CHAPTER I
INTRODUCTION

1.1 Introduction

IFRS in Indonesia has long been on the agenda of the Indonesian government and people. The International Accounting Standards Board (IASB) issues IFRS, which is compiled by four major world organizations: the International Accounting Standards Agency (IASB), the European Community Commission (EC), the International Organization for Capital Markets (IOSOC), and the International Accounting Federation (IFAC). It is to eliminate differences and solve international accounting issues that may arise anywhere in the world (Fitriasuri and Terzaghi, 2016). According to Setyadi et.al (2018) Many countries, including Indonesia, have agreed to adopt IFRS in the hope that their companies' financial statements will be comparable and relevant if they match those produced by other countries that use or have adopted IFRS. Since 2008, Indonesia has been undergoing IFRS convergence, gradually adapting it to the country's economic standards until it succeeded in fully adopting IFRS in 2012.

Indonesia has attempted to adopt financial standards in accordance with the stages of IFRS convergence, and has officially adopted the entire IFRS and begun to apply it to interested parties. Many Indonesian companies have used IFRS standards in their reporting. However, the data discovered shows that while IFRS has been successfully implemented in Indonesia, this does not imply that many business owners have effectively implemented it. SMEs struggle to implement international accounting standards due to a lack of knowledge and understanding of IFRS. Business owners argue that IFRS standards are difficult to understand and apply in practice due to numerous challenges and barriers in the economy, such as language, complexity, and cultural differences, so that effective implementation of IFRS in SMEs is very low.

Despite the fact that they are required to use IFRS in their financial reporting, some SMEs prefer not to do so due to the difficulty of implementing IFRS and the importance of a financial report for them. Because of this skepticism, many businesses fail to properly report their finances, resulting in gaps in their operating activities. Furthermore, not recording or not recording transactions can have a negative impact on business continuity and is not a sign of a healthy business. As a result, it is critical to understand how far IFRS has progressed and how widely it is used in SMEs. According to Sukmawati and Pujiningsih (2022) the IFRS convergence effect was the most researched topic by Indonesian researchers.

1.2 Objectives

The purpose of this research is to provide a realistic view of the development and implementation rate of IFRS in SME's in Palembang, South Sumatra. By categorizing SMEs into different levels, we can see how far IFRS has spread and how it affects their day-to-day operations. The findings of this study will also provide reflective information about the implementation of IFRS and can be used as a filter to identify potential SMEs with the potential to enter the global market.