

**The impact of applying international financial reporting standards to SMEs
On optimizing the utility of financial reports between Palestinian and Libyan business environment**

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Abstract:

The main aim of the research is to identify the impact of the application of IFRS for SMEs on optimizing the utility of information for financial reports. To answer the questions and test the hypotheses of the research, researchers relied on the descriptive analytical approach. First, the researchers clarified the theoretical aspect through previous studies, and then they analysed the results of the applied study by testing the hypothesis using the SPSS.

A questionnaire was distributed after evaluation and arbitration by a number of specialists on selected sample. The sample of 120 respondents consists of general managers, department directors, head of departments, accountants, auditors and financial controllers working in the financial departments of the Palestinian and Libyan businesses.

The results of the research showed that the implementation of IFRS has many advantages and benefits, the most important of which is improving the quality of disclosed financial information, and increasing the level of disclosure and transparency in financial reports.

The study also recommended that small and medium-sized enterprises of the Palestinian and Libyan businesses should comply with the IFRS to improve the quality of information financial reports.

Keywords: International Financial Reporting Standards (IFRS), Small and Medium Enterprises (SMEs), Financial Reporting, Libya, Palestine, Information, utility.

1. Introduction

The emergence of globalization has added complexity to the field of developing of international financial reporting. This complexity is a result of the increasing involvement of various economic blocs in national interests abided by a unified regulatory framework, while keeping nationality differences. Such emerged complexity has a root in the changing requirements for financial information by users of financial reports. Relevant agencies and institutions were required as a response to the above development to issue acceptable accounting standards to various countries in order to create convergence international consistency equilibrium in preparing financial reports. The sought equilibrium should achieve a high degree of transparency and clarity to meet the need of increasing requirements for financial information. The issuance of several accounting standards including international, American and British etc. reflected the search for improving the accounting measurement and disclosure process. Those standards should provide clarity and appropriate amount of information to be disclosed which must be in turn sufficiently detailed for the users who would rely on them.

All large or small and medium-sized enterprises should apply all the requirements of accounting standards although there are differences in the needs of users of information from each. Small and medium-sized enterprises (**SMEs**) play an important role in the economic structure of a country in terms of their number or contribution to employment (in terms of solving unemployment problem) or their contribution to GDP. As a result of this importance, SMEs have for many years become target of many stakeholders, Non-governmental organizations, donors, organizations, assistance programs and local and international development bodies. Many countries are interested in the accounting of SMEs such as the United States of America and South Africa. The reason behind this concern has been the difficulty the SMEs in these countries face to apply the complex and detailed international Financial Reporting Standards (**IFRS**). The SMEs continued to suffer from a lack of a clear accounting framework, until the International Accounting Standard Board (**IASB**) issued the "IFRS for SMEs in July 2009 in an attempt to provide a tailored solution to the problems related to the financial reporting of SMEs. The "IFRS for SMEs" is the first set of international accounting requirements that have been formulated for them. It has been prepared on the basis of IFRS, so that the standards are independent and separate, but on the same basis.

2. Literature review:

(Schutte D & Buys P, 2011) The study aimed at identifying the appropriateness of applying "IFRS for SMEs" through the use of a sample of the financial statements of the SMEs sector in South Africa. It ran a comparison

between current disclosure practices in the SMEs sector in South Africa and the financial statements based on IRFS. The study concluded that the implementation of the “IFRS for SMEs” may be the best accounting framework for SMEs in South Africa.

(Masca, 2012) The aim of the research was to identify the impact of cultural factors on the adoption of the “IFRS for SMEs” to the EU countries. It also sought to identify the impact of the application of these standards to SMEs on the views of many EU institutions, according to geographical regions. EU States are very complex and the adoption of these standards involves charging the SMEs higher costs. The research reached several results, the most important of which is that the institutions are influenced by the accounting culture of their geographic regions where they operate. Such influence is felt when evaluating the advantages of increasing ability to compare after applying “IFRS for SMEs”.

(Matar et al., 2012) The study aimed at highlighting the importance of the role played by SMEs in building the Jordanian economy. It also target to determine the nature and limits of disclosure of information that should be presented in the financial statements issued by SMEs, as compared with the financial statements issued by large enterprises. The study found that SMEs play a pivotal role in Jordan's economic activity, and that the majority of the sample members supported the development of SMEs special standards governing the disclosure of information in the financial reports of SMEs.

(Koppeschaar, 2012) The research aimed at verifying the appropriateness of applying “IFRS for SMEs” through the survey of SMEs accountants in South Africa. The research found a number of results, the most important being that international standards for SMEs are not in line with the particular nature of most Small enterprises in South Africa, does not meet the needs of users of financial reports, in addition to the high cost of compliance with these standards.

(Kilic et al., 2014) The objective of this research was to analyse the awareness, level of information, readiness and professionalism of professional accountants for the international SMEs standards in Turkey. It also aimed at examining the impact of many factors such as experience, educational level and the willingness of professional accountants to understand “IFRS for SMEs”. The results of the research indicated that most professional accountants are aware of the process of applying the “IFRS for SMEs” and have a moderate level of information about them. They have received many training courses on international SMEs standards. The respondents pointed to the most important advantages of the international SME standards: improving comparability, reliability, transparency, quality of financial information and clear understanding of the financial statements. This reflects positively on the sound decision-making process, as well as reducing the cost of obtaining capital in these establishments. On the other hand, reference was made to the main obstacles to the application of these standards in terms of cost and lack of training, which could lead to erroneous application of standards and the preparation of inappropriate financial statements.

(Hussein, 2014) The research aimed to conduct an analytical study on the applicability of the international standard for SMEs. It analyses how to improve the disclosure and accounting presentation of SMEs and to analyse the problems arising from the preparation of financial reports according to the accounting and measurement disclosure in major project in Egypt. The research used a questionnaire distributed to a sample consisting of accountants and auditors in industrial and commercial Egyptian SMEs only. The research concluded that there is a shortfall in the application of the financial accounting conceptual framework. In addition, there are multiple alternatives for accounting measurements and increasing requirements of disclosure which does not conform with the SMEs nature and characteristics. Finally, there is a weakness in accounting systems used in SMEs projects.

(Dahihat, Abu Risha, 2014) This research aimed to investigate the IFRS for SMEs in order to demonstrate the importance of applying these standards and the problems and obstacles that limit the optimal application of these standards to the Jordanian SMEs. The research adopted a questionnaire as a tool for study and distributed to a sample of 150 SMEs, external auditors, financial managers and government agencies. The results of the applied research showed that the application of “IFRSs for SMEs” to Jordan's SMEs suffer from many problems and obstacles. The most important problem is the tightening for finance guarantees conditions by donors, the rise of interest for financing SMEs and lastly the multiple numbers of entities who supervising these projects and the weak coordination between them.

(Jain & Gandhi, 2015) This paper aimed at assessing the accounting gap that Indian SMEs may face because of their application of “IFRS for SMEs”. It also addressed the analysis of IFRS for SMEs as well as the full international standard (Full IFRS) with regard to fixed assets and executing a field analysis to test similarities and differences between the two standards. The research analyses qualitative data by comparing the two standards on several key issues related to the recognition and fair value of these assets as well as the

difference in the disclosure process. The "IFRS for SMEs" did not refer to guidance on the disclosure process relating to the collateralization of these assets as collateral for the obligations. The study found that "IFRS for SMEs" was similar to the full international standard by 51.52% and in other areas of 48.48% is different. It is expected over time that Indian SMEs will meet the challenges imposed by the application of IFRS. The research findings point out that Indian SMEs should adopt the IFRS to enable them to compete globally.

(El-Sejai et al., 2015) The paper aimed to study and analyse the requirements of the IFRS for SMEs, their suitability for application in the Egyptian business environment, and identify the main obstacles that may impede its applicability. In order to achieve the objective of the research and test the hypotheses, a questionnaire was distributed to two main samples, one of which was a group of academics and the other was a group of accountants and auditors working in the SMEs listed on the Egyptian Nile Stock Exchange. The paper found significant difference between the views of the two research groups about the conformity of the IFRS requirements to the SMEs Egyptian business environment, while there is no significant difference about the obstacles faced by SMEs in the Egyptian business environment when applying IFRS standard of international disclosure to SMEs.

(Mohamed, 2017) The objective of the study was to measure the extent to which the "IFRS for SMEs" achieved the requirements of the quality of accounting disclosure by measuring the availability of accounting measurement and disclosure requirements of applying the financial reporting standard for small and medium enterprises. Thus how it is improving the quality of accounting disclosure for this type and bridging the gap between the financial reporting standards and the requirements of the financial reporting users of small and medium enterprises. The research relied upon the use of a questionnaire distributed to auditors and financial reporters as well as a sample of the users of these reports in the Egyptian environment from the owners of SMEs or investors and financial analysts. The research concluded that the application of IFRS to SMEs contributes to increasing the quality of accounting disclosure for these types of establishments in the Egyptian environment.

(Suwaidan et al., 2018) The aim of this study was to survey the views of a sample of Jordanian auditors on the appropriateness of "IFRS for SMEs" in Jordan. To achieve the objectives of the research, a questionnaire was designed and distributed to a randomly selected sample of 145 respondents. The results of the research indicated: (1) the support of the auditors, accounts for the existence of IFRS for SMEs (2) their agreement that these standards contribute to meet the needs of users of the financial statements of these enterprises (3) also they increase the efficiency of financial data (4) and their ability to reflect the financial position of the enterprise.

(Khalifa, 2018) The research problem focused on whether the disclosure requirements in the financial reporting of Libyan SMEs are consistent with the disclosure requirements of the IFRS for SMEs. The research relied on the use of a questionnaire distributed to an intentional sample of academic professors and accounting specialists in universities, higher institutes and financial institutions of these establishments. The results of this study agreed with the results of other studies conducted in the Libyan environment that the adoption and IFRS reproached accounting work environment in Libya lead to secure widespread acceptance of these standards, increase confidence in, and improve the level of disclosure and transparency of SMEs.

3. Research problem:

Adoption of "IFRS for SMEs" can contribute to the provision of reliable, honest and comparable financial information locally and internationally through a sound financial reporting system. IFRS may provide an appropriate environment for financial reporting through the issuance of standardized financial reports of global quality and transparency. These reports are measurable to enable users of them to make rational and sound decisions.

The above has led researchers to try to identify the problem, determine its size and dimensions, and the impact of the application of "IFRS for SMEs" on the financial reporting environment to improve the quality of information for financial reporting, provide adequate information to users of the reports and increase the level of disclosure in them.

Based on the above, the problem of research can be formulated in the following questions:

1. Is there a statistical significant relationship between the application of IFRS for SMEs and the improvement of financial reporting quality
2. Is there a statistical significant relationship between the application of IFRS for SMEs and the possibility to provide sufficient information to the user of financial reports
3. If there is a statistically significant relationship between the application of IFRS for SMEs and increasing the level of disclosure in the financial reports

4. Research Objectives:

The research aims to achieve several objectives, the most important of which are:

1. To demonstrate the impact of the relationship between the application of IFRS in SMEs and the improvement of financial reporting information quality.
2. Statement of the impact of the relationship between the application of IFRS in SMEs and the possibility of providing adequate information to users of financial reports.
3. Statement of the impact of the relationship between the application of IFRS in SMEs and the increased level of disclosure in financial reports

4. The importance of this research:

The research examines the impact of the application of “IFRS for SMEs” on the financial reporting environment. The adoption and application of IFRS has been of great interest to both academics and researchers. To improve the quality of information contained in the financial reports, to provide adequate information to its users, and to increase the level of transparency and disclosure in the financial reports.

5. Research hypotheses:

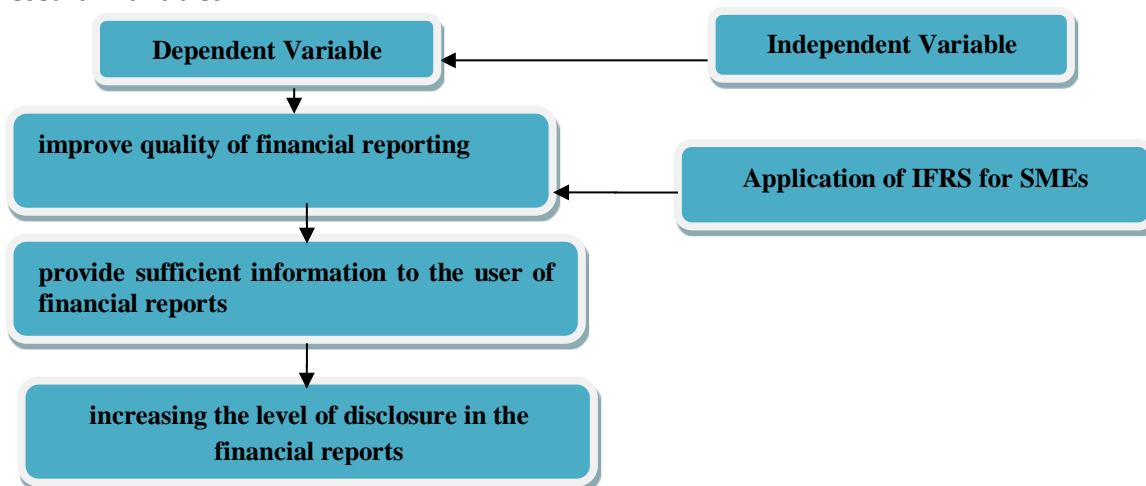
Based on the problem and objectives of the research the hypotheses set could be formulated as follows:

Hypothesis (1): there a statistical significant relationship between the application of IFRS for SMEs and the improvement of financial reporting quality

Hypothesis (2): there a statistical significant relationship between the application of IFRS for SMEs and the possibility to provide sufficient information to the user of financial reports

Hypothesis (3): there is a statistically significant relationship between the application of IFRS for SMEs and increasing the level of disclosure in the financial reports

6. Research Variables:



7. Research Plan:

In the light of the importance of this research, and to achieve its objectives it was taken into account to approach the issue by a theoretical and applied framework. The study is divided into the following sections:

8. The theoretical framework of research:

- A. The concept and characteristics of small and medium sized enterprises.
- B. Impact of the application of IFRS on SMEs.

9. The Applied Study.

10. Results and recommendations.

IX. The theoretical framework of research:

A. The Concept And Characteristics Of Small And Medium Sized Enterprises.

The preparation of international financial reporting standards has been linked to the needs of the users of the financial statements of large or listed companies that are accountable to a large number of users. However, the economic structure of the majority of countries clearly demonstrates the dominance of the SME sector and its role in economic and social development. In the lack of financial and human resources, commitments of SMEs to apply the same accounting requirements imposed on large enterprises is a burden and add more challenges that hinder their growth and development, in light of the rapid changes that characterize the international economy. In this context, the International Accounting Standards Board issued

IFRS for small and medium enterprises in an effort to provide simplified accounting requirements that contribute to the ease the burden resulting from the compliance with the accounting requirements of the full standards. This would maximize the benefits derived from this obligation.

(Belragie and Hurcavh 2013: 2).

1- the concept of small and medium-sized enterprises:

SMEs are of a great importance in the economies of all societies, regardless of their degree of development, different systems and economic concepts, and the different stages of their social transformation.

Many States have developed their own definitions of SMEs for a wide range of purposes, including the definition of financial reporting obligations. These national and regional definitions often include quantitative criteria based on revenue, assets, staffing or other factors.

The term SMEs is defined in IFRS issued by the IASB in Section 1, Small and Medium Enterprises, as "enterprises that do not have general responsibility and publish financial statements of general purpose to external users such as owners who participate in administering the business, current and potential creditors, and credit rating agencies."The entity has general responsibility if: (IFRS Foundation, 2015)

- Debt instruments or equity instruments are traded in a public market or are in the process of issuing these instruments for trading on the public market (local or foreign stock market or direct market including local and regional markets).
- If it has credit assets for a wide range of external parties as one of its core business, this applies to banks, credit unions, insurance companies, brokers / brokers, mutual funds and investment banks.

Some concepts of small and medium enterprises have emerged at the international and local level, some focused on the descriptive aspect of the enterprise based on a set of descriptive standards, others on the quantitative side of the enterprise based on a set of quantitative criteria for measuring a small and medium size. (Mohammed, 2012) defined SMEs as two main groups:

- Metadata Standards: The descriptive standards focus on the specific characteristics of SMEs in terms of their degree of market influence, management structure and ownership.
- Quantitative standards: Quantitative standards focus on the quantitative characteristics of small and medium enterprises with the aim of distinguishing them from large enterprises: labour standard, capital standard, labour and capital standard, sales volume criterion, technology standard used, production capacity Standard.

2- Characteristics of SMEs:

SMEs have several characteristics that distinguish them from other large business enterprises and can be divided into five groups of general characteristics that define the nature of these enterprises as follows (Mohammad, 2012: 256) (khitab, 2012: 335):

The first group: characteristics related to its overall structure and can be summarized as follows:

Flexibility, lack of internal control system, strict specialization in products, high utilization rate, short period of payback of capital invested, lack of accounting culture among owners and employees, weak capacity to increase capital.

Group II: Characteristics associated with its role in supporting the national economy can be summarized as follows:

Creating many job opportunities, low risk, contributing to raising the standard of living, the opportunity to create financial wealth and community service in addition to job security.

Group III: Characteristics associated with the ability to interact with markets can be summarized as follows:

Weak competitiveness in the wide markets and their strength in limited markets, the possibility of establishing them in small areas, the ability to market their products at the lowest costs.

Group IV: The characteristics associated with their role in assisting large enterprises can be summarized as follows:

SMEs are industries that complement and feed large industries. Large enterprises rely on the SME subcontracting system, which is a self-training tool across country.

Group 5: Characteristics associated with the distinctive nature of small enterprises from large enterprises and can be summarized as follows: Provide a distinct service with a personal character for proximity to the consumer, relying on the personal input in dealing with employment and the surrounding community.

3- The Role and Importance of SMEs:

SMEs represent a large proportion of industrial projects in many countries in different stages of growth. They represent the main source of labor and contribute effectively to exports and increase innovation. Some statistics indicate, "SMEs represent about 90% of total companies around the world economies" (Hamad, et

al., 2014:9). Many economists believe that the development and promotion of SMEs is one of the main sources of economic and social development in countries in general and in developing countries in particular. They increase productivity capacity on one hand and are contributing to tackling the problems of poverty and unemployment on the other hand. It also constitutes a field for technical development, managerial productive and marketing skills, and opens a wide range of individual initiatives and self-employment. This reduces pressure on the public sector to provide employment opportunities. SMEs role is (Dababesh, Kadouri, 2013: 6):

- SMEs provide a potential source of competition for large enterprises and limit their ability to control prices.
- They are the main source of employment in both developed and developing economies. Previously, this role was limited to a country that is interested in creating jobs for its citizens.
- These projects are characterized by providing an appropriate working environment where the entrepreneur and the workers work side by side for their mutual benefit.
- They help to develop rural areas that suffer from weak growth and development, low-income levels and high unemployment rates.
- They are fertile place for the development of innovations and new ideas. Develop production methods and develop service delivery tools.
- Exploiting resources and materials available in the local environment because of their dependence on local markets.
- A distinct way of redistributing income among members of society by providing opportunities for all.
- A main source for feeding medium and large enterprises in the elements involved in the production processes, through networking and interrelationships with these projects.

B. Impact of the application of IFRS on SMEs.

The "IFRS for SMEs" is a first set of international accounting requirements formulated for SMEs. This set of standards was issued by the International Accounting Standards Board (IASB) in July 2009 with reference to the full IFRS but it constitutes an independent and separate product from the full set. The subdivision set provides simplified explanations to reflect the needs of the users of SMEs financial statements, while take considerations of the benefits as compared to cost. Several attempts have been made to find an appropriate title for the standards set during the stages of its issuance, including the International Financial Reporting Standard for Private Enterprises, the International Financial Reporting Standard for Non-Public Entities, until the Council has named it as the International Financial Reporting Standard for SMEs (IFRS for SMEs). The objective of the "IFRS for SMEs" was to provide simple and independent standards on with reference to the full IFRS, but as an independent and separate product. The (IFRS for SMEs) represents a basis and reference that contains the various rules that type of sector need to adhere to, in order to improve the quality of financial reports, especially in the economies of developing countries, in particular to what applies to their markets.

The full IFRS was adopted in the development of this standards set because of the similarity in the needs of the users of the accounting information for these enterprises that abide to those standards, with the needs of the users of the financial statements of SMEs. Consequently, the IASB did not start from a scratch when they started to develop the Standards for SMEs. They adopted the core concepts from the IFRS's conceptual framework while taking into account appropriate necessary adjustments to fit the needs of users of accounting information and the concept of cost-benefit. They eliminated accounting treatment alternatives, removed non-SME-related topics and simplified measurement to enable investors, lenders and other SMEs to compare the performance and financial position of similar enterprises (Yunus, Fawzi, 2017: 4).

There are many reasons why IASB has developed an international accounting standard for SMEs, the most important of which is to provide SMEs with international high quality standards that are internationally understood and applied. SMEs who wish to use international standards meet the needs and requirements of data users in various international institutions (Kurdudi & Azzouz, 2017: 12).

The sections that were covered by the Standard will be clarified as follows: (IFRS Foundation, 2015)

1. Small and Medium Sized-Entities: this section includes a description of the characteristics of small and medium-sized enterprises as defined by the Standard.
2. Concepts and Pervasive Principles: This section describes the objectives of the financial statements of SMEs, the specific characteristics of the financial statements, the financial position, the definition of the components of the financial position (assets, liabilities and equity), performance and definition of

- performance elements Income and expenses), recognition of assets and liabilities, income and expenses, measurement of assets, liabilities, income and expenses.
3. Financial Statement Presentation: The most important topics discussed in this section are: Fair presentation of financial statements, compliance with the IFRS for SMEs, entity continuity, repeat reporting, consistent supply consistency, comparable information, relative importance And assembly.
 4. Financial Position Statement: The most important topics dealt with in this section are the information to be presented in the budget: fixed assets, inventory, cash and cash equivalents, real estate investments, intangible assets, current and long-term liabilities, Allotments, property owners and property owners).
 5. Statement of Comprehensive Income and Income Statement: The information to be presented in the statement of income and comprehensive income is as follows: Revenue, results of operating activities, financing costs, share of profit or loss from associates and joint ventures accounted for using the equity method, profit or loss from activities Ordinary, extraordinary items, net profit or loss for the period).
 6. Statement of Changes in Equity and Statement of Income and Retained Earnings
 7. Statement of Cash Flow
 8. Notes to the Financial Statement
 9. Consolidated and Separate Financial Statement
 10. Accounting Policies, Estimates, & Errors
 11. Basic Financial Instruments
 12. Other Financial Instruments Issues
 13. Inventory
 14. Investment in associates (Investment in Associates)
 15. Investment in Joint Ventures
 16. Investment Property
 17. Property, Plant, and Equipment (Property, Plant, & Equipment)
 18. Intangible Assets Other Than Goodwill
 19. Business Combinations & Goodwill
 20. Leasing (Leases)
 21. Provisions and Contingencies
 22. Obligations and Equity
 23. Revenue
 24. Government Grants
 25. Borrowing Costs
 26. Share based payments
 27. Impairment of Non-Financial Assets
 28. Employee Benefits (Employee Benefits)
 29. Income Tax (Income Tax)
 30. Foreign Currency Translations
 31. Financial Reports in Hyperinflationary Economies
 32. Events after the end of the reporting period (Events after the end of the reporting period)
 33. RELATED PARTY DISCLOSURES
 34. Specialized Activities
 35. Transition to the application of the IFRS for SMEs

(Transition to the IFRS for SMEs)

A. The requirements of the International Standard to SMEs:

When considering the “IFRS for SMEs” and comparing them to the full set of IFRS regarding disclosure requirements, the following is noted (El-Sejai et al., 2015) (IFRS Foundation, 2015):

- The subjects in IFRS that are not related to SMEs have been deleted. The disclosure requirements contained therein are simplified in comparison to IFRSs. Some of the subjects included in the full set of IFRS have been deleted from the “IFRS for SMEs” to suit the nature and size of SMEs. This is because the IASB believes that such operations are irrelevant to SMEs.
- Some of the disclosure requirements have been met within the requirements of IFRS and are not included in the requirements of “IFRS for SMEs”, as these disclosures relate to the principles of

measurement and recognition contained in IFRS, which was replaced by the International Standard on Small Enterprises with simpler requirements for SMEs, such as reducing financial asset classes.

- Some disclosure requirements are not included in the “IFRS for SMEs”, depending on the fact that the needs of SMEs accounting users may be less extensive than other firms.
- While full international standards permit the choice of accounting policy, “IFRS for SMEs” permits only the simplest options; in addition to the application of this standard, the cost - benefit considerations.

The disclosure requirements are represented in each of the following (Mohammad, 2017):

The company's basic data:

- **Basic data of the company:** Represented in the basic information related to the company and its activities in addition to all other necessary data to be disclosed.
- **Accounting policies:** Disclosure of accounting policies is an important information document that enables the interpretation of figures in financial statements and reports in accordance with the accounting policies that have led to them.
- **Important parties and transactions:** Financial reporting should include a description of transactions between the entity and other parties, as well as significant relationships between the entity and other external parties such as the relationship between the holding company and the subsidiary.
- **Subsequent events:** Significant events may occur or new information relating to financial statements and reports may be made available.
- **Doubts about the entity's continued existence:** If the financial reporting body has information that the entity may not continue or is uncertain about its continuation, then such information should be disclosed appropriately
- **Potential Obligations:** Many uncertainties and disclosures inform the user of the negative consequences of events that have occurred but have not reached the degree of objectivity required for inclusion in the reports.

B. Accounting problems of financial reporting in SMEs:

Abdel Fattah, 2011 (Benaichi, 2014) noted that the most important accounting problems facing these establishments are the following:

- The lack of commitment by most SMEs to maintain regular books and records, lack of legislation to encourage them, and the lack of an efficient financial accounting system in most SMEs.
- The owners of SMEs and financial departments are not convinced of the importance or feasibility of applying international standards to the small size of these establishments and the small size of their transactions.
- Lack of financial management experience in these establishments by accounting standards, which results from weak accounting principles applied in this type of establishments.
- The weakness of the internal control system and the unwillingness of the owners of the establishments to disclose their real income.
- The lack of interest of the concerned authorities in holding training courses on the importance of adherence to the books and records and the importance of applying “IFRS for SMEs” and encouraging their application.
- Lack of need and inability to prepare reliable financial reports.

C. Impact of the application of the “IFRS for SMEs” on the quality of information for financial reporting:

The process of providing information that represents the output of the accounting system in the form of financial reports has faced many obstacles due to the difference in accounting systems. Also, the accounting practices from one country to another; influenced by a set of environmental factors for each country have been a source of disruption to the movement of international financial markets and an obstacle in front of the free flow of international investment. To overcome all these differences many local, regional and international organizations have attempted to resolve some of these differences and sought the greatest possible consistency between the bases of financial reporting and the information they contained therein. This would allow access to financial reports which contain information able to overcome the state borders and be understood, legible and meet international investors' information needs. The IFRS-for SMEs should help ensure the credibility and appropriateness of accounting information through the achievement of a standard format for financial reports giving it the general admission formula. Many studies have emphasized that adopting international standards as global standards will contribute to reducing the differences between these reports in different countries, enhancing the comparability of financial information, improving their interpretive capacity as an indicator of company performance, reducing cost, improving transparency,

reducing information asymmetry. The results of the Abu Risha study (2011) indicate that “IFRS for SMEs” are important and that their application has a positive impact on the financial information content of these enterprises and on the appropriateness and reliability of the Accounting information in the financial reporting of small and medium industrial establishments in Jordan. While Mullerova et al. (2013) believes that special standards should be adopted SMEs to facilitate cooperation with foreign investors and the possibility of comparability with foreign competitors through accounting adjustments and their impact on financial assessment. A study (Melegy, 2014) examined the impact of the shift to IFRS on the quality of accounting information and the value of listed companies on the one hand, and analyzing the implications for investors' decisions in the Saudi business environment on the other. The research found a positive impact on financial reporting standards the study also found that international financial reporting standards affect investors' decisions and future trends, giving a positive indication of the quality of accounting information. The study by (Lozada & Rios-Figueroa, 2014) concluded that the application of IFRS to SMEs results in many advantages that will help the consistency and comparability of financial reports and increase user confidence. Al-Sharqawi, 2014, found a correlation between compliance with IFRS and the quality of accounting information. The study (Mohamed, 2017) concludes that the application of IFRS to SMEs contributes increased quality of accounting disclosure.

X. The Applied Study:

The researchers conducted an applied study to test the hypothesis of the research and to achieve the objectives of study as follows:

A. Research Methodology

The analytical descriptive approach was used as the appropriate method for studying social and human phenomena. The data collection is based on secondary sources and primary sources as follows:

- Secondary sources: It consists of books, research, scientific messages, periodicals and the Internet.
- Preliminary sources: It consists of a questionnaire prepared specifically for this purpose, to obtain the required information, and the statistical program SPSS was used to analyse the questionnaire, and test the hypotheses of the research.

B. Society and Research Sample:

The research community is comprised of Palestinian and Libyan business establishments. The research sample was determined by means of objective inspection. The questionnaire was sent to 120 employees working in Palestinian and Libyan businesses. The following table (1) shows the distribution of the sample members according to the following categories: Professional title, years of experience, and qualification.

Table (1) Sample Respondents Distribution

	Job title						Specialization				Qualification		
	General Manager	Financial Manager	Head Financial Section	Accountant	Auditor	Financial controller	Accountancy	Management	Finance and banking	others	Diploma	Bachelor	Higher study
Observations	19	18	22	24	20	17	76	22	17	5	25	84	11
Percentage	15.8	15	18.3	20	16.7	14.2	63.3	18.3	14.2	4.2	20.8	70	9.2

The researchers have the following comments on table (1) above:

- Despite the fact that the researched sample varies across various functions and different scientific disciplines; they are directly related to the nature of financial and accounting work in financial institutions, which makes the sample suitable for study.
- Academic qualifications for the members of the sample vary between diploma, bachelor, and postgraduate, which makes the research sample representative of all the qualifications of the accounting process.

C. Research Tool:

The researcher used questionnaire as a main tool in data collection. The questionnaire was developed in the light of the comprehensive review of the previous theoretical and scientific studies that dealt with the research variables. The questionnaire was divided into several axes, which contained a set of questions. The researchers tested the validity and stability of the questionnaire as follows:

1. Validity of the internal consistency of the questionnaire:

The validity of the internal consistency of the questionnaire items was calculated by finding the Pearson correlation coefficient between the total score of each field and the total score of the questionnaire.

Table (2) Pearson correlation coefficient between the degree of each area of the questionnaire with the total score of the questionnaire.

Number	Axis	Pearson correlation coefficient
1	there a statistically significant relationship between the application of IFRS for SMEs and improving the quality of information of financial reports	0.849**
2	there a statistically significant relationship between the application of IFRS for SMEs and the possibility to provide sufficient information to the user of financial reports	0.798**
3	there a statistically significant relationship between the application of IFRS for SMEs and increase the level of disclosure in financial reports	0.820**

**** indicate the significance of the correlation coefficient at level 0.01**

The results of the Pearson correlation coefficients in the table (2) above indicate the availability of internal consistency in the areas of the questionnaire. The highest correlation coefficient was 0.849 at the level of 0.01 for the first axis, while the lowest correlation coefficient was 0.798 at a significant level of 0.01 for the second axis.

2. Stability of the questionnaire:

The researchers tested the stability of the questionnaire by calculating the correlation coefficient of Cronbach Alpha for each of the fields of the list, as shown in table (3):

Table (3) Results of the stability of the questionnaire using the correlation coefficients Alpha Kronbach

Number	Axis	Items number	Cronbach Alpha coefficients
1	there a statistically significant relationship between the application of IFRS for SMEs and improving the quality of information of financial reports	7	0.834
2	there a statistically significant relationship between the application of IFRS for SMEs and the possibility to provide sufficient information to the user of financial reports	8	0.865
3	there a statistically significant relationship between the application of IFRS for SMEs and increase the level of disclosure in financial reports	6	0.828

The above table shows that Alpha Kronbach coefficients range from 0.834 to 0.865. This indicates that the questionnaire has an acceptable degree of stability, which assures researchers of their application of the research sample.

D. The applied research results:

1. Descriptive statistics of the variables:

Table (4) descriptive statistics of the research variables

Number	Axis	Variable	Average	Standard deviation
1	there a statistically significant relationship between the application of IFRS for SMEs and improving the quality of information of financial reports	Y₁	3.79	0.996
2	there a statistically significant relationship between the application of IFRS for SMEs and the possibility to provide sufficient information to the user of financial reports	Y₂	3.41	0.978
3	there a statistically significant relationship between the application of IFRS for SMEs and increase the level of disclosure in financial reports	Y₃	3.58	0.912

The researchers note on the most important results obtained from Table (4) above, that the first axis is the largest axis available in the sample of the research, where the average of this dimension 3.79, and note the availability of the rest of the axes varying degrees.

As shown in Table (5), Pearson correlation matrix of the relationship between the application of IFRS, the improvement of the quality of financial reporting information, the provision of adequate information to the users of the financial reports and the increased level of disclosure in the financial reports

Table (5) correlation coefficients between research variables

Axis	Y ₁	Y ₂	Y ₃
X	0.598**	0.687**	0.651**

Commenting on the previous table (5), it is noted that there is a direct correlation between the independent variable (X), which reflects the effect of the application of IFRS and the dependent variables (Y₃, Y₂, Y₁) which

reflect the improvement of quality of financial reports, provide sufficient information to the users of the reports and increase the level of disclosure in them.

2. Analytical Statistics and Testing of Hypotheses:

The researchers used simple linear regression models to test the hypotheses of research as follows:

First hypothesis test: There is a statistically significant relationship between the application of the IFRS for SMEs (X) and the improvement of the quality of financial reporting information (Y1).

Table (6): Relationship of the application of IFRS (X) to improving the quality of financial reporting information (Y1)

$Y_1 = B_0 + B_1X$ $Y_1 = 1.347 + 0.589(X)$ (**2.679) ¹ (**4.218) ¹	
F Statistics = 16.765 **F Level of significance = 0.000 R ² = %33	degrees of freedom = 39.1 Function at level = 0,01 STD = 0.489

¹ .Indicates the value of the test "T"

**Indicates the test of "T, f " at a significant level 0.01

The results in the previous table indicate the significance of the simple linear regression model of the relationship between the application of IFRS for SMEs (X) and the improvement of the quality of the financial reporting information (Y1). The value of the P test (P = 16,765) With degrees of freedom (1, 39), but the value of the determination factor showed that the explanatory grade was less than the midpoint of R2 = 33%.

Based on the above, this hypothesis can be accepted. A significant positive correlation between the application of the IFRS for SMEs and the improvement in the quality of financial reporting information (Y1) was found to be significant. Because the application of IFRS for SMEs requires Palestinian and Libyan SMEs to implement these standards to improve the quality of financial reporting information and to look at how the accounting system can be developed to implement these standards.

Testing the second hypothesis: There is a significant relationship between the application of the IFRS for SMEs and the possibility of providing sufficient information to users of financial reports (Y2).

Table (7): The Relationship between the applications of IFRS for SMEs (X) to providing adequate information to financial reporting users (Y2)

$Y_2 = B_0 + B_1X$ $Y_2 = 0.968 + 0.797(X)$ (**2.737) ¹ (**7.484) ¹	
degrees of freedom (D.F) = 39.1 Function at level = 0.01 STD = 0.368	F Statistics = 53.356** Level of significance = 0.000 R ² = %62

¹ .Indicates the value of the test "T"

**Indicates the test of "T, f " at a significant level 0.01

The results in the previous table indicate the significance of the simple linear regression model of the relationship of applying IFRS for SMEs on providing adequate information to financial reports users (Y2). The value of the F test (calculated at 53.326) confirms its statistical significance at level 0.01 with degree of freedom (1, 39), also the value of R2 = 62% showed that the explanatory class is significant.

Based on the above, this hypothesis can be accepted. A significant statistical significance relationship between the application of IFRS for SMEs and the provision of adequate information to financial reporting users (Y2) was found. This finding may be logical, IFRS application will cause Palestinian and Libyan SMEs to apply these standards to provide sufficient information to financial reporting users and to explore how to develop the accounting system to enable these standards to be applied.

Based on the above, this hypothesis can be accepted. A positive statistical significance relationship with the effect of the application of International Financial Reporting Standards (X) on the provision of adequate information for financial reports users (Y2) has been found. This finding may be logical, IFRS requires Palestinian and Libyan SMEs to implement these standards to provide adequate information to financial

report users and at how the accounting system can be developed to enable these standards to be implemented.

Third hypothesis test: The impact of the application of IFRS increase the level of disclosure in financial reports (Y3)

Table (8): The relationship between the Application of IFRS for SMEs (X) and the Increasing the Level of Disclosure in Financial Reports (Y3)

$Y_r = B_0 + B_1 X$ $Y_r = 1.211 + 0.618(X)$ $(**2.346)^1 \quad (**4.798)^1$	
D.F = (1,39) Function at level 0,01 STD = 0.488	F Stat = 25.325** Level of significance=0.000 R ² = 42.1%

¹ .Indicates the value of the test "T"

**Indicates the test of "T, f " at a significant level 0.01

The results in the previous table indicate the significance of the simple linear regression model. The application of IFRS for SMEs increases the level of disclosure in the financial reports (Y3). The value of the "F" test (calculated at 25.325) confirms its statistical significance at df 0, (1, 39). However, the value of the determination factor showed that the explanatory grade less than midpoint R² = 42.1%.

Based on the above, this hypothesis can be accepted. A significant positive correlation between the application of IFRS and the level of disclosure in the financial reports (Y3) has been found. This finding may be logical, The Palestinian and Libyan small and medium sized businesses are required to apply these standards to increase the level of disclosure in the financial reports and to look at how the accounting system can be developed to enable these standards to be applied.

The results in the previous table indicate the significance of the simple linear regression model of the effect of applying IFRS on increasing the level of disclosure in the financial reports (Y3). The value of the F test (calculated 25.325) confirms its statistical significance at degree of freedom level (1, 39), the value of R² (42.1%) showed that the explanatory grade was less than the mean.

Based on the above, this hypothesis can be accepted. A statistically significant positive correlation with the effect of the application of IFRS (X) on increasing the level of disclosure in financial reports (Y3) was found to be reasonable. IFRS in Palestinian and Libyan SMEs are required to be applied to increase the level of disclosure in the financial reports and to look at how the accounting system can be developed to enable these standards to be implemented.

XI. Results and Recommendations.

A. Results:

The researchers reached the following results:

1. The applied study found that the application of IFRS in Palestinian and Libyan businesses would affect at varying levels the quality of information in financial reports, and to provide adequate information to financial report users and to increase the level of disclosure in financial reports as follows:
 - The application of IFRS in Palestinian and Libyan businesses will affect the quality of information in the financial reports by 33%.
 - The application of IFRS in Palestinian and Libyan businesses will affect the provision of adequate information to financial reporting users by 62%.
 - The application of IFRS in Palestinian and Libyan businesses will increase the level of disclosure in the financial reports by 42.1%.
2. The adoption of the IFRS has many advantages and benefits, the most important of which is to improve the quality of financial information disclosed, and to increase the level of disclosure and transparency in financial reporting.
3. The adoption of IFRS by SMEs is an important factor in attracting domestic and foreign capital to improve the economic realities of the countries that have adopted these standards.
4. The application of IFRS for SMEs contributes to meeting the needs of the users of financial statements of the SMEs.
5. The application of IFRS for SMEs positively affects the information content of financial reports and helps to predict the predictability of financial reporting users.

6. The application of IFRS for SMEs enhances the degree of confidence and transparency in financial information, reduces the increased disclosure requirements and relies on easy and simple reporting and measurement items in the financial reports.

B. Recommendations

Based on previous results, the researchers recommend the following recommendations:

1. The necessity for Palestinian and Libyan SMEs to comply with IFRS to improve the quality of financial reporting information.
2. The necessity for Palestinian and Libyan SMEs to comply with IFRS, thereby contributing to the provision of adequate information to users of financial reports.
3. The necessity for Palestinian and Libyan small and medium-sized enterprises to comply with IFRS, thereby increasing the level of disclosure in the financial reports.
4. The necessity for Palestinian and Libyan SMEs to apply IFRS to be able to disclose the necessary information in accordance with the requirements of these standards, thereby achieving greater cost benefit and reducing the burden on these institutions.
5. Increasing the awareness and training of accountants by the Association of Palestinian Accountants and Auditors, the Libyan Accountants Association and international experts on how to apply IFRS to increase their expertise and professional competence.
6. The necessity of activating the professional and official legislations and laws related to the necessity of applying IFRS to all Palestinian and Libyan SMEs that wish to include their capital in the financial market.
7. Work on continuous development of the accounting system in SMEs Palestinian and Libyan enterprises to prepare high-quality financial reports and take into account the needs of users of financial information.

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**Appendix:
Questionnaire**

By Mr /

Greetings,,

The researchers are doing a study entitled “The impact of applying international Financial reporting standards to SMEs on optimizing the utility of financial reports among Palestinian and Libyan business environment”. We have the pleasure if you could contribute to this study by answering the questions in the attached Questionnaire, and a return the answers to the researcher at the earliest possible opportunity, so we can analyse the responses. Your contribution represents, in the opinion of the researcher, a basic enrichment research and comprise pillars for the results. All the data will be received confidentiality nature and any disclosure of the data derived from respondents will not reveal any names.
Thank you very much for your cooperation

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First : Personal Information :

Job title :

General Manager Financial Manager Head of Finance Section

Accountant finance audit Financial Controller

qualification Scientific :

diploma BA Graduate

Scientific specialization:

Accounting Business Administration Finance and Banking Other

Second : The question areas :

Please tick (X) In front of the answer that you think suits your opinions .

No.	Item	Strongly Agree	OK	Moderate	not agree	Strongly Disagree
(Independent variable) : Application of the IFRS for SMEs:						
	The application of the IFRS for SMEs meets the needs of users of financial reports.					
	SME owners are convinced that the standard is applied.					
	Is it easy to apply IFRS for SMEs.					
	Do need time, effort and cost to put Standards for the Local private SMEs.					
	IFRS for SMEs strengthen internal audit in SMEs when applied					
	The application of IFRS for SMEs conform with financial reporting of local environment.					
(Dependent variables): were divided into several axes and are as follows:						
First: Improving the quality of financial reporting information.						
	The application of IFRS for SMEs helps making accounting data which are contained the financial reports precise and efficient.					
	The application of the IFRS for SMEs raise the quality of financial reports.					
	Implementation of the IFRS for SMEs increases the quality of accounting information.					
	The application of the IFRS for SMEs will reduce the asymmetry of the information contained in the financial reports.					
	The implementation of the IFRS for SMEs contributes to the development and improvement of the accounting system to provide qualitative financial information.					

**The impact of applying international financial reporting standards
to SMEs on optimizing The utility of financial reports between
Palestinian and Libyan business environment**

(JAFS)

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	The application of IFRS for SMEs is characterized by simplicity Flexibility and suitability.					
	The application of IFRS for SMEs scale down Management practices and their intervention in financial information.					
	The application of IFRS for SMEs help in the preparation of comparable and measurable financial statements					
The second axis: the possibility of providing sufficient information to users of financial reports						
	The application of the IFRS for SMEs will lead to Transparency and clarity of financial reports and reduce the phenomenon of asymmetric information among users of financial reports.					
	The application of the IFRS for SMEs increases the quality of financial information, leading to increased user confidence.					
	The implementation of the IFRS for SMEs leads to the high quality information, which affects the ability of companies to attract foreign investment.					
	The implementation of the IFRS for SMEs will increase the shares' value through improvement of qualitative accounting information made available to financial reporting users.					
	The application of the IFRS for SMEs contributes in the provision of information that lead to the reduction of the challenges facing the users of such information.					
	Application of the IFRS for SMEs will improve the quality of accounting information and thus improve decision – making processes.					
	The application of the IFRS for SMEs contributes to the provision of accounting information that are used to measure the profitability and utilization of financial resources.					
Third: Increase the level of disclosure in the financial reports						
1	The application of the IFRS for SMEs will lead to the high-quality level of disclosure of information about the financial reports.					
2	The application of the IFRS for SMEs helps in improving disclosure policies by improving the quality of information contained in the financial reports.					
3	The application of the IFRS for SMEs provides for the preparation, presentation and disclosure of financial reporting information.					
4	The application of the IFRS for SMEs leads to increased disclosure, thereby increasing the efficiency of the financial reports to meet its transparency and the value of information requirements.					
5	The implementation of the IFRS for SMEs contributes to make the financial information content of the financial statements very predictive, which helps in drawing future plans and policies.					
6	The implementation of the IFRS for SMEs contributes to Increase for the positive role of disclosure in achieving effective financial reporting in order to rationalize the decisions.					

Thanks for a good cooperation