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IFRS for SMEs update: Theoretical and analytical assessment of the consequences for accounting and financial reporting

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Abstract. The purpose of this study was to conduct a theoretical and analytical assessment of the impact of updates to international financial reporting standards for small and medium-sized enterprises on accounting and financial reporting. The study involved an analysis of regulatory provisions and scientific sources using comparative, structural-logical, causal and systemic methods. The results showed that the update caused significant changes in approaches to recognition, measurement and disclosure of information. The introduction of a five-step revenue recognition model changed the timing of revenue recognition, leading to a redistribution of income between periods without changing its total amount. The analysis confirmed the global significance of these changes, given that small and medium-sized enterprises account for more than 95% of all enterprises worldwide. The diffusion of international financial reporting standards for small and medium-sized enterprises expanded from 63 adopting countries in 2013 to 87 out of 169 jurisdictions in 2025, where the standard is required or permitted, indicating a steady increase in global adoption. Implementation costs are substantial: initial system modernisation costs amount to approximately USD 9,500 for medium-sized enterprises and up to USD 95,000 for large entities, with annual support costs of USD 3,000-4,500 and over USD 15,000 respectively. Implementation barriers were classified as financial, organisational, personnel and methodological. The findings show that the updates improve comparability, relevance and transparency of financial reporting but increase complexity and costs. Overall effectiveness depends on the ability of enterprises to adapt accounting systems. The results can be used by management of small and medium-sized enterprises, regulators and auditors to improve accounting policies, oversight mechanisms and reporting quality

Keywords: harmonisation; transparency; implementation; information asymmetry; fair value; implementation barriers

INTRODUCTION

Transformations of the global economic environment, strengthening of integration processes and increasing requirements for transparency of financial information necessitate improvement of approaches to accounting and reporting by business entities. These processes are of particular importance for small and medium-sized enterprises (SMEs) that operate in conditions of limited resources, but at the same time need access to financial markets, credit resources and investments. The varying level of effectiveness of the implementation of international standards and their ambiguous impact on the activities of enterprises necessitates further scientific understanding of this process. O. Talibzade (2025) in his study found that the transition to international standards was accompanied by an increase in profitability indicators, in particular, an increase in the profitability of assets, capital and earnings per share, as well as increased transparency of financial information and investor confidence. The author proved that the implementation process was long and incomplete and was accompanied by resistance from SMEs due to complexity and resource constraints. Z. Fanani *et al.* (2024) identified key determinants of standards implementation, including the level of education, the presence of

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other accounting systems and the level of internationalisation. The results obtained showed that the level of education and the presence of alternative standards have a negative impact on implementation, while the level of internationalisation does not have a statistically significant impact. The uneven results of implementing international standards and their limited effectiveness in transition economies necessitate the generalisation of scientific approaches to their assessment. O. Golubeva (2023) analysed 46 studies and found that the application of these standards is generally associated with increased transparency, comparability and reduced information asymmetry, though results vary across countries. It has been proven that in post-Soviet economies their impact is often limited due to institutional constraints, remnants of administrative accounting and the coexistence of national and international approaches. A.-G. Marina & A. Tiron-Tudor (2024) found that accounting professionals support improving financial reporting but do not consider International Financial Reporting Standards (IFRS) for SMEs mandatory. It was also found that alignment between national and international standards is moderate, while the use of international financial reporting standards is constrained by complexity, implementation costs and a tax-oriented reporting focus.

The uneven impact of international standards on enterprises' access to finance and its dependence on institutional conditions necessitates further analysis, V. Tawiah & E. Gyapong (2023) found that their use, including for SMEs, is positively associated with increased bank lending to the private sector. This impact is stronger for full standards than for simplified ones and is amplified in countries with weaker institutional environments, indicating greater trust of financial institutions in internationally prepared reports. It is also found that these standards reduce information asymmetry and improve financial information quality, influencing lending decisions. S.C. Friday *et al.* (2025) found that their implementation increases transparency, access to capital and investor confidence, positively affecting enterprise performance. At the same time, enterprises face significant initial challenges due to limited resources, regulatory complexity and high implementation costs, which may temporarily worsen financial performance. The limited systematisation of approaches to assessing the impact of international standards and the insufficient generalisation of findings across stakeholder perspectives necessitate comprehensive analysis. S. Bathla *et al.* (2024) conducted a bibliometric review of 106 studies and found that the adoption of international standards significantly improved accounting quality and disclosure, while changing approaches to financial reporting. The results showed that stakeholders' perceptions are heterogeneous and depend on the institutional environment, country development level and professional competence. It was also found that most studies focus on developed countries, while developing countries remain under-researched. J.U. Akpan *et al.* (2023) found that the adoption of international standards enhances comparability, transparency and reporting quality, and facilitates access to finance. At the same time, their application creates significant challenges for SMEs due to limited resources, complex requirements and misalignment with their specifics, increasing the burden on accounting systems.

At the same time, the issues of the impact of updates to standards on SME accounting, their adaptation, implementation costs and assessment of efficiency and long-term consequences for financial reporting and development of enterprises remain insufficiently researched. The purpose of the study was to examine, from a theoretical and analytical perspective, how revisions to IFRS for SMEs enterprises influence accounting practices and the preparation of financial statements. To achieve this goal, the following tasks were defined: to investigate the main directions of updates to IFRS for SMEs; to analyse their impact on accounting processes and financial reporting; to assess the practical consequences of their implementation, including benefits, costs and barriers for SMEs.

MATERIALS AND METHODS

The study was theoretical and analytical in nature, as it was aimed at generalising scientific approaches, analysing regulatory provisions and assessing the impact of updates to The IFRS for SMEs Accounting Standard (n.d.) on accounting and financial reporting without using primary empirical data. The study covered the period from 2013 to 2025, which made it possible to consider both earlier stages of the standard's application and its most recent updates, including the IFRS for SMEs update… (2025). The source base included official documents and materials of the IFRS Foundation (2025) and the International Accounting Standards Board (2018), as well as scientific publications and analytical materials on the implementation and development of international financial reporting standards for SMEs, such as D.W. Kamotho & P.K. Kaudo (2023). Theoretical generalisation was used to systematise scientific approaches to the place, purpose and scope of IFRS for SMEs within the system of international financial reporting standards. System analysis was applied to determine the role of the standard as a simplified alternative to full IFRS and to substantiate its functional purpose for enterprises without public accountability. Comparative analysis formed one of the central methodological tools of the study. It was applied to compare the requirements of IFRS for SMEs and full IFRS and to identify differences in approaches to recognition, measurement and disclosure of financial information. This part of the analysis was based on analytical and methodological materials explaining the distinction between the simplified standard and full IFRS, including publications by Deloitte (2009; n.d.) and D. Dodenko (2026). The same method was also used to assess changes between the previous and updated editions of IFRS for SMEs, particularly regarding the main areas of recognition, measurement, presentation and disclosure. Structural-logical analysis was used to examine the scope of the standard, the criteria for classifying entities as SMEs and the internal structure of IFRS for SMEs. This method helped to group the sections of the standard by thematic blocks, determine their sequence and establish the relationship between conceptual provisions and applied aspects of accounting. The classification method was applied to systematise the main areas of change introduced by the updated standard and to distinguish the main implementation barriers for SMEs.

To assess the global diffusion of IFRS for SMEs, the study used a comparative and analytical approach based on secondary aggregated data. The analysis relied on IASB jurisdiction profiles as presented by D. Kaya & M. Koch (2015) and I.H. Shah (2025). The comparison was carried out using indicators for 2013 and 2025, including the total number of jurisdictions analysed, the number of jurisdictions applying IFRS for SMEs, the number of jurisdictions not applying the standard and the share of adopters. These indicators were used to assess general trends in the global adoption of the standard, taking into account the limitations of available regional and aggregated data for the most recent period (IFRS 13. Fair value measurement, n.d.); IFRS 3: Business combinations, n.d.). The practical implications of the updated requirements were examined through illustrative modelling and logical generalisation. Simplified numerical scenarios were constructed to demonstrate the possible effects of fair value measurement, revenue recognition based on a model consistent with IFRS 15, and the accounting treatment of acquisition-related costs. These scenarios were not based on empirical case data and were used to clarify the economic substance of the updated requirements and to show how changes in recognition and measurement approaches may affect the timing of income and expense recognition, the distribution of financial results between reporting periods and the presentation of financial position. Implementation barriers were analysed through classification and generalisation of scientific approaches. Barriers were grouped into financial, organisational, personnel and methodological categories. Their systematisation according to the relationship between the specific barrier, its manifestation in the implementation process and its potential impact on SMEs was carried out using structural-logical analysis based on P. Muda *et al.* (2024) and B. Dermaku (2025). This approach was used to relate the nature of implementation difficulties to their practical consequences for enterprises. The feasibility and effectiveness of IFRS for SMEs updates were assessed using theoretical generalisation, logical analysis and qualitative evaluation. The evaluation was based on the following criteria: improvement in the quality of financial information, including relevance, reliability and understandability; increased comparability of financial statements; consistency with the conceptual framework; practical applicability for SMEs; and the balance between expected benefits and implementation costs.

RESULTS

The functioning of IFRS for SMEs in the system of international financial regulation

IFRS for SMEs occupies an independent and complementary place within the system of international financial reporting standards, acting as a simplified alternative to full IFRS for entities without public accountability. Its development was driven by the need to adapt complex international accounting requirements to the capabilities and needs of SMEs, which operate under resource constraints but require reliable and comparable financial information for external users. A key feature of the standard is the significant simplification of accounting requirements compared to full IFRS. This simplification is achieved through the exclusion of topics not typical for SMEs, the reduction of alternative accounting treatments, the application of simplified recognition and measurement principles, and a substantial decrease in disclosure requirements (Deloitte, 2009; Dodenko, 2026). At the same time, the standard retains a conceptual basis consistent with full IFRS, which ensures a sufficient level of quality and comparability of financial reporting. These characteristics determine the nature of the updates to IFRS for SMEs, which are aimed not only at maintaining simplicity, but also at improving the quality of financial information. In particular, the alignment with the International Accounting Standards Board (2018), the refinement of definitions and recognition criteria, the introduction of a separate section on fair value measurement, and the revision of revenue recognition approaches significantly affect accounting practices. Such changes lead to the transformation of accounting policies, require the revision of internal procedures, and influence the structure and content of financial statements. The application of IFRS for SMEs is mandatory in full for entities that choose or are required to use it, which means that enterprises must adapt their accounting systems, documentation processes and reporting formats to the updated requirements (IFRS Foundation, 2025). This affects not only the technical aspects of accounting, but also managerial processes, including contract analysis, risk assessment and financial planning.

In a global context, the importance of IFRS for SMEs is significant, as SMEs account for more than 95% of all business entities worldwide (What's happening in the missing middle? n.d.). The spread of the standard contributes to the harmonisation of financial reporting and facilitates access to external financing by increasing the transparency and comparability of financial information. At the same time, the implementation of updates increases the requirements for professional judgment, methodological support and the level of qualification of accounting personnel, which may create additional challenges for SMEs (Why global accounting standards? n.d.; Dodenko, 2026). Thus, IFRS for SMEs functions not only as a simplified reporting framework, but also as a dynamic regulatory instrument, the updates of which directly affect accounting processes, financial reporting structure and the overall quality of financial information, forming both new opportunities and additional constraints for SMEs. The global diffusion of The IFRS for SMEs Accounting Standard (n.d.) has significantly expanded over the past decade. Jurisdiction profiles covering 128 countries as of 2013, only 63 countries had adopted the standard, while 65 had not adopted it. As of 2013, the adopting countries were predominantly located in Latin America and the Caribbean (27 jurisdictions), followed by Sub-Saharan Africa (14 jurisdictions), Europe and Central Asia (7 jurisdictions), and the Middle East and North Africa (6 jurisdictions). In general, these countries adopted the IFRS for SMEs on a voluntary basis without making any modifications to the standard. Only six countries required the application of the IFRS for SMEs (e.g., Chile, Serbia, Venezuela) (Kaya & Koch, 2015). More recent evidence indicates that by 2025, IFRS for SMEs is required or permitted in 87 out of 169 jurisdictions, demonstrating a substantial increase in global adoption. This regional distribution suggests that the adoption of IFRS for SMEs has historically been concentrated in developing and emerging economies, where national accounting systems are less developed and the need for a simplified international framework is higher. At the same time, more developed jurisdictions tend to rely on national accounting standards, which limit the spread of IFRS for SMEs. It should be noted that comparable detailed regional distribution data for 2025 are not publicly available in aggregated form. The dynamics of IFRS for SMEs adoption over time demonstrate a gradual expansion of the standard at the global level. A comparison of adoption indicators between 2013 and 2025 is presented in Table 1.

Table 1. Dynamics of IFRS for SMEs adoption (2013-2025)

Indicator	2013	2025
Total jurisdictions analysed	128	169
Countries applying IFRS for SMEs	63	87
Countries not applying IFRS for SMEs	65	82
Share of adopters	49%	51.5%

Source: compiled by author based on D. Kaya & M. Koch (2015), IFRS for SMEs update: Train the trainers (2025)

As shown in Table 1, the number of jurisdictions applying IFRS for SMEs increased from 63 in 2013 to 87 in 2025. This indicates a steady, although not uniform, expansion of the standard. The relatively moderate increase in the share of adopters suggests that while new countries continue to adopt IFRS for SMEs, a significant number of jurisdictions – primarily developed economies-still rely on national accounting frameworks. IFRS for SMEs is an effective tool for regulating the financial reporting of SMEs, combining simplification of accounting requirements with ensuring the proper quality of financial information. Its structure is logically ordered and provides a consistent transition from conceptual principles to practical aspects of accounting, which contributes to ease of application. Updates to the standard are aimed at increasing consistency with full IFRS and improving approaches to recognition, measurement and disclosure of information. At the same time, the introduced changes require enterprises to adapt accounting procedures, which necessitates further research into their practical effectiveness.

Analysis of updates to IFRS for SMEs and their substantive characteristics

The updated version of the standard retains the general logic and structure, but provides for significant changes in the content of individual sections. In particular, section 2 has been revised to align with the International Accounting Standards Board (2018), and section 3 has clarified the requirements for materiality, disclosure of accounting policies and the structure of notes. Significant changes have occurred in section 11, where the possibility of using alternative approaches to accounting for financial instruments has been abolished, and the requirements for disclosure of information regarding financial risks have been expanded. A separate section 12 has been introduced for the first time, dedicated to fair value measurement, which increases the consistency of the standard with full IFRSs. Section 23 on revenue has been significantly updated, which is brought into line with the approaches of IFRS 15, which provides a more accurate reflection of the economic substance of transactions with customers. In addition, Section 19 on business combinations has been revised, introducing the acquisition method instead of the previous approaches, clarifying the definition of a business and expanding the requirements for the measurement of acquired assets and liabilities. The updates also affected the sections governing the presentation of financial statements, provisions, taxes and other aspects of accounting (IFRS for SMEs: Accounting standards, 2025). The update of Section 2 "Concepts and Core Principles" is of a fundamental nature, as it has been almost completely revised in accordance with the International Accounting Standards Board (2018). The changes relate to the clarification of the definitions of the elements of financial statements, the criteria for their recognition, the approaches to measurement, guidance on the derecognition of financial statement elements, as well as the principles of presentation and disclosure. In addition, concepts such as prudence, the prevalence of substance over form, management stewardship and the assessment of uncertainty have been specified, which ensures a more consistent application of accounting approaches. As a result, these updates form a clearer methodological basis for developing accounting policies in cases where there are no direct requirements in the standard and contribute to improving the quality of financial information. At the same time, changes in Section 3 "Presentation of Financial Statements" are aimed at improving approaches to presenting information, in particular by clarifying the principle of materiality and requirements for structuring reporting. It is established that information should be presented in such a way as not to hide material data and not to combine indicators of different economic nature, which increases the transparency of reporting. Clarification of materiality criteria contributes to a more objective assessment of information, taking into account its impact on user decisions. In general, these changes ensure increased clarity and informativeness of financial reporting, while preventing its excessive complexity. Section 11 "Financial Instruments" has undergone significant changes aimed at simplifying and unifying approaches to their accounting in the activities of SMEs. One of the key innovations is the abolition of the possibility of applying the requirements of IAS 39 financial instruments… (2026) on the recognition and measurement of financial instruments, which ensures the autonomy of the standard and eliminates the need to refer to full IFRS. The scope of the section has also been clarified; in particular, financial guarantees provided without compensation within the group have been excluded from it, which are now accounted for as contingent liabilities in accordance with other provisions of the standard, while other guarantees remain within the scope of this section. Significant attention has been paid to clarifying the criteria for classifying financial instruments. An additional principle has been introduced, according to which debt instruments may be accounted for at amortised cost provided that their cash flows consist exclusively of payments of principal and interest, even if not all formal criteria are met, in the absence of significant risks not related to the basic terms of the instrument. It is also clarified that the presence of early repayment conditions, including those that provide for compensation payments, does not exclude the possibility of applying amortised cost measurement if the economic substance of the instrument is preserved. The issue of reclassification of financial instruments has been separately regulated: new requirements provide for a ban on changing the classification after initial recognition, which contributes to increasing the stability and consistency of financial reporting. In addition, changes have been made to the rules of initial measurement related to the update of approaches to revenue recognition. In particular, trade receivables are now generally measured at the transaction price in accordance with the revenue provisions, except in cases where the transaction has financing characteristics. An relevant aspect of the update is the expansion of disclosure requirements. It is provided for the mandatory submission of an analysis of the maturity dates of financial assets and liabilities, as well as a breakdown of receivables by overdue periods. This allows users of financial statements to assess the level of credit risk and the projected cash flows of the enterprise. The introduced changes are aimed at increasing the transparency and informativeness of financial reporting, while maintaining a simplified accounting approach typical for SMEs. In particular, the retention of the incurred loss model instead of the more complex expected credit loss model is justified by the need to avoid excessive costs and complexity in application. Overall, the updates to the section provide a more realistic reflection of the economic substance of financial instruments and increase the consistency of accounting approaches within the standard. For example, a loan issued at USD 10,000 with an annual interest rate of 10% is measured at amortised cost using the effective interest rate method, resulting in systematic recognition of interest income over time rather than at a single point. This ensures a more consistent representation of financial income across reporting periods.

The updated version of the IFRS for SMEs introduces for the first time a separate section 12 "Fair value measurement", which establishes uniform approaches to determining the fair value of assets and liabilities in cases where other sections of the standard provide for its application. The main purpose of the measurement is to determine the price at which an orderly transaction between market participants could take place at the measurement date, which ensures a market-oriented approach to the formation of financial information. The section provides for the use of various valuation methods, including market, cost and income approaches, with a priority on the use of observable market data. In addition, a fair value hierarchy has been introduced, which classifies inputs by levels of reliability, which increases the transparency and comparability of estimates in financial reporting. In quantitative terms, this affects reported financial results. For instance, an asset initially recognised at USD 200,000 may be remeasured to USD 230,000 based on market conditions, resulting in a USD 30,000 gain recognised in profit or loss. Conversely, a decrease in value would generate a loss. This demonstrates how fair value measurement increases the relevance of information while introducing variability in financial performance. Section 19 "Business Combinations and Goodwill" has been significantly updated to align its provisions with the requirements of IFRS 3: Business combinations (n.d.). First of all, the definition of a business has been revised, which allows for a clearer identification of transactions that are subject to accounting as a business combination. It has also been clarified that a newly created enterprise formed exclusively for the purpose of carrying out a combination cannot be recognised as an acquirer, which ensures a more correct reflection of the essence of such transactions. References to the definition of assets and liabilities have also been updated in accordance with the revised conceptual provisions of the standard. The changes also affected the procedure for recognising and measuring individual elements of a business combination. In particular, the requirements for recognising contingent liabilities, which can be reflected in the reporting only if they meet the definition of a liability, have been clarified. At the same time, it has been established that contingent compensation is subject to measurement at fair value only in cases where such measurement can be carried out without undue cost or effort. It is separately determined that acquisition-related costs are recognised as expenses of the period, which is consistent with the approaches of full IFRS and increases the transparency of the formation of financial results. An important innovation is the establishment of requirements for staged business combinations, which allows for a more accurate reflection of control acquisition transactions that are carried out gradually. In addition, the section has been supplemented with an appendix containing clarifications on the practical application of the new provisions, which helps reduce ambiguity in their interpretation. The introduced changes are generally aimed at improving the quality of financial information and reducing the need for complex professional judgments in the formation of accounting policies. In particular, the clarification of the requirements for accounting for contingent compensation and acquisition costs ensures a more reliable reflection of the value of the business combination. At the same time, restrictions on fair value measurement in cases of excessive costs create practical relief for SMEs. However, despite the simplification, the application of the updated section may be difficult for companies that regularly carry out mergers and acquisitions, which necessitates the need for proper training of accounting specialists.

Section 21 "Provisions and Contingent Liabilities" has also undergone some clarifications aimed at expanding its scope of application and improving the quality of disclosure. In particular, the scope of the section includes financial guarantee contracts provided without compensation if the debtor is another company in the group. This provides a more consistent approach to accounting for such transactions and eliminates uncertainty regarding their classification. In addition, the requirements for disclosure of information regarding provisions and contingent liabilities have been clarified, which contributes to a more complete reflection of potential risks in financial statements. In addition, the approach to accounting for restructuring costs has been revised. The relevant provisions have been transferred from the appendices directly to the text of the standard and supplemented with practical examples detailing the criteria for recognising provisions. This allows for a clearer definition of the moment of occurrence of obligations and reduces the risk of premature or unjustified formation of reserves. As a result, the clarification of the approaches to recognition and disclosure of information contributes to a more consistent application of the standard and increases the reliability of financial reporting. Section 23 "Revenue from Contracts with Customers" has been significantly revised and updated to align with IFRS 15. The new version of the standard introduces a single conceptual model for revenue recognition, which is based on a five-step approach to accounting for transactions with customers. The application of this model involves recognising revenue in an amount that corresponds to the transferred goods or services and the expected compensation for them, which provides a more economically sound presentation of the results of the enterprise. According to the updated requirements, revenue is recognised by sequentially performing five stages: identifying the contract with the customer, determining the performance obligations (promises within the contract), setting the transaction price, allocating the price between the obligations and recognising revenue at the time or during the period of performance of the relevant obligations. This approach ensures that revenue is recognised in accordance with the transfer of control over the goods or services, and not only on the basis of the fact of their sale or receipt of cash. In practical terms, this changes the timing of revenue recognition. For example, a contract with a total value of USD 100,000 that includes both delivery of goods and subsequent services would no longer be recognised entirely at the point of sale. Instead, the transaction price is allocated between performance obligations (e.g., USD 70,000 for goods and USD 30,000 for services), with revenue recognised partly at delivery and partly over the service period. This leads to a redistribution of revenue between reporting periods, even though the total contract value remains unchanged.

At the same time, the requirements of the full standard have been adapted to the specifics of the activities of SMEs. In particular, certain assessment procedures have been simplified, the need for complex professional judgments has been reduced, and the scope of disclosures has been reduced. The section has also been supplemented with practical recommendations and application examples, which facilitates the implementation of new approaches in the activities of SMEs. Transitional provisions are also provided to reduce the burden during the transition to the updated requirements. Section 28 "Employee Benefits" should also be considered in the context of the updates, as it regulates the recognition, measurement and disclosure of employee benefit obligations by SMEs. The updated version of IFRS for SMEs clarifies several aspects related to defined benefit plans, termination benefits and disclosure requirements. In particular, the revised standard clarifies that entities should assess the depth of the market for high quality corporate bonds at the currency level when determining discount rates for employee benefit obligations. The amendments also specify that entities applying the simplified approach should measure defined benefit obligations using the current termination amount, assuming that all employees terminate employment at the reporting date. In addition, the timing of recognition of termination benefits was aligned with the requirements for restructuring provisions under Section 21 "Provisions and Contingencies". These updates may affect the measurement of employee benefit liabilities, the timing of expense recognition and the structure of disclosures in financial statements. Enterprises applying defined benefit plans may need to reassess actuarial assumptions, discount rates and expected termination obligations, especially in cases involving long-term employment programmes or significant post-employment benefits. As a result, the updated standard improves the consistency of recognition and enhances the comparability of employee benefit reporting. For example, an enterprise that provides a defined benefit plan with expected future payments of approximately USD 120,000 may recognise a defined benefit obligation of approximately USD 95,000 after discounting and considering the fair value of plan assets. Under the simplified approach introduced in the updated standard, the entity may measure the obligation based on the current termination amount without applying projected future salary increases. Consequently, the structure and timing of employee benefit expenses may differ from the previous approach, while financial statements more accurately reflect the enterprise's obligations related to employee benefits and long-term compensation arrangements. The introduction of a five-stage revenue recognition model is a key change that provides a more consistent and principle-oriented approach to the formation of financial results. Alignment with IFRS 15 contributes to improving the quality of financial information, its comparability and usefulness for users, which is important in the context of the integration of SMEs into the international economic environment (International Financial Reporting Standards Foundation, 2025). In order to systematise the key differences between the previous version of the standard and the updated version, it is advisable to summarise them in the form of a comparative characteristic, which is given in Table 2.

Table 2. Comparative characteristics of changes in IFRS for SMEs (pre-2018 vs 2025 version)

Section	Before (pre-update version)	After (updated 2025 version)
Section 2 "Concepts and fundamental principles"	Less aligned with the Conceptual Framework; simplified definitions of elements and recognition criteria	Fully aligned with the 2018 Conceptual Framework; refined definitions, updated recognition criteria, measurement bases, and disclosure principles
Section 3 "Presentation of financial statements"	General presentation requirements; limited clarification of materiality and disclosures	Clarified concept of materiality; improved requirements for disclosure of accounting policies and structure of notes; prohibition of obscuring material information
Section 11 "Financial instruments"	Allowed the application of IAS 39; less structured classification and measurement approach	IAS 39 option removed; improved classification criteria; prohibition of reclassification after initial recognition; expanded disclosure requirements
Section 12 "Fair value measurement"	No separate section; fair value guidance fragmented across the standard	Newly introduced section; establishes a unified fair value measurement framework, valuation approaches, and hierarchy of inputs
Section 19 "Business combinations and goodwill"	Partially aligned with IFRS 3; limited guidance on recognition and measurement	Aligned with IFRS 3; acquisition method introduced; improved recognition and measurement of assets, liabilities, and contingent consideration
Section 21 "Provisions and contingencies"	Limited guidance on recognition and disclosure; unclear treatment of certain financial guarantees; restructuring provisions mainly addressed in appendices	Expanded scope to include intragroup financial guarantees issued without consideration; clarified recognition criteria for restructuring provisions; enhanced disclosure requirements and practical examples
Section 23 "Revenue from contracts with customers"	Traditional revenue recognition based on risks and rewards	Introduction of a five-step model aligned with IFRS 15; focus on transfer of control and improved allocation of transaction price
Section 28 "Employee benefits"	Limited clarification of discount rates, simplified measurement approaches and timing of recognition for termination benefits	Clarified assessment of market depth for high quality corporate bonds at the currency level; clarified measurement of defined benefit obligations under the simplified approach; updated timing of recognition of termination benefits in line with Section 21; amended disclosure requirements
Other sections	Less detailed and partially outdated requirements	Further harmonisation with full IFRS; improved requirements for presentation, provisions, taxation, and disclosures

Source: compiled by author based on International Accounting Standards Board (2018), IFRS Foundation (2025), IFRS 3: Business combinations (n.d.)

The updates also require enterprises to revise accounting policies, especially in areas where professional judgment and measurement choices are significant. First, accounting policies should be adjusted to reflect the updated recognition and measurement criteria, the clarified materiality requirements and the expanded disclosure obligations. This means that enterprises need to review internal accounting procedures, update chart-of-accounts logic, revise disclosure templates and document judgments used in preparing financial statements. Changes in the accounting for financial instruments are particularly important. The removal of the IAS 39 option requires enterprises to apply the IFRS for SMEs framework more consistently, instead of choosing between alternative approaches. As a result, accounting policies for loans, receivables, payables and other debt instruments should specify classification criteria, initial measurement rules, subsequent measurement at amortised cost or fair value, and restrictions on reclassification after initial recognition. In practice, this reduces flexibility but increases comparability between enterprises. The introduction of Section 12 on fair value measurement also changes valuation policy. Enterprises need to define when fair value is applied, which valuation techniques are used, and what hierarchy of inputs supports the measurement. Where observable market prices are available, valuation becomes more objective. Where active markets are absent, SMEs need to use valuation models and assumptions, which increase the importance of documentation and disclosure. Thus, fair value improves the relevance of financial information but may increase volatility and subjectivity of reported indicators. The comparative analysis shows that the update of IFRS for SMEs increases consistency with full IFRS and the modern conceptual framework of financial reporting. The introduced changes clarify accounting principles, strengthen recognition and measurement requirements, expand disclosure obligations and improve comparability at the international level. At the same time, the simplified nature of the standard has been preserved, which allows the limited resources of small and medium-sized enterprises to be taken into account. Thus, the updated version of IFRS for SMEs forms a more balanced basis for accounting and financial reporting.

Assessing the impact of updates to IFRS for SMEs on the accounting and financial reporting of enterprises

The updates to IFRS for SMEs are not only technical, but also practical, as they affect the way financial results are formed, the quality of financial information and the ability of enterprises to adapt to new requirements. If the previous sections of the study were mainly aimed at characterising the content of the updates, then the subsequent assessment should show what consequences these changes create for enterprises in the process of keeping records and preparing financial statements. One of the most tangible areas of influence is the change in approaches to revenue recognition. The implementation of a model close to IFRS 15 does not aim to artificially transfer revenue between reporting periods or distribute it evenly. Its main purpose is to more accurately reflect the economic substance of transactions, that is, to recognise revenue when control over the goods or services passes to the customer. In this regard, revenue may be recognised earlier or later compared to previous approaches, depending on the terms of the contract, the nature of the performance obligations and the moment of transfer of control (Deloitte, n.d.). A change in the moment of revenue recognition directly affects the financial results of the enterprise in a specific reporting period. The total amount of revenue and profit for the entire term of the contract, as a rule, does not change, but their distribution between period's changes. A separate impact on financial results is associated with the application of fair value measurement. This approach increases the relevance of reporting, since assets and liabilities are reflected taking into account current market conditions. At the same time, it may increase the volatility of financial results, as changes in market prices, exchange rates or interest rates are reflected in profit or other comprehensive income. The effect of fair value can be illustrated by an example. If an investment property is initially recognised at USD 200,000 and its fair value increases to USD 230,000 at the reporting date, the enterprise recognises a gain of USD 30,000 in profit or loss. Conversely, a decrease in fair value to USD 180,000 results in a loss of USD 20,000. Under the historical cost model, such changes would not affect profit, which demonstrates how fair value measurement increases both relevance and volatility of financial results. The impact of updated approaches to revenue recognition can also be demonstrated numerically. For example, consider a contract with a total value of USD 100,000 that includes two performance obligations: delivery of equipment (USD 70,000) and subsequent maintenance services (USD 30,000). Under the previous risk-and-reward approach, the full amount of USD 100,000 could be recognised at the moment of delivery. Under the five-step model aligned with IFRS 15, revenue is allocated between obligations and recognised separately: USD 70,000 at the point of transfer of control of the equipment and USD 30,000 over the maintenance period (for example, evenly over 12 months at USD 2,500 per month). As a result, profit is redistributed between reporting periods, even though the total contract value remains unchanged. The short-term financial result is also affected by the procedure for accounting for acquisition-related costs. If such costs are recognised as expenses of the period, they directly reduce profit at the time they are incurred, even if the economic benefits from the corresponding transaction will arise in future periods. For example, acquisition-related costs of USD 10,000 reduce current-period profit by the same amount, rather than being capitalised. This may reduce the stability of financial results; as such costs are often irregular and depend on investment and strategic decisions (IFRS 13. Fair value measurement, n.d.).

Adaptation of enterprises to the updated requirements of IFRS for SMEs is accompanied by significant costs associated with their implementation and maintaining compliance with accounting processes. Such costs are complex and cover several key areas, among which the leading place is occupied by costs for personnel training, modernisation of accounting systems and involvement of external consultants. First of all, the costs of personnel training are significant, since updating the standards requires advanced training of accountants and financial specialists. This includes costs for training, seminars, courses and professional certification. Such costs are permanent, since IFRS are regularly updated. In addition, documentary support is required to confirm expenses in tax accounting, in particular training contracts and payment documents. In practice, enterprises may recognise training costs as expenses for the period or, in the case of significant investments, partially reflected as expenses for future periods. The second significant component is the cost of changing accounting systems, which represents one of the most substantial elements of implementation. For a medium-sized enterprise, initial costs can amount to approximately USD 9,500, including software licensing (around USD 5,000), setup (around USD 2,000), data migration (around USD 1,000), and training and support (around USD 1,500). For larger companies, similar costs can reach USD 95,000 due to more complex infrastructure and larger data volumes. In addition, enterprises incur annual system support costs of approximately USD 3,000-4,500 for medium-sized enterprises and over USD 15,000 for large companies. For example, assuming an average annual turnover of a medium-sized enterprise at the level of USD 500,000-1,000,000, initial implementation costs of USD 9,500 represent approximately 0.95-1.9% of annual revenue. In the case of smaller enterprises with turnover around USD 200,000-300,000, the same costs may reach 3-5%, indicating a substantially higher relative burden. Annual maintenance costs of USD 3,000-4,500 correspond to approximately

0.3-0.9% of revenue, forming a persistent cost component. Additional costs include upgrading Information Technology (IT) infrastructure, integration with Enterprise Resource Planning (ERP) systems, server expenses, and migration to cloud solutions. The third area is consulting services, which constitute an integral part of standards implementation. Enterprises engage external experts to interpret IFRS requirements, develop accounting policies and assess financial indicators. Consulting costs include IFRS advisory services, tax consulting, IT support and fair value assessments. Most of these costs are recognised as period expenses; however, expenditures directly related to system configuration or asset creation may be capitalised (Kooldeep, 2025).

Increasing the transparency of financial reporting is associated with updating the requirements for disclosure of information on accounting policies, financial risks, receivables, maturity dates and valuation methods, which provides a more detailed reflection of the financial position of the enterprise for users. Increasing the transparency and quality of financial reporting under IFRS for SMEs is achieved through specific accounting mechanisms that affect the relevance, comparability, reliability and understandability of information. Relevance is enhanced through the application of updated recognition and measurement approaches, particularly the use of fair value and the alignment with the IFRS 15-based revenue recognition model. These mechanisms ensure that financial information reflects current economic conditions and the actual substance of transactions, including the timing of control transfer and the economic characteristics of contracts. Comparability is improved through the standardisation of accounting policies and the use of a unified framework for recognition, measurement and disclosure across jurisdictions. The requirement to apply consistent approaches to revenue allocation, financial instruments and fair value measurement reduces variability in accounting practices and allows users to compare financial statements across entities and countries. Reliability (faithful representation) is strengthened through more detailed requirements for measurement and disclosure, including the use of observable market inputs where available, structured estimation procedures and expanded disclosure of assumptions. These mechanisms reduce the risk of misstatement and increase the credibility of reported figures, although they may introduce elements of professional judgment. Understandability is improved through enhanced disclosure requirements, including the presentation of accounting policies, risk information, maturity analysis, and disaggregated financial data. These disclosures provide users with clearer insights into the financial position and performance of the enterprise, reducing information asymmetry and facilitating interpretation of financial statements. This reduces information asymmetry between the enterprise and external users and increases confidence in reporting. At the same time, the practical implementation of the updates is accompanied by a number of barriers that are especially noticeable for SMEs, which are listed in Table 3.

Table 3. Barriers to the implementation of updated IFRS for SMEs

Barrier category	Specific barrier	Manifestation in implementation process	Impact on SMEs
Financial	High initial costs	Software upgrades, consulting, audit services, involvement of external experts	Increased financial burden on the enterprise
Financial	Ongoing compliance costs	Regular staff training, IT system maintenance, additional audit procedures	Higher cost of accounting processes
Financial	Limited SME resources	Implementation costs are relatively higher compared to large companies	Slower transition to new requirements
Organisational	Complexity of standards	Need for contract analysis, fair value estimation, financial instruments assessment	Increased risk of errors in applying standards
Organisational	Inadequate IT infrastructure	Existing systems do not always support data collection for new disclosures	Need to modernise accounting processes
Organisational	Regulatory misalignment	Differences between tax, national, and international requirements	Double burden on accounting and reporting
Organisational	Weak management support	Management may underestimate the importance of implementation	Slow adaptation and formal compliance
Personnel	Lack of IFRS specialists	Shortage of accountants familiar with updated requirements	Dependence on external consultants
Personnel	Insufficient staff training	Employees lack practical experience in applying new standards	Errors in recognition, measurement, and disclosure
Personnel	Resistance to change	Staff rely on familiar national standards	Complicates transition to new accounting model
Methodological	Complexity of IFRS 15-based model	Need to identify contracts, obligations, transaction price, and control transfer	Uneven revenue recognition across periods
Methodological	Fair value measurement	Lack of active markets requires models and assumptions	Increased subjectivity and volatility of indicators
Methodological	Financial instruments accounting	Requires proper classification, risk assessment, and maturity disclosures	Increased complexity of financial reporting

Source: compiled by author based on D.W. Kamotho & P.K. Kaudo (2023), B. Dermaku (2025), I.H. Shah (2025)

Thus, the barriers to implementing the updated IFRS requirements for SMEs are complex and cover financial, organisational, personnel and methodological aspects. Their interrelationship increases the complexity of adaptation, as limited resources of enterprises make it difficult to invest in personnel training and modernisation of accounting systems, which, in turn, affects the quality of application of the standards. The most critical problems remain related to the complexity of individual standards, in particular, income, financial instruments and fair value, which require a significant level of professional judgment. As a result, the effectiveness of the implementation of the updates largely depends on the ability of SMEs to overcome these barriers and ensure the appropriate level of organisational and methodological preparation.

DISCUSSION

Under these conditions, the development of SMEs depended on the quality of financial information, transparency of reporting, and the ability to adapt to regulatory changes. A comparison with the study of P. Muda *et al.* (2024) showed that coercive and mimetic pressures had a statistically significant positive effect on the adoption of IFRS for SMEs, while normative pressure was not significant on its own but became relevant under the influence of environmental factors. While that study identified institutional pressures as direct drivers of adoption, the present study treated them as background constraints and focused on how changes in recognition, measurement and disclosure affected the quality and structure of financial reporting. A similar shift from conceptual foundations to practical consequences was observed in comparison with G. Gök (2024). That study considered IFRS for SMEs primarily as a tool for global convergence, aimed at reducing fragmentation of accounting systems and improving access to capital. In contrast, this study focused on the practical effects of implementation, including the redistribution of revenue between periods, the impact of fair value measurement and the increase in implementation costs. While both studies confirmed the relevance of a simplified standard for SMEs, G. Gök emphasised its macro-level benefits, whereas this study demonstrated the micro-level implications and associated costs of its application. A shift from conceptual interpretation to practical implications was observed in the study by V.M.C. Delgadillo & L.D.C. Díaz-Peña (2025), where IFRS S1 and S2 were analysed using a Real Options Valuation (ROV) model. Under uncertainty, ROV produced higher project values than Net Present Value (NPV): for example, with an asset value of USD 150 and investment of USD 120, NPV was USD 30, while ROV ranged from USD 36.7 to USD 44.4 depending on volatility. While that study demonstrated increased informativeness through quantitative valuation, the present study focuses on accounting transformations, including changes in recognition, measurement and disclosure, as well as their cost implications. A macro-level perspective was provided by Y.-C. Lin & X. Xu (2025), who, based on 11,056 SME observations (2007-2023), found that artificial intelligence significantly improves financing efficiency ($\beta = 0.028$-0.036, $p < 0.01$) by reducing information asymmetry (-0.0377) and financing constraints (-0.0021). While both digitalisation and reporting standardisation reduce information asymmetry, Y.-C. Lin & X. Xu emphasise positive effects, whereas the present study highlights a trade-off between improved transparency and increased complexity and costs.

The institutional dimension was further explored by Y. Xia (2025) in the context of China's Accounting Law, where implementation challenges included conflicts between national and international standards, high compliance costs, and shortages of qualified personnel. In contrast, the present study examines IFRS for SMEs as a global framework, showing that updates improve transparency, relevance and comparability through changes in revenue recognition, fair value measurement and disclosure, but also increase accounting complexity and implementation costs. The tax dimension of IFRS implementation was analysed by E.F.V. Barragán *et al.* (2025), who showed that increased transparency was accompanied by a widening gap between accounting and tax rules, complicating tax planning. In contrast, the present study examined this divergence at the enterprise level, where differences in recognition require additional adjustments, parallel records and more complex procedures. While both studies confirmed improvements in information quality, these benefits are associated with higher administrative burden. The key difference lies in the level of analysis: E.F.V. Barragán *et al.* focused on fiscal effects, whereas this study addressed operational impacts such as adaptation costs and changes in accounting practices. The broader context of SME development was examined in the systematic review by M. Zaman *et al.* (2025), which showed that sustainability is shaped by the interaction of environmental, social and economic factors rather than financial performance alone. This highlights the need for reliable information under resource constraints. In this context, the present study considers financial reporting as a mechanism for reducing information asymmetry, where updates to IFRS for SMEs improve the structure of recognition, measurement and disclosure, enhancing data consistency and usefulness. While M. Zaman *et al.* provided a conceptual framework this study focuses on a specific regulatory instrument that operationalises information quality. The practical usefulness of such reporting was further examined by N. Wijekoon *et al.* (2025), who found that although SME reports are mainly used by banks, tax authorities and government agencies, their value is limited by low data reliability, manipulation and tax orientation. This complements the present study: while IFRS for SMEs updates are expected to improve transparency and comparability, the evidence suggests that standards alone do not guarantee reporting usefulness. The difference also lies in methodology – N. Wijekoon *et al.* rely on user interviews, whereas this study provides a theoretical and analytical assessment of regulatory changes. Another important perspective was provided by

M.A. Manzi *et al.* (2025), who conducted a systematic review of 133 studies and showed that financial accounting in family businesses is shaped by the interaction of three levels-families, business and individual-rather than by formal standards alone. The evidence also indicates a predominance of empirical research (130 out of 133 studies) and a strong focus on earnings management (68 studies), highlighting the variability of accounting practices depending on ownership structure and governance characteristics. In contrast, the present study proceeded from the assumption of standardised application of IFRS for SMEs and analysed how changes in recognition, measurement and disclosure affect reporting regardless of ownership type. While M.A. Manzi *et al.* demonstrated the heterogeneity of accounting practices driven by agency conflicts and socio-emotional factors, this study emphasised the role of unified reporting requirements and their practical implications for SMEs.

The study by K. Shatila *et al.* (2025) examined the relationship between information quality and corporate performance through corporate social responsibility, showing a positive impact on financial results directly and through reputation, employee engagement and innovation. In contrast, the present study explains improvements in information quality through updates to accounting standards rather than managerial or reputational factors. While both approaches recognise the role of transparency and intangible resources, K. Shatila *et al.* emphasised predominantly positive effects, whereas this study highlights not only benefits but also implementation costs, complexity and barriers. A related issue was examined by N. Raimo *et al.* (2025), who found a generally low level of compliance with European Sustainability Reporting Standards under the Corporate Sustainability Reporting Directive, with higher alignment in large and environmentally sensitive firms. This indicates uneven adaptation to new standards. Similarly, the present study shows that updates to IFRS for SMEs increase pressure on enterprises and require significant adjustments, improving comparability but also increasing complexity and implementation costs. The analysis showed that the update of IFRS for SMEs had a dual impact on the accounting and financial reporting of enterprises. On the one hand, it contributed to increasing the transparency, relevance, comparability and usefulness of financial information, reduced information asymmetry and created better conditions for making managerial and financial decisions. On the other hand, changes in revenue recognition, fair value measurement and disclosure of information complicated accounting procedures, increased the requirements for professional training of specialists and increased implementation costs.

CONCLUSIONS

Summarising the results of the study, it can be concluded that updates to IFRS for SMEs have a systemic and multidimensional impact on accounting and financial reporting, combining methodological improvements with increased resource requirements. The changes affect both conceptual and applied aspects. In particular, the revision of Section 2 in line with the Framework by International Accounting Standards Board clarified definitions of reporting elements, recognition criteria and measurement approaches, forming a more consistent methodological basis, while improvements in Section 3 enhanced transparency by refining the concept of materiality. From an accounting perspective, significant transformations concern financial instruments. The removal of IAS 39 and clearer classification rules in Section 11 improved consistency, while the prohibition of reclassification ensured stability of reporting. The introduction of Section 12 on fair value established a unified valuation framework. Updates to Sections 19 and 21 further improved the reliability of accounting for complex transactions and provisions. In addition, the updates to Section 28 clarified approaches to measuring defined benefit obligations, discount rates and termination benefits, which improved the consistency and transparency of accounting for employee-related liabilities. From a financial perspective, the updates affect the formation and distribution of financial results. The five-step revenue recognition model in Section 23 changes the timing of revenue recognition and redistributes income across reporting periods without altering total amounts. Fair value measurement increases relevance but also introduces volatility. From an informational perspective, the updates enhance the quality, comparability and usefulness of financial reporting. Expanded disclosure requirements and improved measurement approaches reduce information asymmetry and increase transparency for users, which is particularly important given the global significance of SMEs. From the perspective of adaptation risks, implementation is associated with significant financial, organisational, personnel and methodological challenges. Implementation costs remain substantial: approximately USD 9,500 for medium-sized enterprises and up to USD 95,000 for large entities, with annual maintenance costs of USD 3,000-4,500 and over USD 15,000 respectively. These costs, combined with training, system modernisation and consulting needs, create a burden and may slow adaptation. In the long term, however, the updates create conditions for improving reporting credibility, expanding access to finance and integrating SMEs into the international economic environment. Overall effectiveness depends on the ability of enterprises to overcome barriers and ensure sufficient organisational and methodological readiness. Further research should focus on empirical assessment of implementation across countries and industries, taking into account institutional factors, digitalisation and professional competence.

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Оновлення МСФЗ для МСП: теоретична та аналітична оцінка наслідків для бухгалтерського обліку та фінансової звітності

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Анотація. Метою цього дослідження було проведення теоретичної та аналітичної оцінки впливу оновлень міжнародних стандартів фінансової звітності для малих та середніх підприємств на бухгалтерський облік та фінансову звітність. Дослідження включало аналіз нормативних положень та наукових джерел з використанням порівняльного, структурно-логічного, причинно-наслідкового та системного методів. Результати показали, що оновлення спричинило суттєві зміни у підходах до визнання, вимірювання та розкриття інформації. Впровадження п'ятиетапної моделі визнання доходів змінило терміни визнання доходів, що призвело до перерозподілу доходу між періодами без зміни його загальної суми. Аналіз підтвердив глобальне значення цих змін, враховуючи, що малі та середні підприємства становлять понад 95 % усіх підприємств у світі. Поширення міжнародних стандартів фінансової звітності для малих та середніх підприємств розширилося з 63 країн, що прийняли їх, у 2013 році до 87 зі 169 юрисдикцій у 2025 році, де стандарт є обов'язковим або дозволеним, що свідчить про стабільне зростання глобального впровадження. Витрати на впровадження є значними: початкові витрати на модернізацію системи становлять приблизно 9500 дол. для середніх підприємств та до 95 000 дол. для великих організацій, з річними витратами на підтримку у розмірі 3000-4500 дол. та понад 15 000 дол. відповідно. Перешкоди для впровадження були класифіковані як фінансові, організаційні, кадрові та методологічні. Результати показують, що оновлення покращують порівнянність, актуальність та прозорість фінансової звітності, але збільшують складність та витрати. Загальна ефективність залежить від здатності підприємств адаптувати системи бухгалтерського обліку. Результати можуть бути використані керівництвом малих та середніх підприємств, регуляторними органами та аудиторами для вдосконалення облікової політики, механізмів нагляду та якості звітності

Ключові слова: гармонізація; прозорість; впровадження; інформаційна асиметрія; справедлива вартість; бар'єри впровадження