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## Comparative Review of Selected Accounting Standards for Small Entities

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Przemysław Mućko<sup>1</sup>, Stanisław Hońko<sup>2</sup>

### **Abstract:**

**Purpose:** This paper aims to provide a comparative review of selected accounting standards designed for small entities across different jurisdictions, analysing the international IFRS for SME's, British standards (FRS 102, Charities SORP, FRS 105), and New Zealand's Tier 3 and Tier 4 PBE Standards. The study seeks to identify convergences and divergences in regulatory approaches to simplifying financial reporting requirements for smaller entities whilst maintaining credibility and usefulness for stakeholders.

**Design/Methodology/Approach:** The research employs a qualitative comparative analysis methodology, examining selected standards across multiple dimensions including scope, complexity, structural design, and specific simplifications offered. The analysis draws on the framework developed by the Australian Accounting Standards Board's comparative study and incorporates findings from empirical research on small entity accounting practices and regulatory effectiveness. The paper synthesises literature on the theoretical foundations of accounting regulation, the distinctive characteristics of small entities, and international regulatory frameworks for smaller units.

**Findings:** The review reveals significant heterogeneity in regulatory approaches to small entity accounting across jurisdictions. Whilst all analysed standards pursue simplification, they differ substantially in scope and degree of complexity—ranging from the 326-page IFRS for SME's to the 27-29-page New Zealand Tier 4 PBE Standard utilising cash-basis accounting. The analysis identifies that simplification does not necessarily correlate with standard length, but rather reflects tailoring of content to specific entity populations and local regulatory contexts. The study confirms that small entities require tailored regulations accounting for their distinctive features: ownership-management integration, reduced information asymmetry, resource constraints, and internal financing dependence. Empirical evidence demonstrates that financial reporting quality significantly impacts small entities' access to external capital and growth prospects.

**Practical Implications:** The findings provide valuable guidance for jurisdictions modernising their accounting regulations for small entities. The diverse regulatory models presented offer alternative approaches and inspirations for developing contextually appropriate solutions. The research underscores that effective regulation must balance

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<sup>1</sup>PhD, Assistant Professor at the Department of Accounting, Institute of Economics and Finance, Faculty of Economics, Finance and Management, University of Szczecin, Poland, ORCID: 0000-0002-8972-1095, e-mail: [przemyslaw.mucko@usz.edu.pl](mailto:przemyslaw.mucko@usz.edu.pl)

<sup>2</sup>PhD, Associate Professor, the same as in 1, ORCID: 0000-0002-8726-2323, e-mail: [stanislaw.honko@usz.edu.pl](mailto:stanislaw.honko@usz.edu.pl)

*simplification with sufficient transparency to support stakeholder decision-making, particularly regarding access to external financing.*

**Originality/Value:** *This paper contributes to the comparative accounting regulation literature by systematically analysing contemporary international standards for small entities, providing insights into regulatory pluralism and the diversity of approaches to achieving harmonisation whilst respecting local contexts. The synthesis of theoretical foundations and empirical evidence regarding small entity accounting practices offers value to academics, standard-setters, and policymakers engaged in regulatory development.*

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## 1. Introduction

Accounting regulations always require consideration of the specific nature of reporting entities, which applies in particular to the accounting of small entities. The dynamic development of accounting regulations, resulting from an increasingly complex economic environment, technological challenges and ongoing globalisation processes leading to the harmonisation and standardisation of accounting, affects smaller entities to a lesser extent and causes accounting to vary depending on the size and complexity of entities.

The increasingly extensive and complex regulations for larger entities are accompanied by a demand for simplified regulations for smaller entities. Therefore, the aim of this article is to review the results of research on accounting for smaller entities and to analyse selected regulations dedicated to these entities in different countries. International (IFRS for SMEs), British and New Zealand regulations will be referred to.

This paper will omit the issue of defining large and small entities. We are aware of the greater complexity of the problem of classifying entities for the purposes of creating dedicated accounting regulations. This classification should take into account not only size, but also other factors.

Nevertheless, due to the variability of classification criteria over time and its dependence on many local factors in the accounting environment, the authors leave this issue outside the scope of their interest.

## **2. Literature Review**

Accounting regulations are a tool used by society to attempt to shape the behaviour of economic and accounting entities (Mintchik *et al.*, 2024). In Gray's classic model, accounting regulations are one of the factors influencing accounting practice. It is a factor of great importance, perhaps the strongest, but only one of many, alongside factors such as culture, education, history, inflation, the legal system and the ownership structure of companies (Radebaugh and Gray 2002, p. 16).

A comparison of accounting regulations with other factors shows that accounting practice is shaped by the entire socio-economic environment of accounting, and the scope and manner of application and enforcement of regulations is conditioned, for example, by their legitimacy. This is because the legitimacy of regulations does not end when they are enacted and is also necessary during their period of validity (Skoczylas *et al.* 2024), if only for the purposes of their correct interpretation.

In the development of accounting regulation models, two ideal types have emerged, with actual domestic accounting systems representing a hybrid of the two (Luthardt and Zimmermann 2009):

- accounting standardization
- regulation through statutory law.

The fundamental difference between them lies in the governing authority for accounting: whether it is a body representing accountants, auditors and users of financial reporting, or a state authority, primarily endowed with social legitimacy based on a democratic electoral process. Today's accounting models are mixed in nature, and even IAS standards in the EU have been enriched with elements of social legitimacy (Luthardt and Zimmermann 2009), and accountants and their representatives can participate in the typical public consultation process for laws, statutes and regulations.

Nevertheless, in order to understand the essence of the process and the problems of standardisation of small entities, it should be emphasised that it is one of the possible ways to achieve the goal of regulating accounting. Accounting regulations, in particular for small entities, make it possible to achieve:

- 1) Comparability of information published in entities' financial statements (De Franco *et al.*, 2011; Blankespoor *et al.*, 2020; Chircop *et al.*, 2024);
- 2) Increasing the faithful representation and relevance of this information (Herring 2013; Sirembe *et al.*, 2025), and thus its usefulness, leading to the

- achievement of the overarching objective of financial reporting according to conceptual framework (IASB 2018);
- 3) Increasing the transparency of companies (Sirembe *et al.*, 2025);
  - 4) Mitigating problems arising from information asymmetry between companies and their stakeholders (Healy and Palepu 2001; Herring 2013);
  - 5) Increasing objectivity by limiting the number of permitted choices that are dependent on the subjective judgement of accountants (Jahangir Ali and Ahmed 2007; Jahangir Ali and Ahmed 2007).

The regulation of accounting, including that of small entities, through standardisation by the relevant bodies representing accountants and users of financial statements, enables a broad understanding and support for the solutions adopted in the standard (Luthardt and Zimmermann 2009).

In this respect, the standardisation of financial reporting for small entities facilitates the legitimisation of accounting regulations, which are most often associated with a certain restriction of choice. For the sake of clarity, it should be noted that the alternative path of accounting regulation through legislation has not achieved similar success on a global scale as standardisation (Wagenhofer 2011), which ultimately resulted in the two models of accounting regulation intertwining to create a hybrid, private-public variant (Luthardt and Zimmermann 2009).

### 3. Methodology

The study adopts a qualitative comparative analysis approach, focusing on a detailed examination of selected accounting standards across several analytical dimensions, including their scope, degree of complexity, structural framework, and the extent of simplifications introduced.

The comparative assessment encompasses FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland, Charities SORP (FRS 102) Accounting and Reporting by Charities: Statement of Recommended Practice, FRS 105 The Financial Reporting Standard applicable to the Micro-entities Regime, as well as the New Zealand Tier 3 and Tier 4 Public Benefit Entity (PBE) Standards applicable to public and not-for-profit sectors.

The analytical framework builds upon the methodological model established in the Australian Accounting Standards Board's comparative study and integrates evidence from empirical research concerning accounting practices of small entities and the effectiveness of regulatory frameworks.

The paper also synthesizes the literature on the conceptual foundations of accounting regulation, the specific features and informational needs of small entities, and international approaches to proportionate financial reporting for smaller organizational forms.

## 4. Research Results and Discussion

### 4.1 Accounting for Small and Micro Entities – Research Findings

Research on small entity accounting is clearly dominated by the belief that small entities are different from large entities. Small entities are not like large entities, only smaller (Ploybut 2012; Deaconu and Buiga 2015). The differences between them are not only due to their size, but also to other environmental factors that determine the specific characteristics of the adopted accounting model and policy. The most important differences that determine the different accounting regulation needs of small entities include:

- a) No separation of ownership from management, as it is often the few owners of such entities, often family businesses, who manage them or at least closely supervise their management (Collis *et al.*, 2004; Cordery and Baskerville 2006; Deaconu and Buiga 2015).
- b) This feature significantly reduces the problems arising from information asymmetry and agency problems and costs (Sirembe *et al.*, 2025).
- c) However, this is accompanied by greater dependence on internal sources of financing (Cordery and Baskerville 2006; Ploybut 2012).
- d) Which in turn results from the limited availability of external sources of financing (Daskalakis *et al.*, 2013; Masiak *et al.*, 2019).
- e) This is related to the low quality or lack of transparency of the financial reporting of these entities (Berger *et al.*, 2001).
- f) One of the reasons for this is the high fixed costs of maintaining accounts, which do not take into account the limited resources of smaller entities (Mkasiwa 2014).

To the above list of differences, we should add the distinct target groups of financial reporting users, which in small entities are not dispersed owners, but, for example, tax authorities (Feltham, 2013).

Furthermore, while in typical business entities the dominant function of accounting is informational, the smaller the reporting entity, the greater the role played by the stewardship and control functions.

Research on accounting for small entities and its regulations clearly highlights the following major research strands:

- 1) Research on regulations for small entities, with particular emphasis on research on IFRS for SMEs and the need for separate accounting regulations for micro-entities.
- 2) Research on the impact of small entity accounting on selected economic variables, such as cost of capital, credit rating, availability of external financing and trade credit size.

The IFRS for SMEs standard provides a particularly interesting field of research due to its application in many countries. At an early stage, research provided the necessary justification for the creation of this standard, and after its publication, analyses of the consequences of its application were undertaken (Mkasiwa, 2014).

This standard is seen as a simplification of the full IFRS, tailored to the needs of entities not subject to public accountability (Jermakowicz and Epstein 2010), with the aim of reducing implementation costs while maintaining the necessary financial transparency and reliability of financial reporting (Albu *et al.*, 2013; Chingwaro 2023; Sirembe *et al.*, 2025).

Another advantage of applying IFRS for SMEs is undoubtedly the provision of financial statements that promise international comparability of the description of the entity's financial position and financial performance, which should facilitate its access to financing. The standard is also simply shorter, relieves the entity of the vast majority of its obligations and removes the most complex and demanding regulations compared to the full version of IFRS (Jermakowicz and Epstein, 2010; Ploybut, 2012; Feltham, 2013).

However, serious drawbacks of the standard have been pointed out: despite its simplification compared to the full version, it is still too complicated for many entities and requires the employment of many resources (Deaconu and Buiga, 2015; Chingwaro, 2023). In particular, it is highlighted as unsuitable for micro-entities (Feltham, 2013). The standard's failure to adapt to the specific nature of these entities is evident, for example, in the continued requirement for fair value measurement in many situations.

The results of research on the consequences of accounting in small entities seem to be important for economic practice. Despite the different stakeholder structures of small entities, the importance of good quality financial reporting by small entities for its external users has been confirmed. For example, the use of significantly shortened financial statement formats leads to a deterioration in the credit rating of micro-entities (Peel, 2019). Higher quality accrual accounting reduces the cost of capital (Cassar *et al.*, 2015).

The quality of financial reporting by smaller entities also influences the willingness of stakeholders to entrust resources to the entity, in particular financing, and either promotes or hinders the growth of the entity (Kitching *et al.*, 2011). Research on Belgian companies has revealed that reducing the scope of information disclosed in financial statements, which small and micro entities in EU countries are entitled to do, may lead not only to a reduction in financing by banks and financial institutions, but also to reduced access to trade credit (Ceustermans and Breesch, 2017; Ceustermans *et al.*, 2017).

Micro and small entities are characterised by a certain paradox. On the one hand, the tendency of owners, who are also the entity's management, to maintain confidentiality and privacy of information leads to a reduction in the scope of financial reporting, thereby reducing the amount of data provided to external users.

This results in a poorer credit rating and various problems with access to external capital, which in turn leads to increased dependence on owners' capital (Kitching *et al.*, 2011). These relationships operate in a kind of feedback loop, which can only be broken by high-quality accounting regulations and their correct application.

The analysis of the literature and case studies allows us to formulate the central thesis that the solution to the "authenticity paradox" in the metaverse is achieved through two distinct but equally effective strategic models, the choice of which is strictly dependent on the architecture and culture of a given platform. In both cases, the key is a strategic transition from a one-way communication model (broadcasting) to a user empowerment model, in which the brand becomes a facilitator rather than a dictator of experiences.

## **4.2 Review of Standards for Small Entities**

### *General characteristics of standards for small entities:*

Although small entities are less affected by globalisation and international harmonisation of regulations and are therefore more influenced by local factors than larger entities, some accounting issues are similar across different countries and jurisdictions.

One of these recurring problems for smaller entities stems from the ongoing harmonisation and standardisation of accounting for larger entities, which does not sufficiently take into account the specific characteristics of small entities described above. The solution to this problem is accounting regulations dedicated to small entities, containing simplifications of the rules required of large entities and otherwise taking into account their specific characteristics.

The introduction of such regulations leads to a stratification of the accounting regulation structure, accompanying the harmonisation and standardisation of entities subject to standards for larger entities (Mućko, 2009). The following levels of financial reporting regulation are then distinguished:

- 1) Tier 1 – intended for regular entities, most often larger ones or those subject to public interest for other reasons, for example due to their activity in a particularly regulated sector (banks, insurance companies or other financial institutions).
- 2) Tier 2 – smaller entities, depending on the terminology used, referred to as small and medium-sized enterprises or small entities.

There are also further levels of accounting regulation for entities smaller than small ones, for example for micro-entities. In this article, we will omit considerations regarding quantitative and other criteria determining the classification of entities. We are only interested in the division into two categories of regulations: standard regulations and simplified regulations, although we are aware that, depending on the country and jurisdiction, the structure of regulations may be more complex. A closer discussion and analysis will be given to the standards described in Table 1.

**Table 1.** Summary of key information on accounting standards for smaller entities

| Feature                  | IFRS for SMEs            | UK FRS 102    | Charities SORP (FRS 102) | UK FRS 105               | NZ Tier 3 PBE Standards (Accrual)                           | NZ Tier 4 PBE Standards (Cash)            |
|--------------------------|--------------------------|---------------|--------------------------|--------------------------|---|---|
| Country/jurisdiction     | International            | UK            | UK                       | UK                       | NZ  | NZ  |
| Length (number of pages) | 326                      | 404           | 195                      | 146                      | 56 (not-for-profit)<br>58 (public sector)                   | 31 (not-for-profit)<br>27 (public sector) |
| Basis of Standards       | IFRS                     | IFRS for SMEs | FRS 102                  | FRS 102                  | NZ Tier 1 PBE Standards (IPSASB)<br>NZ Tier 2 PBE Standards | Research on user needs                    |
| Type of entity           | Profit-oriented entities | All entities  | Charities                | Profit-oriented entities | Public Benefit Entity.                                      | Public Benefit Entity.                    |

*Source:* Modified based on Yun et al. (2018).

## 5. IFRS for SMEs

International Financial Reporting Standards (IFRS) are a set of extensive and complex standards addressed primarily to issuers of publicly traded securities. The current edition of the full IFRS (from 2025) comprises several thousand pages, and most standards require extensive disclosures. Since preparing financial statements in accordance with the full IFRS was a heavy burden for smaller entities, the IFRS issued the IFRS for SMEs standard in 2009.

This standard was addressed to entities other than issuers of securities listed on regulated markets for preparing general purpose financial statements (IASB 2018, p. P4). The IASB's intention was to develop consistent solutions that were in line with full IFRS but allowed for simplifications or solutions based on older versions of the standards.

IFRS for SMEs was modified in 2015, and its latest version was published in February 2025. The changes introduced in this standard were by no means revolutionary. They mainly consisted of incorporating solutions introduced in full IFRS, but with certain exceptions.

For example, the latest version of this standard still does not require the classification of lease agreements according to the rules that have been in force for a decade in accordance with IFRS 17. The use of the expected credit loss model for the measurement of certain financial instruments is also required to a limited extent.

The standard referred to above is not the only attempt to create a set of simplified solutions addressed to smaller entities required to prepare financial statements. The pursuit of simplification has resulted in the development of several standards, which are worth summarising. A helpful reference is the working paper of the Australian Accounting Standards Board. ‘Comparison of Standards for Smaller Entities’ (Yun *et al.*, 2018).

The document compares six international regulations for smaller entities developed by the International Accounting Standards Board (IASB), the United Kingdom (UK) and New Zealand (NZ), and analyses the applicability of these solutions as a reference point for the development of simplified Australian solutions. The analysis covered the following documents:

- FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland
- Charities SORP (FRS 102) Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland
- FRS 105 The Financial Reporting Standard applicable to the Micro-entities Regime.
- NZ this Staff Paper covers the Tier 3 and Tier 4 PBE Standards, both for the public sector and the not-for-profit sector as appropriate bases for an alternative tier of accounting requirements.

It is worth explaining that Australian accounting solutions are based on the concept of a ‘tier’, which defines the level of compliance with the benchmark solution. The tier system is part of a broader project aimed at creating a clear, objective and comparable financial reporting framework that balances the needs of users with the costs incurred by reporting entities. There are currently two levels of compliance, namely:

- 1) Tier 1: Full Australian Accounting Requirements, which cover full requirements for recognition, measurement and disclosure.

- 2) Tier 2: Reduced Disclosure Requirements (RDR). Tier 2 requirements apply to unlisted private sector (for-profit) entities, private sector non-profit entities and public sector entities (other than governments and local authorities).

The analysis presented was conducted in connection with the initiative to implement 'tier 3', which was to be addressed to smaller entities, both profit and non-profit.

## **5.1 British Standards**

FRS 102 is a British financial reporting standard based on IFRS for SMEs (2009), but significantly modified. It is intended for a wide range of entities, including non-profit organisations. Its scope is broader than IFRS for SMEs and includes, for example, Specialised Activities and requirements specific to Public Benefit Entities (PBEs). Its relatively large volume is due, among other things, to additional sections for PBEs.

In the absence of specific guidance, management uses its judgement, referring successively to other FRS requirements, SORP guidance and, finally, the concepts of FRS 102. The main differences from IFRS for SMEs are modifications for PBEs, alignment with old UK GAAP (restoration of certain options) and simplification of the financial instruments section (facilitation of hedge accounting). In many respects, FRS 102 is closer to full IFRS than IFRS for SMEs.

Statements of Recommended Practice (SORPs) are guidelines unique to the UK and approved by the FRC. They are sector-specific recommendations that supplement the main standards (e.g. FRS 102) for specialised industries such as charities, higher education and investment funds. Charities SORP (FRS 102) are guidelines used by charities to apply FRS 102.

They introduce additional specific requirements for charities: annual trustees' report, fund accounting and additional disclosures to increase transparency for donors. It also introduces a support (administrative) cost account. SORP is not a stand-alone standard and requires reference to FRS 102. It contains 195 pages and 14 core modules. It provides comprehensive explanations tailored to smaller charities and eliminates some of the options in FRS 102 (e.g. hedge accounting). Charities must comply with its structure and format of reporting templates.

Another document covered by the AASB analysis is FRS 105. This is a reporting standard based on FRS 102 but adapted to the needs of micro-entities. FRS 105 applies only to for-profit entities and those that do not require consolidation. The key difference from FRS 102 is that it is not possible to refer to the full standards in cases not covered by FRS 105. Complex issues (e.g., accounting for joint ventures and impairment of goodwill) and options (e.g., in the case of government grants) have been excluded from the scope of the standard.

## **5.2 New Zealand Standards**

New Zealand Public Benefit Entity Reporting Standards (NZ PBE Standards) are based on international public sector accounting standards (IPSASs), taking into account the specific characteristics of New Zealand and applications in the non-profit sector (NFP). New Zealand Standards for PBEs (Tier 3 and Tier 4): NZ Tier 3 is based on modified accrual accounting, which is a simplification of public sector standards (IPSASs).

The standards are short (approximately 56-58 pages) and use very simple language. NZ Tier 4 is a cash-based accounting standard designed for very small PBEs. It is the simplest and shortest (approximately 27-29 pages). Due to the fact that it is based on the cash method, it is incompatible with other NZ PBE standards and cannot be referred to in the absence of guidelines.

The AASB review is not limited to a general indication of the differences between the documents analysed. The appendices contain extremely valuable information, presenting detailed differences in the following areas of recognition, measurement and disclosure:

- Property, plant and equipment,
- Investment property,
- Complex financial instruments,
- Financial instruments: hedging,
- Intangibles,
- Impairment testing,
- Leases,
- Business combinations,
- Consolidations,
- Investments in associates and joint ventures,
- Revenue,
- Borrowing costs,
- Income taxes,
- Other comprehensive income,
- Income from other non-exchange transactions,
- Government grants,
- Fundraising and administration,
- Related Party Disclosures,
- Going Concern.

The AASB's analysis shows that there is significant diversity in the standards for smaller entities. The discrepancies are not only due to the differences between the entities to which a given standard applies. The analysis did not contain any recommendations and its sole purpose was to describe various solutions that could

serve as inspiration for simplifying national regulations. The approach used could certainly serve as inspiration for the planned thorough modernisation of the Accounting Act.

## **6. Conclusions**

This article reviews selected accounting standards for small entities and reveals a complex international regulatory landscape whose common goal is to simplify financial reporting requirements while maintaining reliability and relevance for users. Analysing IFRS for SMEs, British standards (FRS 102, Charities SORP and FRS 105) and New Zealand standards for public benefit entities (Tiers 3 and 4) enables us to identify both convergences and significant differences in the regulation of smaller entities.

The first important observation is the lack of a uniform approach to simplifications across jurisdictions. Despite its 326 pages, IFRS for SMEs remains too complex for many entities, particularly micro-entities lacking sophisticated accounting infrastructure and qualified personnel. By contrast, the 27-29-page New Zealand Tier 4 PBE Standard demonstrates the potential for radical simplification through cash-basis accounting, rendering it accessible even to very small not-for-profit organisations.

Paradoxically, the British FRS 102 is longer than the IFRS for SMEs at 404 pages and addresses a broader spectrum of entities, including non-profits and charities that require additional guidance for specialised activities. This shows that simplification does not necessarily correlate with shorter standards, but rather reflects tailoring content and complexity to the real needs and capabilities of regulated entities.

Furthermore, the UK's FRS 105, which is specifically designed for micro-entities, demonstrates an alternative approach by excluding complex topics such as hedging and goodwill impairment. This suggests that different regulatory models can coexist and serve distinct populations within the same jurisdiction.

The second key observation is that regulations for small entities must account for their specific characteristics: separation of ownership from management, reduced information asymmetry, limited resources, and dependence on internal financing sources.

Empirical research confirms that financial reporting quality of small entities significantly impacts their access to external financing and growth opportunities. Excessively restricting disclosure scope can negatively influence stakeholder decisions, worsening financing conditions.

The third important finding is that standards for small entities reflect a broader stratification of accounting regulations, where different entity categories are subject

to varying requirement levels. The "tier" system in Australia and New Zealand demonstrates widespread recognition that entities of different sizes require differentiated regulatory approaches.

In conclusion, this review shows no universal solution exists for all small entities. Instead, we observe regulatory diversity where different jurisdictions develop tailored solutions. The presented analysis can inspire modernization of national accounting regulations, provided it accounts for local specificities and research findings on economic consequences of chosen reporting models.

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