, the application of international accounting standards in small and medium-sized entities (SMEs) leads to convergence in the methods used to evaluate assets worldwide.

In light of the above, the present research is divided into four sections. The first section deals with the methodology of the study and the literature review. The second section deals with the conceptual framework of international accounting standards, while the third focuses on the findings of the study. Finally, the fourth section contains a set of conclusions and recommendations that represent the conclusion of the research.

1. Methodology of the study

- **Study problem**: Most small and medium-sized entities are characterized by belonging to advanced economies or developing countries; however, they are prevented from participating in international trade due to a range of different factors within the internal and external environment. The adoption of International Financial Reporting Standards (IFRS) by small and medium-sized entities (SMEs) leads to increased ease of international trade.

Therefore, the problem of the study focuses on answering the following question: Does reliance on international accounting standards lead to improved quality of financial statements, and They must be applied by small and medium-sized enterprises.

- **Purpose of the study:** This study aims to achieve the following:

1. Know what the small and medium-sized entities and& IFRS.
2. Statement of reasons and justifications for issuing IFRS for small and medium-sized companies.
3. Statement of differences between the international standards for the financial reports in full form and the International Financial Reporting Standards for SMEs.
4. Statement of the effect of the application of the International Financial Reporting Standards (IFRS) to small and medium-sized companies in Iraq through a field study.

- **Importance of the study:** The importance of this scientific research stems from an important point of reference, which is the international standards for the financial reports for SMEs in different accounting aspects; these lead to obtaining good accounting information, which affects the various investment areas that lead to obtaining high-quality financial statements globally. This study also discusses a research issue that is of interest to everyone in all countries, namely small and medium-sized companies, which are one of the most important factors in economic and social development.

The practical importance of the study is shown by its being conducted in the Iraqi environment. Iraq is witnessing an economic crisis, and this study aims to contribute to finding part of the solution by investigating the application of international standards of financial reporting in directing investment towards small and medium-sized companies.

- **Hypotheses of the study**: The study is based on the following main hypothesis: “There is no positive relationship of statistical significance between the application of IFRS and the quality of financial statements". This hypothesis is tested by the following hypotheses:

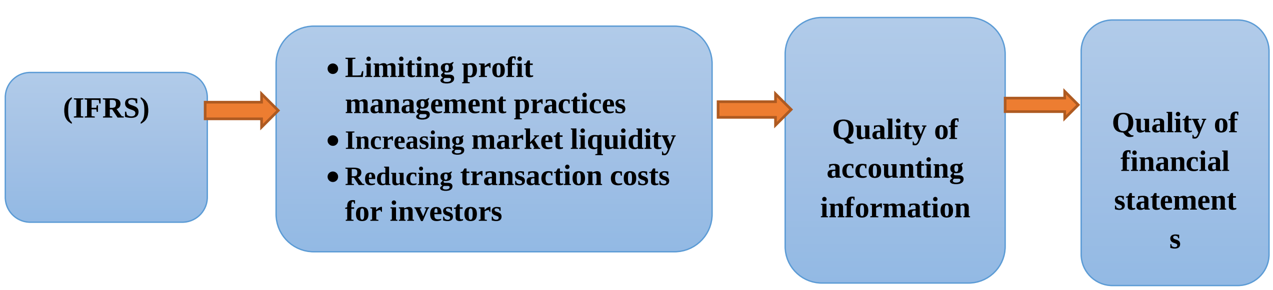
HO1: There is no positive effect of statistical significance between the application of IFRS and limiting profit management practices (creative accounting).

HO2: There is no positive effect of statistical significance between the application of IFRS and increasing market liquidity.

HO3: There is no positive effect of statistical significance between the application of IFRS and reducing transaction costs for investors.

- **Survey of the study:** To achieve the objectives of the field study and hypothesis testing, the researcher identified the community of the field study from the relevant categories related to the research subject. This community consists of a number of managers, accountants and auditors for a number of banks listed on the stock market in Iraq. Data for these four banks (Gulf Commercial Bank, Islamic Bank of Iraq, United Investment Bank and Bank of the Economy) was obtained for 2016 through interviews and questionnaires.
- **Study mode**

Chart 1: International Financial Reporting Standards and their effects on the quality of financial statements



3. Literature Review

In order to study the problem and test its hypotheses, some previous Arabic and foreign studies will be used. We will examine the findings of these studies and then incorporate these findings into the present study. The most important studies are as follows:

- **Gelard&Meunier (2010): International Financial Reporting Standards and the quality of financial statement information**. This study investigated the adoption of the International Financial Reporting Standards (IFRS) in the UK and concentrated on the switch from the UK GAAP to IFRS. The study sought to determine whether IFRS adoption leads to higher quality accounting numbers. By examining company accounting measures reported under the UK GAAP and IFRSs, the study investigated earnings management potential under IFRSs. The paper also studied the value relevance of IFRS-based financial statement information, indicating that the implementation of IFRSs generally reinforces accounting quality. The findings show that the implementation of IFRSs reduces the scope for earnings management, is related to more timely loss recognition, and leads to more value-relevant accounting measures. This suggests that less information asymmetry and earnings manipulation would lead to the disclosure of informative, higher-quality accounting information and would therefore assist investors in making informed and unbiased judgements.
- **Alexandro (2011): Anticipated effects of International Accounting Standards in micro-entities from the viewpoint of preparers**. The focus of this study was the possibility of adopting international accounting standards in the preparation of financial reports in Greece, Turkey, and Lithuania. Data was collected by means of a questionnaire distributed to a number of small and medium-sized companies. The results of the study showed that practitioners expressed concerns about the undue cost of actually implementing the new standard and were therefore rather skeptical, at least under the existing macro-economic conditions. Moreover, the financial reports were prepared on the basis of exacting standards that are not sure to be outweighed by the expected benefits.
- **Al-Shamari (2011): The extent of the implementation of International Accounting Standards on attracting foreign capital for the local environment**: This study examined the contribution of the application of international accounting standards in Iraq to attracting foreign capital. The researcher sought to investigate the reality of investment in the economy and the need for foreign investment on the one hand, and Iraq's accounting system and the need for international accounting standards on the other hand, through a questionnaire consisting of 13 questions that was distributed to the members of the research sample. Responses were collected and analyzed using SPSS to determine the extent to which these criteria could be applied to attract foreign investment to the Iraqi environment. The results of the study yielded a number of conclusions, the most important of which is that the application of international accounting standards in the Iraqi environment can contribute to the development of financial information and data in such a way as to verify the value of assets and liabilities and the validity and accuracy of processes and results.
- **Al-Azzawi (2012): International Financial Reporting Standards for small and medium entities: An opportunity and a challenge for developing countries (with reference to the Algerian experience)**. This field study, which sought to determine the applicability of the IFRS for SMEs in Algeria, involved distributing a questionnaire to a number of accountants in public, private and mixed companies in order to test a number of hypotheses related to the subject of the study. The research was based on a set of questionnaires that have already been applied in a group of countries, the most important of which are the German model and the European model. The questionnaire was designed in a manner that did not require prior knowledge of the IFRS for SMEs. The results of this study showed, in both theory and practice, that international financial reporting standards present a real opportunity for developing countries to achieve their accounting objectives (and hence economic costs) at the lowest cost and in the shortest time. This is particularly true for countries that have found themselves confused by the tension between their desire to apply these standards (and thus benefit from the opportunities of the global economy and economic development) and their inability to address the application requirements because of the privacy of their markets and economy.
- **Feltham (2013): The adoption of International Accounting Standards for small- and medium-sized entities**. This study focused on determining how to rely on international accounting standards when preparing financial reports for SMEs, specifically for three participating entities in FY2010. Effects on US financial reporting standards were investigated by analyzing the discrepancy between these standards and the default criteria. The results of the study showed that IFRS for SMEs should be considered an acceptable set of standards for the preparation of quality financial statements by U.S. private entities. This study positively contributed to social change by providing new knowledge that can assist private companies in the evaluation

of the adoption of IFRS for SMEs; such knowledge could, in turn, reduce financial reporting costs and improve the SMEs' economic conditions.

- **Kerongo (2014): The effects of International Financial Reporting Standards adoption on SMEs performance: A case study of Mombasa**. This study aimed at identifying the effects of the adoption of IFRS on the performance of SMEs in Mombasa. Data was collected from a sample of companies in Mombasa via a questionnaire, which was distributed to a number of participants. Analysis of variance and regression analysis was conducted using a statistical program (SPSS) and using SWOT, a brief of Strengths, Weaknesses, Opportunities and Threats. The first objective of the study was to investigate the impact of capital gain on the performance of small and medium-sized enterprises. The vast majority of participants agreed that access to capital had a significant impact on the company's performance, which led to an improvement in the delivery of services and production of goods. The second objective was to evaluate the results of the comparison between the financial reports on the performance of SMEs in Mombasa. The majority of participants agreed that there was a significant impact that reduced levels of fraud and improved resource management, leading to competitive advantage. Moreover, the third objective of the study examined the impact of governance on performance. Again, there was a high level of agreement among participants that governance leads to a decline in profit management and the ability to manage resources with high accuracy. The final objective of the study was to demonstrate the effect of variation in information on the performance of SMEs; the majority of participants agreed that reducing the magnitude of the discrepancy in information enables stakeholders to make informed decisions. In conclusion, it is apparent that international financial reporting standards are an important component in the performance of SMEs.
- **Sharkawy (2014): Impact of compliance with International Financial Reporting Standards (IFRS) on enhancing the efficiency of capital investment in small and medium entities (SMEs)**. The aim of this study was to identify international financial reporting standards and their relevance to the development of a set of internationally accepted, high-quality international financial reporting standards, as well as to re-examine small and medium enterprises as an ideal solution for activating a country's economic development and helping to increase employment opportunities, expand production bases, and assist in getting out of economic crises. To achieve the objectives of the study and hypothesis testing, a questionnaire was prepared and distributed to a number of accountants in small and medium-sized companies, which were the category assigned to the research. The size of the sample was determined to encompass 20 small and medium-sized companies based in the northern Gulf of Suez. To analyze the data, the Statistical Program SPSS was used, and correlation coefficients were used to measure the correlation between study variables, while the "Alpha" was also used to assess the credibility of the data. The researcher reached several results, the most important of which is that the accounting information provided by the financial reports of small and medium enterprises plays a major role in making investment decisions regarding capital and the decision to grant loans, which necessarily improves the efficiency of this accounting information; this is achieved through a need to comply with the reporting standards, which in turn helps to improve the quality of financial reports and their information.
- **Mileage (2014): The impact of the shift to International Financial Reporting Standards on the quality of accounting information and the value of companies registered in the Saudi business environment: Application theory**. The aim of this study was to test the impact of the shift to IFRS on the quality of accounting information and the value of registered companies on the one hand, and to analyze the resulting implications for investors' decisions in the Saudi business environment on the other hand. To achieve these objectives, the study relied on analysis of the financial reports of registered Saudi companies belonging to the banking and financial services sector (11 companies) and the insurance sector (35 companies). The study concluded that there is a positive impact of international financial reporting standards on the quality of accounting information, as well as a positive impact of these standards on the value of listed companies, as represented by the increase in the value of Tobin's Q. The study also concluded that the international financial reporting standards affect the decisions of investors and their future directions, as they give a positive signal to investors about the financial performance of the company.
- **Rizigat (2015): The impact of the application of the financial accounting system on the quality of financial reports: Field study.** This study aimed to understand the effect of the commitment to IFRS on the quality of financial reports prepared by economic institutions. To achieve the study's objectives and test its hypotheses, a questionnaire containing 45 questions was designed and distributed to a sample of 88 practitioners, 36 Governors of accounts and 52 university professors. After analyzing the data and testing the hypotheses, a number of results were reached, the most important of which are the following: firstly, the accountants and university professors supported a statistically significant relationship between the application

of IFRS and the quality of accounting information; secondly, the disclosure requirements of the IFRS resulted in the generation of high-quality financial reports, leading to benefits for the Algerian economy.

- **Adam (2016): International Financial Reporting Standards and the quality of accounting information and their role in reducing profit management practices: A field study of a sample of commercial banks listed on the Khartoum Stock Exchange**. The aim of this study was to test the effect of applying the International Financial Reporting Standards on producing highly efficient information. The study, which used the descriptive approach, reached several results: firstly, the management is more concerned with reports on accounting profit figures than on providing fair information about the entity; secondly, the management uses profit management techniques to influence accounting figures, and are also involved in the selection and application of accounting principles and policies. The study recommended the need to review the Sudanese accounting standards to make them more able to deal with the phenomenon of profit management, along with training and qualifications for accountants to encourage them to comply with international financial reporting standards.

Analyzing the studies mentioned above, the researcher believes that small and medium-sized companies are of great importance in the various developed and developing economies. Therefore, it is necessary to help increase the confidence of investors by improving the quality of accounting information. This can be done by applying the International Financial Reporting Standards to the financial statements. This study differs from previous studies as it is the first study to employ a sample comprising a number of banks registered on the Iraqi stock market.

The study also aims to provide a statement of the effects of applying IFRS on the quality of financial statements through the use of other variables, such as limited profit management practices (creative accounting), increased market liquidity, and decreased transaction costs for investors.

4. Conceptual Framework: International Accounting Standards

Due to developments in the accounting profession through the ages, in line with the levels of social and economic development in various countries of the world as well as the accumulation of accounting experience since the Middle Ages, customary rules and traditions have gradually become acceptable among public accountants. This development has helped in setting standards to regulate the profession and the accounting work, which has helped accounting to reach a level that allows for a faster response to the new challenges and accounting problems that emerge.

- **International Accounting Standards:** A standard is a model that is based on custom, has general acceptance, is an agreed basis for application and is used as a basis for comparison. International and local accounting standards play a major role in raising the efficiency and quality of accounting performance by providing a model that describes what the accounting application should be. Standards are used to consolidate the presentation of financial statements in such a way as to provide transparency and disclosure, which represents a protection tool for investors in the stock market. The lack of disclose and transparency in financial statements was one of the reasons that led to the shadowing of many parties dealing with money of companies and investment, whether from clients or from abroad, and uncertainty in the information, leading to the collapse of the institutions and a return to some investors shading (Hanan, 2005, p. 24).
- **Areas of application of international accounting standards:** Hawkins (1997, p. 68) points out that the areas of application of international accounting standards are as follows:

1. Joint-stock companies: All public Joint-stock companies listed on the Capital Market Authority shall be required by law and legislation to apply the International Accounting Standards.
2. Non-Joint-stock private sector companies are advised to apply the standards for their benefit at the internal administrative level and in their dealings with national and international financial institutions.
3. Small and medium-sized entities: The International Accounting Standards Board (IASB) issued an International Accounting Standard for SMEs in July 2009. These simplified standards focus on the needs of the institutions; thus, Arab countries will be able to adopt and apply international accounting standards for large entities and simplified standards for small and medium-sized entities.

- **Small and medium entities:** There is a difference in the definition of small and medium-sized entities, since a particular enterprise may be classified as large in a developing country but small or medium-sized in a developed country. The definition may also vary depending on its purpose or objective: whether the definition is for statistical purposes, financing purposes or other purposes.

The definition varies by country and purpose, but is of course determined according to the number of employees, the company’s size, its capital and other factors, defined by the International Accounting Standards Board (IASB) as companies that are not responsible to the public and publish their financial statements for general stakeholder purposes.

The IASB drafted the International Financial Reporting Standard for SMEs (IASB, 2007), which were formally adopted in 2009, under the name of the International Financial Reporting Standards for SMEs. These standards were prepared by the Board on the basis of IFRS but are independent and separate from the full set of IFRS. This standard, in relation to the definition of small and medium-sized entities, included two basic requirements:

1. If the entity does not issue debt instruments or instruments in the capital markets;
2. If it is not a secure facility or has assets related to external parties, such as banks and insurance companies, it has no general liability (ASCA, 2009).

- **International Financial Reporting Standards for small and medium entities:** The introduction of an international standard for small and medium entities of the Council is a good initiative to help these institutions grow and thrive at the level of major corporations. The International Financial Reporting Standard (IFRS) was prepared by the International Accounting Standards Board (IASB) in its final form in July of 2009. It is a standard developed to meet the multiple needs of financial reporting users, small and medium-sized entities, and even very small entities (OECD), representing more than 95% of all institutions in the world This standard represents a basis and reference that contains the various rules that this sector is committed to in order to improve the quality of its financial reports, especially in the economies of developing countries. This enables it to reduce the volume of its accounting requirements by more than 90% compared with the full application of IFRS, particularly with regard to disclosure (Ahmad, 2009, p. 4).

This standard has been issued along with a working summary to clarify the objectives of the standard and the institutions concerned with its application, as well as a clear definition of the users of financial reports for SMEs. A user guide was also provided that shows how the financial statements are presented together with the attached information.

This standard is self-contained but relies on the same conceptual framework as all IFRSs in its preparation and amendment, allowing for continuous updating as needed and facilitating a simplified transition to the entire IFRS for institutions that either change their status or fully opt for IFRS. This has been prepared independently of the standard rather than being added to other standards for two main reasons (International Accounting Standards Board, 2009, p. 15):

1. Easy to use for parties wishing to apply IFRS for SMEs in order to address the economic events of small and medium-sized entities (SMEs), while IFRSs are fully contained in non-applied processors in this sector;
2. To issue this standard in simple language, without any details, as is fully the case in the IFRS.

- **Reasons and justifications for issuing international standards for the preparation of financial reports for small and medium-sized companies:**

1. To provide small and medium-sized companies with international accounting standards of high quality that are understood and applied internationally in all establishments;
2. To ease the burden on small and medium-sized companies that want to use international standards; and
3. To meet the requirements, and the requirements of the users, of the financial statements of these establishments (Association of Arab Society of Certified Public Accountants, 2009).

The following table explains the differences between the IFRS for SMEs and IFRSs in full, which were discussed by the IASB.

Table 1: Differences between international standards for financial reporting for small and medium-sized companies and international financial reporting standards in their entirety

Standard name	International standards for financial reporting for small and medium-sized companies	International Financial Reporting Standards (IFRS) in their entirety
Financial instruments	There are four categories of financial instruments: - Financial instruments for trading -Financial instruments for retention until maturity -Financial instruments available for sale and not held for trading - Loans and accounts receivable	Two categories were adopted instead of four categories: -Financial instruments for trading -Other financial instruments

Lending costs	Capitalized as part of the cost of the asset	These costs are recognized as an expense in the financial statements
Revaluation indicators	Determined by experience and efficiency	Clear identification of these indicators
Research & development expenses	Capitalized costs in terms	Considered an expense during the period in the financial statements
Subsidies	Two ways to address this issue: the capital method and the revenue method	Only one way to deal with these benefits: by combining them with the net result of the cycle in which the subsidy was paid as a non-shareholder resource that should not be added to shareholders' equity, but must be recognized in the income statement in appropriate periods
Revaluation resulting from reduced assets	Test of impairment annually	Perform an impairment test for the asset when there is an indication of impairment

The table was prepared by the researcher based on Gelard and Meunier (2009, p. 50) and Neag et al. (2009, p. 46).

5. Results and discussion

- **Analysis and Interpretation of Demographic Data:**

The following is an overview of the findings of the present study after the application of the study tools, data collection and analysis. The present study sought to understand the effect of the application of IFRS on the quality of financial statements via limiting profit management practices, increasing market liquidity, and decreasing the transaction costs of investors, which can help to encourage investment in small and medium-sized companies and alleviate the crisis that is currently afflicting the Iraqi economy. The researcher prepared a questionnaire that was distributed to members of a sample of investment banks listed on the Iraqi market for securities. Four banks were chosen (Gulf Commercial Bank, Islamic Bank of Iraq, United Bank for Investment and the Bank of Economy), and respondents included a number of managers, accountants and auditors, namely 30 out of a total 35. This sample was chosen for the similar nature of its outputs, ease of comparison and access to data. The features of the study sample are presented in the following table:

Table 2: Distribution of demographic characteristics of the study sample

Features	Distribution of attributes		Rate
Gender	Female	8	27 %
	Male	22	73 %
Age	25-29	6	20%
	30-34	5	17%
	35-39	9	30%
	40-44	5	17%
	45-49	3	10%
	More than 50	2	6%
Educational qualification	BA	23	77%
	M.A.	7	23%
	Ph.D.	None	None
Current work	Accountant Helper	11	37%
	Account Manager	4	13%
	Finance audit	15	50%
Experience (Years of service)	Less than 5	5	17%
	From 6-10	18	60%

	More than 10	**7**	**23%**

Source: Prepared by the researcher based on data obtained through the field study

Data was then entered into the computer and analyzed statistically through the statistical analysis program SPSS, expressed in weights (Quite agree 5, Agree 4, Neutral 3, Don't agree2, Not quite agree1) The arithmetical mean and the standard deviation were determined. The following is a breakdown of the repetitive distribution table on the five-digit A Likert scale.

Table 3: Items on the Likert scale

Weighted average	Level
5.00 - 4.50	**Quite agree**
4.49 - 4.00	**Agree**
3.99 - 3.50	**Neutral**
3.49 - 3.00	**Don't agree**
2.99 - 1:00	**Not quite agree**

The reliability of the Cronbach's Alpha was 99%, which is an excellent rate indicating the reliability of the results of this study. The table below shows the overall rate of stability:

Table 4: General rate of stability

questions	Cronbach's Alpha
10	99%

Source: Prepared by the researcher based on the results of the statistical program

- **<u>Analysis and discussion of the study:</u>**

The questionnaire consists of 10 questions. The following table shows the frequencies, percentages, arithmetic mean and standard deviation:

Table 5: Ratios of the number of frequencies, mean and standard deviation

S	Positive effects in the event that IFRS applies to the quality of financial reporting	Scale	5	4	3	2	1	Mean	Std. dev	Result
1	In your view, do you believe that reliance on IFRS has a significant effect on limiting profit management practices, increasing market liquidity and decreasing transaction costs for investors?	Rep	8	16	4	2	0	4.0	6.32	Agree
		Ratio	27%	53%	13%	7%	0%			
2	Leads to sufficiency of one accounting treatment, and does not allow for the choice between accounting alternatives (standard treatment and alternative treatment), so that these alternatives are used to manage profits	Rep	9	15	4	1	1	4.0	6.00	Agree
		Ratio	30%	50%	14%	3%	3%			
3	Provides consolidated financial reports that allow the removal of international barriers between countries that have relied on these standards, and thus constitutes a strong incentive to encourage foreign investment	Rep.	8	16	5	0	1	5.0	6.44	Quite agree
		Ratio	27%	53%	17%	0%	3%			

4	Leading to consistency between the financial statements of SMEs, which reduces the costs of preparing and interpreting financial statements, providing confidence in investor transactions and analyzing information	Rep.	11	14	5	0	0	5.0	6.36	Quite agree
		Ratio	40%	50%	10%	0%	0%			
5	Provides more conservative financial reports, which explains the expectation of increased quality of accounting information after the application of the standards, and this is reflected in the quality of the financial statements	Rep.	9	15	4	2	0	4.0	6.04	Agree
		Ratio	30%	50%	13%	7%	0%			
6	Increases the level of clarity and transparency in accounting procedures, such that this increase in transparency leads to countenance on investment and trade, more capital and greater market liquidity	Rep.	9	16	3	1	1	3.0	6.48	Don't agree
		Ratio	30%	54%	10%	3%	3%			
7	Encourages investment and increases investor confidence, which works to generate more profits that lead to increased market liquidity	Rep.	10	15	5	0	0	5.0	6.51	Quite agree
		Ratio	33%	50%	17%	0%	0%			
8	Leads to standardizing of company accounts (when the company has branches abroad), which facilitates the task of bookkeeping that leads to reduced transaction costs; lowering costs also leads to more investments	Rep.	15	12	3	0	0	3.00	7.04	Don't agree
		Ratio	50%	40%	10%	0%	0%			
9	Leads to the application of the principle of specialization and division of labor, based on the fact that an increase in the principle of specialization leads to improvement in labor productivity, which in turn leads to reduced transaction costs, enabling companies to trade easily with each other	Rep.	9	16	5	0	0	5.00	6.75	Quite agree
		Ratio	30%	53%	17%	0%	0%			
10	Contributes to improving the quality of financial reports to reflect the facts of the economic reality of the	Rep.	11	15	4	0	0	4.00	6.75	Agree

	company, allowing investors to make smart decisions	Ratio	37%	50%	13%	0%	0%			

Source: Preparation of the researcher based on the results of the statistical program SPSS.

1. It is noted from the above table that 80% of the respondents agreed that the application of IFRS has a significant effect on limiting profit management practices, increasing market liquidity and decreasing investor transaction costs, with an arithmetic mean of 4.0 and a standard deviation of 6.32.
2. It is noted from the above table that 80% of respondents agreed that the application of IFRS will result in only one accounting treatment and no choice between accounting alternatives (standard treatment and alternative treatment) to exploit these alternatives to profit management, with mean 4.0 and standard deviation 6.00.
3. It is noted from the above table that 80% of respondents agreed that the application of International Financial Reporting Standards (IFRS) helps to provide consolidated financial reports that allow the removal of international barriers between countries that have adopted these standards, and thus constitute a strong incentive to encourage foreign investment, with arithmetic mean 5.0 and standard deviation of 6.44.
4. The table above shows that 80% of respondents agreed that the application of IFRSs leads to achieving format consistency between the financial statements of SMEs, which reduces the costs of preparing and interpreting financial statements, providing confidence in investor transactions and information analysis, with a mean of 5.0 and standard deviation of 6.36.
5. The table above shows that 80% of the respondents agreed that the application of IFRSs helps to provide more conservative financial reports, which explains the expectation of the quality of accounting information being increased after the standards are applied, and that this is reflected in the quality of the financial statements (mean 4.0, standard deviation 6.04).
6. It is noted from the above table that 84% of respondents agreed that the application of IFRS will increase the level of clarity and transparency in the accounting procedures, and that this increase in the level of transparency leads to the promotion of investment and trade, resulting in more capital and greater market liquidity (mean 3.0, standard deviation 6.48).
7. It is noted from the above table that 83% of respondents agreed that the application of IFRS will help to encourage investment and increase the confidence of investors who are working to achieve more profits, leading to increased market liquidity (mean 5.0, standard deviation 6.51).
8. It is noted from the above table that 90% of respondents agreed that the application of IFRS will help to consolidate the company's accounts (when the company has branches abroad), which facilitates better bookkeeping and thus leads to lower transaction costs and more investments (mean 3.0, standard deviation 7.04).
9. It is noted from the table above that 83% of respondents agreed that the application of international standards of reporting helps with the application of the principles of specialization and division of labor, based on the fact that an increase in the principle of specialization leads to improvement in labor productivity, thus reducing transaction costs and enabling companies to trade with each other more easily (mean 5.0, standard deviation 6.75).
10. The above table shows that 87% of respondents agreed that the application of IFRS will contribute to improving the quality of the financial statements so that they reflect the company's economic reality, allowing investors to make smart decisions (mean 5.0, standard deviation 6.75).

In short, there is consensus at the level of the sample of the study as a whole, or at the level of the studied categories, that the implementation of the IFRS for SMEs will lead to obtaining good accounting information that will improve the company’s financial statements, making them high-quality from a global perspective and accurately reflecting the economic reality of the company. This allows investors to make smart decisions, leading to the ease of international trade. The above is accomplished by achieving the following three determinants: limiting profit management practices, increasing market liquidity, and reducing transaction costs for investors. This indicates a statistically significant effect between the application of IFRS and the quality of financial statements, leading to rejection of the null hypothesis (which stated that there is no positive effect of statistical significance between the application of IFRS and the quality of financial statements) and acceptance of the alternative hypothesis that provides for effect by testing of the sub-hypotheses of the study.

6.Conclusions

The study arrives at the following conclusions:

1. The application of IFRSs has a significant impact on the quality of financial statements by achieving the following three determinants: limiting profit management practices, increasing market liquidity and reducing transaction costs of investors.
2. The application of International Financial Reporting Standards leads to a limiting in the management of profits through reducing the scope of selection of alternatives and accounting treatments, resulting in the company selecting an accounting treatment in a certain financial period. The company is then required to use the same treatment in similar future circumstances. This is one of the methods used to limit the management of profits and to provide high quality financial statements.
3. The application of IFRS constitutes a strong incentive to encourage foreign investment and trade through the provision of consolidated financial reports, which allow for the removal of international barriers between countries that have adopted these standards. Therefore, these reports constitute a strong incentive to encourage investment and increase investor confidence. This in turn leads to increased market liquidity in countries that have adopted IFRSs, leading to higher-quality financial statements.
4. The application of IFRS increases the level of clarity and transparency in accounting procedures. This increase in transparency leads to the encouragement of investment and trade, leading to more capital and greater market liquidity through attracting investors.
5. The implementation of the IFRS standard for small and medium-sized entities results in consistency between the financial reports of small and medium-sized entities, thus reducing the costs of preparing and interpreting the financial statements. This provides investors with confidence in their transactions, which is reflected in the impact of the quality of the financial statement.
6. The application of the International Financial Reporting Standards leads to the unification of the company's accounts (when the company has branches abroad), which will facilitate better bookkeeping and reduce investor transaction costs. Reduced costs also leads to more investment and ease of international trade.
7. The application of the International Financial Reporting Standards leads to the application of the principle of specialization and division of labor, based on the fact that an increase in the principle of specialization leads to improvements in labor productivity, further reducing transaction costs.

7. Recommendations

1. There is a need to disclose and try to limit certain practices through the application of IFRS. There are two types of manipulation: accounting manipulation (legal), and manipulation of accounting (illegal).
2. There is a need to hold conferences and seminars to raise awareness among auditing and accounting professionals of the subject of applying the IFRS (for SMEs), along with its impact on achieving quality in financial statements and profit management to identify and try to reduce discouraged practices.
3. Encourage the application of international financial reporting standards in Iraqi companies, as this will modernize the accounting profession and its orientation towards globalization.
4. Foster interest in completing the preparation of the Iraqi environment and the ability of companies to apply the International Financial Reporting Standards so that they can benefit from the experiences of countries that have taken serious steps to ensure compliance with this standard.
5. Work towards achieving a high level of disclosure and transparency in financial statements generally.

References

1. Adam, M., Adres Abu baker, International financial reporting standards and the quality of accounting information and their role in reducing profit management practices - A field study of a sample of commercial banks listed on Khartoum Stock Exchange, and funding (Unpublished dissertation). Sudan University of Science and Technology, (2016).

2.Ahmed AL-fares, The New International Standards for Financial Reporting, AL-Rai newspaper, Kuwait, (2009), No (11076), p4.

3.Al-Azzawi, O., & Mahawah, A., International Financial Reporting Standard for small and medium entities: An opportunity and a challenge for developing countries -with reference to the Algerian experience, Journal of the researcher university of Kasdi and Arqla for economic and commercial sciences, number 11, (2012) ,96-102.

4.Alexandrou, G., Koumanakos, E., Chytis, E, Anticipated effects of International Accounting Standards in micro entities from the viewpoint of preparers, Conference: 4th International Conference, "Entrepreneurship in the Global Environment: New Challenges in the Post-Crisis Era" TEI of Epirus, At Preveza, Greece, Volume: ISBN: 978-960-86583-7-0, (2011) 354-376 https://www.researchgate.net/publication/259584049.

5.Al-Shammari, A. Saleh, The extent of the implementation of International Accounting Standards on attracting foreign capital for the local environment. Administrative Studies4(7), September, (2011), 81-122.

6. Al-Sharqawi, M. Hassan Abu Al Maati, Impact of compliance with International Financial Reporting Standards (IFRS) on enhancing the efficiency of capital investment in small and medium entities (SMEs). Fifth Annual Academic and Vocational Conference: "Accounting in a Changing World": Accounting in the Face of Contemporary Economic and Political Changes, Faculty of Commerce, Cairo University, (2014), 1-34.
7.Feltham, D., The adoption of International Accounting Standards for small - and medium-sized entities (Unpublished doctoral dissertation). Walden University, Minnesota, USA, (2013),1-230.
8.Gelard, G., Meunier, F. IFRS pour PME, (Paris: Editions Francis Lefebre,2009) p.50.
9.George, I., International Financial Reporting Standards and the quality of financial statement information. International Review of Financial Analysis, 19(3), (2010), 193–204.
10.Hanan, R., Introduction to accounting theory (Jordan: Dar Weal Publishing,2005).
11.Hawkins, David, New IAS Standards Decision Time for IAS Firms, Institution and Countries. Accounting Bulletin. 20, Merill lynch, Harvard University, (1997), 68-72.
12.International Financial Reporting Standard for Small and Medium-sized Entities Basis for Conclusions (IFRS for SMEs, JULY 2009).
13.Kerongo, E., Odhiambo Olango, The Effects of International Financial Reporting Standards Adoption on Smes Performance: A Case Study Mombasa – Central Business District (CBD), Research Journal of Finance and Accounting, ISSN 2222-1697 (Paper) ISSN 2222-2847 (Online), V5, (N7), 2014,94-102.
14. Mileage, Abdul Hakim Mileage, The Impact of the Shift to International Financial Reporting Standards on the Quality of Accounting Information, Applied Theory Study, Salman bin Abdul-Aziz University Journal, Issue (3), (2013).
15. Neag, R., Masco, E, PA scan, I., Actual aspects regarding the IFRS for SME- opinions debates and future developments, Annals Universities Apulensis Series Oeconomica, 11(1),(2009),32-42.
16. Rizigat, B, The impact of the application of the Financial Accounting System on the quality of financial reports (Unpublished Masters dissertation), university Algeria, (2015).
17.Talal Abu-Ghazaleh Organization, IFRS for small and medium entities, (Jordan: Arab Society of Certified Public Accountants, 2009).