# Abstract Acceptance - 5th European IEOM Conference, Rome, Italy, July 26-28, 2022

Inbox

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## Abstract Acceptance - 5th European IEOM Conference, Rome, Italy, July 26-28, 2022

Dear Amany Larassyah:

Congratulations! The conference organizing committee is pleased to announce that your abstract (ID 571: Level of IFRS Implementation in SMEs: Exploratory Case Studies of SMEs Palembang, Indonesia) has been *accepted for presentation and publication* in the 5th IEOM European Conference on Industrial Engineering and Operations Management, Rome, Italy, July 26-28, 2022. Host is the Faculty of Civil and Industrial Engineering, Sapienza - University of Rome, Italy. Due to the global pandemic, the event will be in a hybrid mode: onsite at FH55 Grand Hotel Palatino (walking distance from the Colosseum) and virtual via zoom.

# Attention: Rome 2022 Proceedings are online Inbox

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Dear Amany Larassyah:

Hope you are doing well. The IEOM publication team has just finished adding papers/abstracts to proceedings online. You can check for your paper/abstract ID 571: "Level of IFRS Implementation in SMEs: Exploratory Case Studies of SMEs Palembang, Indonesia" and see if it has a clickable links. IDs' without link indicates we don't have any record of registration payment for those. If you think it is a mistake from our side please email us with your proof of payment (*** ONLY IF YOUR ID DOES NOT HAVE A CLICKABLE LINK).

Moreover, the papers which failed the IEOM standard, not enough Tables/figures/analysis are published as an abstract.

If you have any question/query please email us on or before December 27, 2022 to Dr. nazrul@ieomsociety.org. Please also include your payment receipt with it .

# Level of IFRS implementation in SMEs: Exploratory Case Studies of SMEs in (Palembang), South Sumatera, Indonesia

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## Abstract

The IFRS standard has often been regarded as the solution to tackling international accounting challenges and eliminating differences. Many nations including Indonesia, have converged and adopted IFRS to their national accounting standard in hopes that businesses can compete better in the global market, especially for SMEs. Despite their long presence (since 2012), the optimal results of IFRS in SMEs have yet to be seen. The hypothesis on why this happened is that many SME's have not been able to implement the standard. This study seeks to identify the reason why optimal results from the IFRS in SMEs is hindered, by taking on an empirical approach using surveys and interviews involving business owners as well as SMEs around the area to understand the usage and relevancy of IFRS in their operations. Subsequently, providing a realistic view on the development and implementation rate of IFRS in SME's located in Palembang, South Sumatera. Systematic literature reviews from relevant journals and articles were conducted in order to explore what it means to implement IFRS effectively alongside the barriers and challenges it brings. The results of this study hope to serve as a contribution to data collection and other research, as well as display the realistic state of SMEs in Palembang to the government, while acting as a filter for potential SMEs to enter the global market.

## Keywords

IFRS, SMEs, National Accounting Standard, Global Market, Business Owner

## 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.

### 1.1 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.

## 2. Literature Review

### 2.1 Understanding IFRS

The International Financial Reporting Standards, or IFRS, are international accounting standards that have been mutually agreed upon and compiled by the International Accounting Standards Board (IASB). IFRS is thought to be capable of easing the problem of transparency and understanding in the world's financial statements. By using IFRS, the resulting financial statements will be presented in accordance with the same principles, making the process of consolidating financial reporting among multinational corporations easier.

As an accounting standard that aims to equalize financial statement preparation around the world, IFRS has the ability to eliminate differences and produce high-quality, comparable, and transparent financial reports for use by investors in international capital markets and other parties. parties with an interest (Setiajatnika et al., 2019). This can have a positive impact on business continuity because implementing IFRS improves the quality of financial reporting and decision-making by providing high certainty and consistency for business actors in accounting interpretation. Moreover, Wittsiepe (2008) states: Large international companies have traditionally been the target of international standards as the need for comparable financial information was seen primarily for stock-listed companies to facilitate

the decision-making process for international investors. Setting standards for small and medium-sized businesses is a novel approach in international accounting.

## 2.2 IFRS Convergence

Convergence is defined as the process of aligning Financial Accounting Standards (SAK) with IFRS in order to harmonize or standardize a financial report (Setiajatnika et al., 2019). Convergence efforts for IFRS in Indonesia have been ongoing for approximately 5 years – since 2008 – before being fully implemented on January 1, 2012. This is nothing more than an attempt to eliminate differences and find solutions to various accounting problems that may arise in order to make information-driven financial statements more understandable.

The IFRS convergence is not without challenges; each country has its own national standard-setting body that reflects the culture of accounting practice in its country, which is influenced by environmental, economic, social, and political factors. The Indonesian Institute of Accountants (IAI) issues a Statement of Financial Accounting Standards (PSAK) as a form of accounting practice and mixing it with various international standards is certainly not easy. As a result of globalization's demands, the equalization of accounting perceptions in each country through the convergence of IFRS has become a top priority that Indonesia always prioritizes.

## 2.3 Indonesian IFRS Development (SMEs)

According to Fitriasuri (2017), since the start of the "Implementation Stage" in 2012, the use of IFRS in Indonesia has grown. This stage focuses on the activities of implementing IFRS-based PSAK, which is implemented in stages and is accompanied by a comprehensive evaluation and examination of its impact. The application of the International Financial Reporting Standard (IFRS) to business is highly anticipated as a global language that multinational companies or businesses can understand because it has high value and is profitable for companies due to its ability to strengthen accounting information and facilitate investment flows (Setiajatnika et al., 2019).

Aside from the need to implement IFRS standards, there aren't many businesses in Indonesia that are urging them to use IFRS in their financial reporting. With the ability and desire to enter the global market, international accounting standards (IFRS) have emerged as a barrier to their success. Sadly, the desire to use IFRS is no longer matched by the necessary capabilities or resources. Several UMKM and business owners have stated that using IFRS in daily operations is difficult due to the numerous challenges that occur. Among them are a lack of understanding of IFRS standards and the high cost of implementing them. Implementing IFRS at UMKM has proven ineffective because it does not function as intended. Despite its benefits for business operations, IFRS necessitates a great deal of preparation and understanding before it can be used effectively.

## 2.4 Understanding SMEs

A small-to medium-sized enterprise (SME) is a company whose revenues, assets, or employee count fall below a certain threshold. The criteria for determining an SME vary by country and, in some cases, by industry. Unfortunately, there is no universally accepted definition of SME. Each country is free to define its own definition, and it is also free to set specific limits for specific industries. In the European Union (EU), for example, a company with fewer than 250 employees is considered a SME, whereas in the United States, a SME can have up to 1,200 employees.

In most countries, SMEs account for the vast majority of businesses. According to the Small Business Administration (SBA), 99.9% of all businesses in the United States in 2018 were small businesses. This contrasts with Indonesia, where 98 percent of businesses are micro, 1.2 percent are small, 0.7 percent are medium, and 0.1 percent are large. According to Syarif. et. all (2021) Micro, Small, and Medium-Sized Enterprises (SMEs) in Indonesia are growing year after year and employ approximately 97 percent of the total workforce in Indonesia, and account for 99.9 percent of all businesses. SMEs contribute roughly 60% of Indonesia's total GDP. All of this demonstrates how important micro, small, and medium enterprises are to the economy.

## 2.5 The state of Palembang Sumatera Selatan's SMEs

The situation of SMEs in Palembang cannot be described accurately. The lack of concrete business data collection and clear reporting of the situation has made Palembang SMEs unable to describe their condition properly. South

Sumatra currently lacks reliable data on the number of MSME actors. Data from districts and cities shows that there are 2.2 million SMEs in South Sumatra, but only 200,000 are recorded in the system. According to the Head of the Cooperatives and SMEs Service, the number of SMEs in December 2021 was only 1,103. It is estimated that there are as many as 160,000 if all of them are recorded. According to the Ministry of Cooperatives and Small and Medium Enterprises (SMEs), this difference in numbers makes the development and funding process not optimal. In fact, with accurate MSME data, it can be used to conduct better coaching, development, and distribution of business capital assistance. However, MSME data has been provided as open data by the government (Amir and Kunang, 2021).

## 3. Methods

This study seeks to determine how many SMEs have effectively implemented IFRS standards in their businesses, as well as to assess the performance and developments of IFRS since Indonesia fully adopted them in 2012. The research topic has been narrowed down to SMEs in Palembang, South Sumatra. A mixed-descriptive study was used in this study. Benefitting from a qualitative study to explain the magnitude of the impact of IFRS on SMEs and the effectiveness of its implementation, as well as a quantitative descriptive study to determine the number of SMEs in South Sumatra that use IFRS realistically and the percentage of their distribution.

The data used is sourced from primary data with observation, survey, and interview techniques towards business actors to obtain real information. Meanwhile, data collection techniques were carried out through searching for library materials such as articles and journals related to the object of research. The data obtained is then processed by re-checking and matching it with the primary data that has been obtained. After that, the data was analyzed in terms of alignment, completeness, and clarity of the research object. Grouping and organizing data within a prepared framework of several aspects (established years, identity, specialization, types, conditions) to be analyzed and studied.

## 4. Data Collection

Several samples of SMEs were selected as a search database and around 15 SMEs data was successfully collected from our surveys. The 15 SMEs are considered eligible for respondents as they meet the criteria which were (1) being SME actors and (2) operates in Palembang and South Sumatera. The type of business they were specializing in were not considered as a limitation since this research prefers a wider spread in order to analyze a certain pattern.

Table 1. Survey Questions

| Matters | Questions |
|---|---|
| Business Identity | What year were they established? |
| | What do they specialize in? |
| | What category of SMEs are they? |
| Financial Reports | Is your business making financial reports ? |
| SMEs with Financial Reports | What accounting standard is being used? |
| | For what reason does your business make financial reports? |
| | How important is your business' financial report? |
| | How beneficial are financial statements for your business? |
| SMEs without Financial Reports | For what reason does your business not make financial reports? |
| | How important do you think a financial report is? |
| | How beneficial do you think a financial report is? |
| | Have you any intentions in making your own financial report? |
| IFRS Standard | Are you familiar/know the IFRS accounting standard? |
| | How deep is your knowledge of the IFRS? |
| | What do you think the IFRS is? |
| The usage of IFRS | Is your business using the IFRS standard? |
| | Why is your business not using the IFRS standard? |
| | In your opinion, is it important to use IFRS for business reporting standards? |
| | How beneficial do you think the IFRS standard would be? |
| | Would IFRS be more advantageous or disadvantageous for your business? |
| | Does your business have any intentions to use the IFRS? |

With the intention of finding the desired target and learn its association, several questions were imposed to respondents as seen above (Table 1)
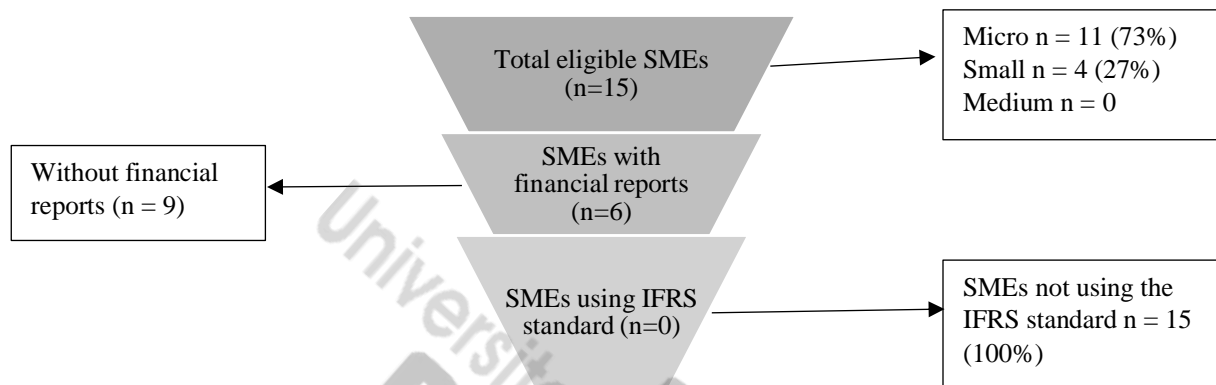


Figure 1. Data flow of survey results

As a result (seen in Figure 1), the total of the 15 SMEs were narrowed down to those who have been operating with financial reports in order to identify SMEs who implements IFRS in their business. However, it was found that there were zero (0) SMEs in Palembang that uses the IFRS standard. This finding was lower than expected as indicated Firmansyah and Irawan (2019), even though IFRS is principle-based and broadly accepted like previous PSAK (*Pernyataan Standar Akuntansi Keuangan* = Statement of Financial Accounting Standards), there are still some striking differences. Moreover, when asked the question "Is your business making financial reports?" there were only 40% or only six (6) respondent who answered "Yes" while 60% or nine (9) of the total admits to not making financial reports for their business. The usage of IFRS is heavily influenced by financial reports. Hence, no financial reports means that there is no room to implement the IFRS standard. Subsequently, the course of this research shifted from evaluating IFRS implementation to exploring and analyzing the reason behind the non-existent IFRS in the first place (caused by the absence of financial reports) which leads to optimal results from the IFRS in SMEs being hindered. Utilizing the known financial reports percentage as the main lead, this research will inspect key points of the status quo in hopes to find the grounds of which causes the absence.

## 5. Results and Discussion

This research managed to obtained data from within the specific area of Palembang and analyzed fifteen (15) micro, small, and medium business. The result from the collected data revealed several interesting findings about the conditions of SMEs in Palembang. According to the survey results, the majority of respondents does not prepare financial reports (60%). All respondents who prepared financial reports (40%) stated that they had never prepared financial reports in accordance with IFRS standards. Of course, this is very interesting because IFRS has been agreed upon and accepted for implementation since 2012, implying that it has been a decade since 2022. Although the number of respondents in the sample cannot be considered a full representative of the population, it was conducted by random sampling and used a qualitative mixed-descriptive study intended to be applied within a specific area. Our survey was conducted with a limited number of SMEs, and we recognized the possibility that some unintentional inaccurate representation of the realistic state of SMEs emergence may exist. As a result, the findings of this research are specific rather than general, as Creswell and Creswell (2018) would argue.

As studies conducted by previous researchers stated that SMEs in Indonesia have the same problem, it can be said that Indonesian SMEs are homogeneous (Resmi. et al., 2018), the issue is that they lack adequate human resources, technology, and information technology, as well as financial management capabilities. However, according to Dinuka (2019), "By 2012, all business players in Indonesia are required to fully implement IFRS as an accounting standard in preparing their company's financial statements." So, this is an initial finding that there is something incompatible between the desire to implement IFRS and the facts and data obtained during the course of this study.

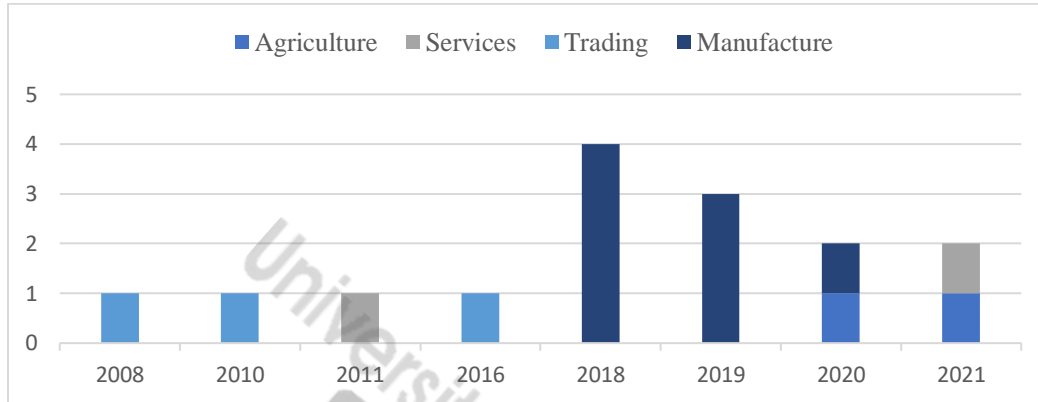## 5.1 Time Aspects Within Palembang's SMEs



Figure 2. Established years of SMEs in Palembang

All 15 respondents were asked the year they were established, and their answers ranged from the year 2008 as the earliest to 2021 as the latest. At 2008 there were only 1 MSME recorded, specializing in trading, the same applies to the year 2010. While for the following year of 2011, one of our respondents answered that they were specializing in services. As seen from figure 2 above, the highest point of SMEs being established was at year 2018, dominating with 4 SMEs specializing specifically in manufacture. The influx of this emergence can be traced back to pre-pandemic times when the economy was growing well. Likewise, in the year of 2019, comes in second place with 3 SMEs also specializing in manufacturing, which shows a unique pattern of the manufacturing type to be the most popular specialization established both in 2018 and 2019. This most likely happened due to manufacturing being important to supporting production. For the years 2020 and 2021, there were a total of four SMEs (2 each for each year) that were recorded. The specialization ranges from all of the types (manufacture, services, and also agriculture) with the exception of trading. Although the highest trend of SMEs emergence was on year 2018, there was a significant presence of the Covid-19 pandemic in 2019 to 2021 that altered the economics of Indonesia. Considering the effect of the pandemic and the changes it brought, this research acknowledges that those corresponding years may have more numbers of SMEs established compared to 2018 and 2019.

## 5.2 SME's Identity Distribution

The classification of SMEs in Indonesia can be perceived through various perspectives or approaches taken by institutions, agencies and even laws. As stated in law No. 20 of 2008 concerning SMEs, an understanding and classification of SMEs is based on the assets and turnover of each business scale as follows:

Table 2. SMEs category by Indonesian law No.20 of 2008

| Scale | Criteria | |
|---|---|---|
| | **Net Worth/Assets (excluding land and buildings of business premises)** | **Sales Result/Turnover** |
| **Micro** | Maximum of Rp50 million | Maximum of Rp300 milion |
| **Small** | >Rp50 million – Rp500 million | >Rp300 million  – Rp2.5 billion |
| **Medium** | >Rp500 million – Rp10 billion | >Rp2.5 billion  – Rp500 billion |

The Central Statistics Agency of Indonesia classifies SMEs based on the quantity of workforce used in each business unit. The following can be categorized as such: microenterprise; workforce of 1–5 people. small business with a workforce of 5–19 people. medium-sized business with a workforce of 20–99 people. This data was later provided in the survey to aid respondents in choosing the correct SME category for their business. This action was necessary because the respondents were found to be unfamiliar with their own type of business classification.
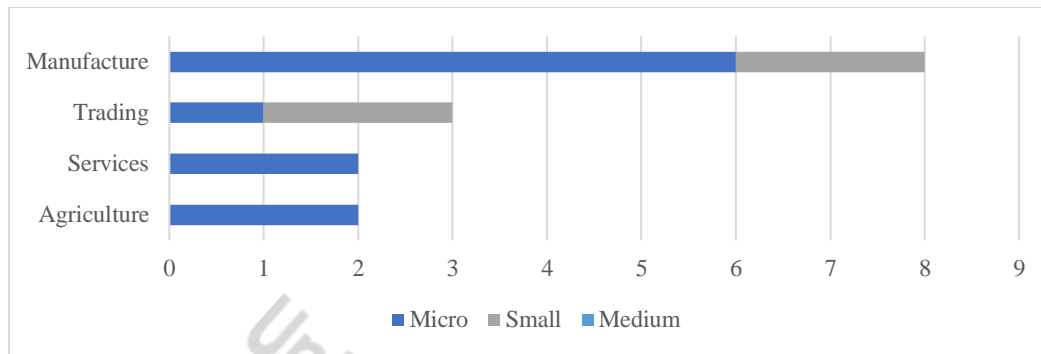
Figure 3. Distribution of SMEs by category

From the conducted survey, there were no SMEs recorded to be in the medium category. This was to be expected as the number of medium-category SMEs in Indonesia is less than 1%, as stated by Syarif et al. (2021). The total of SMEs reported in the small category was 4 businesses, whereas the micro category swooped in with 11 businesses in total. Among the 15 SMEs respondents, the most notable specialization was manufacturing (total of 8), with as many as 6 SMEs being micro and 2 in the small category. Trading comes in second with a total of 3 numbers of SMEs: 1 in the micro category and 2 in the small category. While services and agriculture are both in the micro category with only 2 SMEs. As we can see from figure 2 above, micro businesses specializing in manufacturing were the most established businesses in Palembang. Observing these phenomena from two different aspects (specialization and category) gave us an understanding that the reason behind them was mostly due to culture and geography, which both play a big role in shaping the economics of Indonesia. Most Palembang residents' livelihoods depend on production or manufacturing activities, especially in food and beverages. This thinking is reinforced by the fact that 7 out of 8 SMEs in the manufacturing category from our surveys stated that they were specializing in manufacturing food and beverages. Geography plays a part in the high-density area of Palembang, where open land is difficult to acquire, and public business premises are not that well provided. Given how loose the requirements and licensing were to establish a business in third-world countries, many lower-middle class residents were able to make a living by setting up their own businesses, albeit being unstructured and unorganized.

## 5.3 Financial Report in SMEs

An observation of the survey answers when being asked "Is your business making financial reports?" showed results as seen in Table 3 below. The table reports the number of businesses that make financial reports focusing on (1) specialization (manufacture, trading, services, and agriculture), and (2) the SMEs category (micro, small, and medium). There were approximately 40% of the respondents whose businesses use financial reports, while 60% do not use them.

Table 3. SMEs financial report rates based on specialties and categories

| | Specialization | | | | SMEs Category | | |
|---|---|---|---|---|---|---|---|
| | **Manufacture** | **Trading** | **Services** | **Agriculture** | **Micro** | **Small** | **Medium** |
| **With financial reports** | 3 | 0 | 2 | 1 | 4 | 2 | 0 |
| **Total** | **40% (6)** | | | | **40% (6)** | | |
| **Without financial reports** | 5 | 3 | 0 | 1 | 7 | 2 | 0 |
| **Total** | **60% (9)** | | | | **60% (9)** | | |

Overall, we concluded that in Palembang, SMEs with financial reports were outnumbered by those without (6<9) in both aspects (specialization and category). There are only 3 businesses in the manufacturing category that

make financial reports, while the remaining 5 stated that they do not make financial reports (3>5). Trading reported not having any business with financial reports, leaving all 3 of them without (0<3). On the contrary, services had all of their businesses making financial reports (2 > 0), while agriculture was shown to have a tie between one another (1 = 1). The category aspects, on the other hand, which were micro, small, and medium, showed very different numbers between one another. Micro businesses stated that only 4 out of 11 were making financial reports, leaving 7 businesses without (4<7). The small category had an equal amount of business with and without financial reports (2 = 2). The medium category is left blank (0) since there were no respondents that met these criteria.

Table 4. SMEs financial report rates within established years

| | Established Year | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **2008** | **2010** | **2011** | **2016** | **2018** | **2019** | **2020** | **2021** |
| **With financial reports** | 0 | 0 | 1 | 0 | 1 | 2 | 0 | 2 |
| **Total** | 40% (6) | | | | | | | |
| **Without financial reports** | 1 | 1 | 0 | 1 | 3 | 1 | 2 | 0 |
| **Total** | 60% (9) | | | | | | | |

The above table instead shows the percentage of financial reports within established year, even by this standard it is still found that SMEs with financial reports are less than those without (40%<60%). However from the established years, we identified that most SMEs with financial reports are those who were established above the year 2012 (with one SMEs in 2011 being the only exception). Despite the lower percentage, this showed that since the fully adopted IFRS in 2012, there were gradually more and more SMEs that were aware of the importance of financial reports. However when we asked them what kind of standard they used for their financial reports, most of them 83.3% (5) stated that they do not use any specific formal standard or does not even know the standard that they were using. With the exception of 16.7% (1) answered that they used SAP (Standar Akuntansi Pemerintah = Government Accounting Standard)

The rate of financial reports in Palembang SMEs as shown above cannot be considered as an optimal situation for the economy's sustainability and continuity of business. Although it is known that SMEs with financial reports are more commonly found within the medium to small category due to its nature of being more well-established and complex, the need of financial reports within the dominating number of micro-SMEs without financial reports in Palembang has to be addressed due to how much their influence for the economy is.
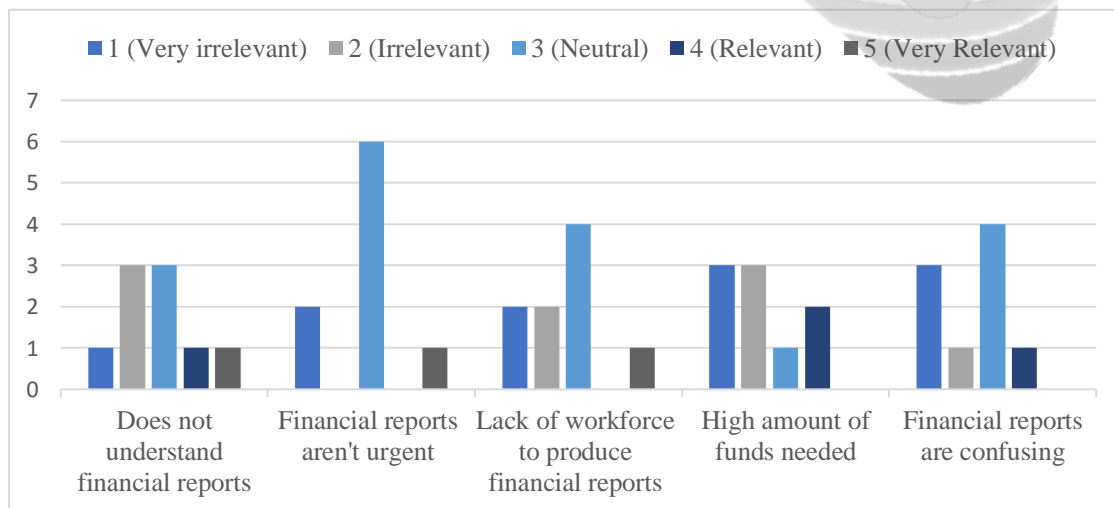


Figure 4. Relevant reasons for not making financial reports

When asked why they did not make financial reports, many SMEs answered neutral in most cases (as seen in bar 3 figure 4 often being high), indicating that the true reasons why they did not make financial reports may be

something else. They also find it most relevant that financial reports require a high budget in order to be made (2 SMEs agree on indicator 4 relevant), hence the absence of financial reports. The findings of Fong (2016) also indicate that the benefits of IFRS adoption in developing countries have a variety of causes related to regulations and IFRS knowledge.
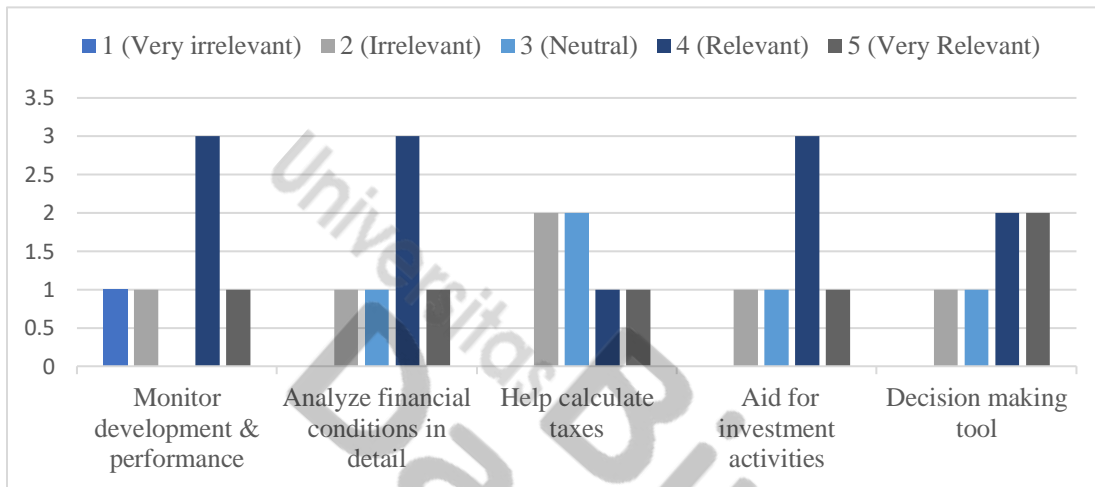


Figure 5. Relevant reasons for making financial reports

In this figure, it is shown the relevant reasons behind SMEs who makes financial reports for their business. The most relevant reasons would be to (1) Monitor development and performance, (2) Analyze Financial conditions in detail and (3) Aid for investment activities which were the most chosen reason with 3 points. However, even with SMEs that do make financial reports, only 1 out 5 of them reported to use a legitimate standard when asked "What accounting standard is being used?" (as previously mentioned in the above paragraph). In which others admit to not know or not use a specific accounting standard. To simplify, they have been only making cash flows for personal tracking purposes rather than formal financial reports. This goes to show just how far the level of awareness these SMEs actors have towards accounting standards.

## 5.4 Implementing IFRS on SMEs and Its Importance

Continuing with the above notion above, we asked all the respondents, those with financial reports and those without financial reports (15) about their views on the IFRS standard. The below figure were their answers on most relevant reasons as to why they were not using the IFRS standard.
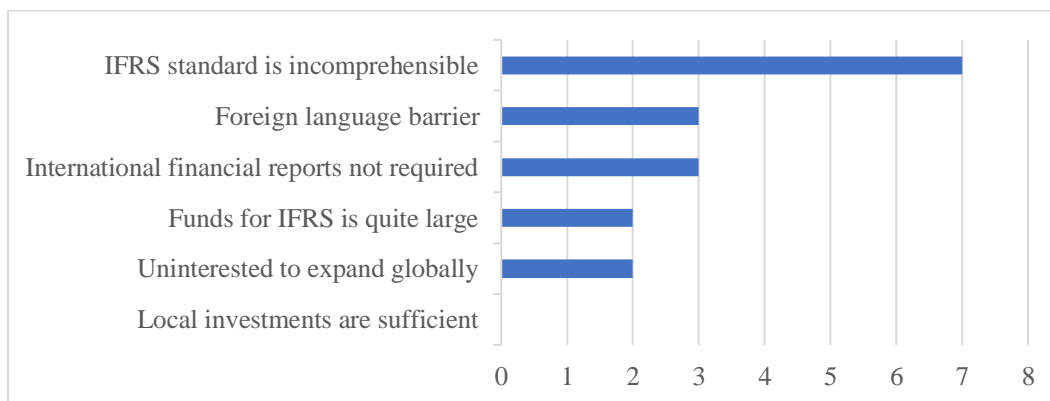


Figure 6. Relevant reasons for not using IFRS

Many answered (7) that the IFRS standard is incomprehensible meaning that they have difficulties of understanding the standard of even simply not knowing what it is. This aligned with the data we received when respondents were asked "Are you familiar/know the IFRS accounting standard? ". Around 73.3% (11) answered that they do not know IFRS. 13.3% (2) answered maybe and 13.3% (2) answered yes, they do know IFRS. As how dominant micro businesses in Indonesian economy and this research is, it was fairly expected that most may have never even heard of IFRS given the fact that it consists predominately of low-middle classes. However, for the particular reason that the economy so much relies on them, it is imperative to heed special attention that warrants their development even further and motivate them to penetrate and expand into the global markets.

To improve the comparability and quality of financial reports in the global market, internationally accepted accounting standards must be used (Yurisandy and Puspitasari, 2015). As it is well known, financial statements are an important tool in determining a company's long-term viability. Financial statements serve not only as an assessment or evaluation of the company's performance during the period, but they are also able to provide the reporting entity financial information that is useful for current and future investors, lenders, and other creditors in making decisions regarding the provision of resources to the entity (PSAK-IAI, 2015).

Almost all businesses run their businesses using funds from other parties. Likewise, businesses from SMEs need funds to run their operations, so it is not uncommon to find efforts to seek additional funds through the provision of special loans, bank loans, and financial institutions other than banks. The source of funds is an important part of the development of SMEs. Unfortunately, it is not uncommon to find SMEs that are still lacking in terms of management, especially in terms of finance and recording or documentation (Sriyono et al., 2021). Among several problems faced by SMEs, limited capital occupies the main position (Abe and Batsaikhan, 2015; Williams et al., 2013). Accounting plays an important role in the management of funds because funding is so important in business. Where accounting acts as a business tool that SMEs must understand and implement (Damak-Ayadi et al., 2020). Without it, the company would be unable to determine its performance. Furthermore, without accounting, the financial statements that are essential for funding will not exist. According to Sriyono et al. (2021), investors require financial information to assess and consider the performance of the business into which they are investing; this is necessary to facilitate access to credit from the government, banks, and creditors. The low quality of financial reports will result in SMEs being unable to obtain adequate borrowing or funding (Sánchez-Ballesta & Yagüe, 2021). By applying IFRS to financial reports, the financial reports produced will be of high quality and transparent, allowing them to be compared throughout the period. Furthermore, financial statements prepared in accordance with IFRS are produced at a lower cost than the benefits obtained by its users. This IFRS makes it available to global capital market investors and other stakeholders (Setiajatnika et al., 2019), allowing the business funding pool to grow due to the increased availability of funds from various global investors.

According to Pacter (2017), the use of IFRS has reached 150 countries, consisting of 44 countries in Europe, 23 countries in Africa, 13 countries in the Middle East, 33 countries in Asia and 37 countries in America. This makes IFRS accepted as the global language of world accounting standards. Meanwhile, in Indonesia, especially in Palembang, South Sumatra, as the research location, it shows that the level of implementation of IFRS in SMEs is still at a very early stage. Even though the implementation of IFRS is already over a decade old (see figure 5), it still needs a lot of socialization and awareness of the importance of implementing IFRS, starting with the implementation of good and correct financial statements according to PSAK SME standards. The data obtained from the following survey results show that awareness of the importance of being big and doing business internationally is not an important part. Some of the obstacles and the main reasons that were observed were: (1) IFRS was not understood; this was the main reason because it was still difficult to make transaction records and financial reports. (2) The main barrier is mastery of foreign languages, particularly English. The main obstacle (3) is not understanding and not considering the importance of IFRS for business progress. The obstacles in terms of funds and not wanting to expand their business internationally are common.

## 6. Conclusion

This research has utilized and examined data from a variety of relevant journals and open surveys of SMEs actors. According to the acquired indicators, the implementation of IFRS in SMEs is practically nonexistent. This is due to the absence of financial reporting in micro, small, and medium-sized enterprises (SMEs) and entrepreneurs' lack of fundamental knowledge of financial standards and reports. If we were to determine the level of IFRS implementation,

we can conclude that, from 2012 to the present day, the development of IFRS in MSMEs has not increased nor is optimal. Obviously, this is not a matter to be handled lightly. This study resulted in important implications and contribution for academics, realization of practice, and policy. From which is conferred that it is due time for the government to pay genuine attention to the actual state of SMEs. This study discovered that financial reports are important not only as a means of controlling and monitoring businesses but also as a means of achieving greater objectives, such as the ability to use IFRS in their business to compete in global markets. In addition, this research cannot emphasize enough the significance of being aware of your business as a whole and paying attention to the circumstances and demands. On the basis of its conclusions, this paper can assist the government and relevant parties in understanding the actual state of micro, small, and medium enterprises in the nation. As an additional avenue, future research within this scope is able expand and compare the realization of IFRS in SMEs throughout Indonesia as the scope of analysis in this research was limited only to SMEs in Palembang. It would be provide a better and more comprehensive view of realistic conditions if the implementation of IFRS were to be analyzed across all Indonesia.

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