

SMEs' Knowledge and Application of IAS21: Challenges, Opportunities and Implications for Financial Reporting

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ABSTRACT

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In today's global economy, small and medium-sized enterprises (SMEs) are increasingly participating in international trade, which requires adherence to international accounting standards such as IAS 21, governing the accounting for foreign currency transactions and the translation of foreign operations. Despite the importance of promoting financial transparency and comparability, many SMEs encounter significant challenges in effectively implementing IAS 21 due to limited resources, technical expertise, and infrastructure. This integrative review critically examines existing academic and practitioner literature on SMEs' understanding and application of IAS 21, highlighting key obstacles, opportunities, and implications for financial reporting practices. Drawing on Institutional Theory, Contingency Theory, and the Resource-Based View, the study explores how internal capabilities and external influences influence SMEs' compliance behaviours. The review also underscores the importance of tailored policy measures and capacity-building initiatives to support SMEs in meeting the standard's requirements. The study aims to provide a deeper understanding of how SMEs operationalize IAS 21 and offers recommendations for enhancing the quality of their financial reporting within a globally interconnected environment by synthesizing evidence from various sources.

Keywords: IAS 21, SMEs, Foreign Currency Transactions, Financial Reporting Compliance and International Accounting Standards

INTRODUCTION

In today's interconnected global marketplace, small and medium-sized enterprises (SMEs) are increasingly engaging in cross-border transactions, making adherence to international accounting standards such as IAS 21 highly important. IAS 21 provides standardized guidance on accounting for foreign currency transactions and the translation of foreign operations' financial statements, promoting consistency and comparability in financial reporting. However, implementing these standards can present significant challenges for SMEs, which may lack the necessary expertise, technological infrastructure, and resources to effectively manage complex currency translation procedures and monitor exchange rate fluctuations. These constraints can result in potential inaccuracies, higher compliance costs, and financial misstatements, ultimately impacting the credibility of their financial reports and their ability to attract international investors and partners (Cayirli, 2020).

IAS 21 is essential for maintaining consistency and comparability in international financial reporting by establishing standards for the translation and reporting of foreign currency transactions and balances in the entity's functional currency (IFRS Foundation, 2020). Small and medium-sized enterprises (SMEs) often face practical challenges in meeting these requirements. These challenges include selecting the appropriate exchange rates—such as spot, average, or closing rates—which can be complex without specialized accounting expertise (Badshah *et al.*, 2020). Furthermore, accounting for foreign operations, especially when managing subsidiaries or branches in various countries, involves additional complexities related to consolidation and currency translation. SMEs may also encounter resource constraints, including limited access to qualified accounting personnel and up-to-date software solutions. The absence of simplified, SME-focused guidance and limited training opportunities may further impede

proper application of IAS 21, potentially impacting the accuracy and compliance of financial reports (UNCTAD, 2019).

A comprehensive and accurate application of IAS 21, which pertains to the effects of changes in foreign exchange rates, can substantially enhance the transparency and reliability of financial statements for small and medium-sized enterprises (SMEs). Such improvements are particularly valuable in the context of cross-border transactions, where precise reporting fosters increased stakeholder confidence, including investors, lenders, and business partners. Additionally, adherence to IAS 21 can enhance the attractiveness of SMEs to international financiers by demonstrating compliance with recognized global accounting standards (Naradda *et al.*, 2020). Moreover, understanding and properly implementing IAS 21 allows SMEs to gain clearer insights into the financial impacts of currency fluctuations, supporting more informed decision-making in areas such as pricing strategies, supply chain management, and market expansion. Consequently, it is essential for policymakers and regulators to deepen their understanding of how SMEs interpret and apply IAS 21, in order to develop support mechanisms and regulatory frameworks that align with the realistic capabilities and challenges faced by smaller enterprises.

This integrative review consolidates existing academic and practitioner literature regarding SMEs' knowledge and application of IAS 21, highlighting key challenges, identifying potential opportunities, and exploring broader implications for financial reporting practices and policy development. Through this analysis, the study aims to provide a comprehensive understanding of how international accounting standards are adopted and operationalized within the SME sector.

Theoretical Perspective

The application of International Accounting Standards (IAS), particularly IAS 21, within small and medium-sized enterprises (SMEs), can be effectively examined through several theoretical lenses, most notably Institutional Theory, Contingency Theory, and Resource-Based View (RBV). These frameworks help explain the variability in SMEs' adoption, knowledge, and compliance with complex international standards like IAS 21.

Institutional Theory

Institutional theory emphasizes the importance of legitimacy and social acceptance for organizations. It suggests that organizations often align their practices with established institutional norms and values, not solely for operational efficiency but also to garner legitimacy and support from stakeholders. According to institutional theory, organizational environments are shaped by social expectations and shared norms that organizations must conform to maintain legitimacy and access limited resources (Alshumrani *et al.*, 2022). Organizations actively seek legitimacy to ensure their continued viability, often by adhering to coercive, normative, and mimetic institutional pressures. As a result, organizations tend to adopt similar practices, leading to a degree of homogenization within the field (Aksom *et al.*, 2020).

Contingency Theory

Contingency theory highlights that there is no universal approach to organizational decision-making, especially relevant for small and medium-sized enterprises (SMEs) navigating complex financial standards such as IAS 21, which addresses foreign currency translation (McAdam *et al.*, 2019). For these organizations, compliance is influenced by various contextual factors, including company size—affecting resource availability; financial literacy, impacting the understanding of technical requirements; international exposure, increasing the importance of foreign currency transactions; and the availability of qualified personnel to ensure accurate application of the standard. These factors contribute to differing levels of capability and challenges among SMEs, with some able to effectively implement IAS 21 and others facing limitations that hinder full compliance. Contingency theory offers a valuable framework for understanding this variability, emphasizing that organizational success is most effectively achieved by aligning strategies and practices with specific situational factors.

Resource-Based View (RBV)

The RBV framework emphasizes that a firm's capacity to achieve and sustain a competitive edge largely depends on its unique assets, encompassing both tangible resources such as technology and financial capital, and intangible

assets like knowledge and expertise (Sugiarno *et al.*, 2022). For small and medium-sized enterprises (SMEs), this consideration is especially pertinent when implementing complex standards such as IAS 21, which addresses the accounting effects of foreign exchange rate fluctuations. Due to limited financial resources, SMEs may face challenges in acquiring specialized accounting software or accessing the necessary expert guidance for accurate standard application. Furthermore, the absence of ongoing staff training can impede consistent and high-quality financial reporting. These internal limitations can pose operational difficulties in ensuring compliance and may impact the reliability and comparability of financial statements within global markets (Gok 2024).

This review integrates multiple theoretical perspectives to develop a comprehensive framework for analysing small and medium-sized enterprises' (SMEs) approaches to implementing IAS 21, the international accounting standard for foreign currency transactions. It emphasizes that while external pressures—such as regulatory mandates, industry norms, and professional networks—may incentivize SMEs to adopt the standard, actual compliance is often influenced by internal factors, including organizational size, structure, financial capacity, and technical expertise. This interaction highlights that simply mandating standard is insufficient; policymakers and standard-setting bodies should consider the diverse capabilities of SMEs and provide targeted support to facilitate both adoption and effective implementation. Such efforts can ultimately promote enhanced financial transparency and comparability across organizations.

LITERATURE REVIEW

International Accounting Standard 21 (IAS 21) pertains to the accounting treatment of effects resulting from changes in foreign exchange rates. For small and medium-sized enterprises (SMEs), the adoption of IAS 21 presents distinct challenges as well as potential opportunities. This review synthesizes existing scholarly work on SMEs' familiarity with and implementation of IAS 21, focusing on common barriers, potential benefits, and the broader impact on financial reporting practices.

Challenges Associated with Implementing IAS 21

Limited Technical Expertise

A primary obstacle faced by SMEs is the scarcity of specialized accounting expertise. Due to resource constraints, many SMEs do not have dedicated staff with the technical proficiency required to accurately interpret and apply the provisions of IAS 21 (Nyawo *et al.*, 2022). Recent studies have indicated that this limitation often increase the risk of misapplication and leads to inaccuracies in financial reporting (Nawi, 2020; Taruvinga *et al.*, 2023). Small and medium-sized enterprises often operate within confined budgetary parameters, which can impact their capacity to allocate sufficient resources toward essential professional development, the recruitment of qualified accounting personnel, and the necessary investment in technology and software solutions to ensure compliance with accounting standards (Abdinur *et al.*, 2023).

Cost Considerations in Implementation

The financial investment necessary for adopting IAS 21—including staff training, consultancy services, and system upgrades—can be significant for SMEs. These costs often outweigh perceived benefits, Acting as a deterrent to full compliance (Gok, 2024). For small and medium-sized enterprises (SMEs), implementing IAS 21—The Effects of Changes in Foreign Exchange Rates—can involve substantial initial and ongoing costs. These costs may include necessary staff training to ensure accurate understanding and application of the standard, consulting services from accounting experts, and potential upgrades to existing accounting systems or software to facilitate proper currency translation and reporting. Unlike larger organizations with more extensive resources, SMEs often face limitations in financial and human capital, which can make absorbing these expenses challenging. Additionally, the immediate benefits of full compliance—such as enhanced financial comparability or increased credibility with international partners—may not be readily evident or directly applicable to SMEs primarily focused on domestic markets. Consequently, these cost considerations can serve as a significant deterrent, leading many SMEs to postpone or forgo full implementation of IAS 21.

Complexity and Detailed Requirements

The standard's detailed requirements, such as determining functional currencies and translating financial statements, accordingly, may be perceived as complex and overwhelming for smaller enterprises. This complexity can result in partial or superficial compliance (Perera et al., 2024). The detailed requirements of financial reporting standards—particularly those related to determining functional currencies and translating financial statements—can present significant challenges for small and medium-sized enterprises. These organizations may not have the internal expertise or resources to thoroughly interpret and implement complex rules, such as identifying the primary economic environment of the business or accurately converting financial data for consolidation and reporting purposes. The process requires an understanding of foreign exchange rates, their impact on financial statement components, and adherence to disclosure standards. As a result, these tasks can be time-consuming and may detract from core business operations, leading to increased dependence on external advisors or the risk of unintentional non-compliance.

Awareness and Training Deficiencies

A notable barrier is the limited awareness of IAS 21 among SME operators, coupled with inadequate access to relevant training resources. This knowledge gap can lead to non-compliance or incorrect application of the standard, which can compromise financial statement accuracy (Bark, 2020). A common challenge experienced by many small and medium-sized enterprises (SMEs) is limited familiarity with IAS 21, the accounting standard that addresses the effects of foreign exchange rate changes. This can be compounded by limited access to affordable, relevant training resources or professional guidance. Consequently, SME personnel may encounter difficulties in accurately applying the standard when translating foreign currency transactions or preparing financial statements. These challenges can lead to potential errors or non-compliance, which may impact the consistency and reliability of financial information, ultimately influencing stakeholder confidence and the overall integrity of financial reporting. Recent research highlights the importance of offering specialized training to professionals responsible for preparing financial statements for small and medium-sized enterprises, as many individuals in this role may require additional development to ensure precise and reliable accounting documentation (Nyawo et al., 2022).

Opportunities Offered to SMEs

Enhancing Financial Transparency

Proper adherence to IAS 21 can improve the clarity and reliability of financial statements, thereby increasing transparency. Such improvements are vital for SMEs seeking to secure financing or attract investors who expect consistent and accurate financial information (Akpan et al., 2023). Adherence to IAS 21, which addresses the accounting treatment of foreign exchange rates, is essential for ensuring that financial statements accurately reflect the financial position and performance of a business engaged in transactions involving multiple currencies. For small and medium-sized enterprises (SMEs), consistent application of this standard helps enhance the reliability and comparability of financial reports by minimizing errors related to currency conversions and exchange rate fluctuations. Investors and lenders depend on accurate and transparent financial information to evaluate the company's performance, stability, and risk factors. Compliance with IAS 21 enables SMEs to present a clear financial overview, fostering investor confidence, aiding informed decision-making, and facilitating greater access to funding opportunities both domestically and internationally.

Small and medium-sized enterprises (SMEs) in Zimbabwe are essential contributors to the nation's economic development, primarily through their positive impact on gross domestic product (Finscope, 2022). Recent research indicates that limited access to funding hampers the profitability and growth of SMEs, which are vital for poverty alleviation efforts in Zimbabwe through job creation, as detailed by Moses (2023) and supported by Kamotho (2023).

Strengthening Credibility and Facilitating Capital Access

Compliance with internationally recognized standards like IAS 21 can bolster the credibility of SMEs' financial reports. This alignment may facilitate access to international funding sources and foster investor confidence (Gok, 2024). Adherence to internationally recognized standards such as IAS 21, which addresses the effects of changes in foreign exchange rates, significantly improves the clarity and comparability of small and medium-sized enterprise (SME) financial statements. Alignment with these standards reflects a commitment to accurate and globally accepted

accounting practices, which is particularly valuable when operating in international markets or seeking cross-border investment. Such compliance fosters confidence among international investors, lenders, and business partners by minimizing concerns regarding financial reporting accuracy. Consequently, this can facilitate access to international funding, strengthen strategic alliances, and enhance cross-border trade opportunities—thereby supporting the sustainable growth and global competitiveness of SMEs.

Aligning with Global Best Practices

Implementing IAS 21 ensures that SMEs align their accounting practices with international benchmarks, promoting comparability and facilitating cross-border trade or expansion into global markets (Cayirli, 2020). Implementing IAS 21 (The Effects of Changes in Foreign Exchange Rates) provides Small and Medium-sized Enterprises (SMEs) with a standardized approach to recording and reporting transactions involving foreign currencies. Adhering to this international accounting standard enhances the clarity and consistency of financial statements, thereby improving transparency and reliability. This alignment facilitates better understanding among investors, lenders, and business partners globally, fostering increased confidence in the company's financial position. As a result, SMEs can benefit from increased opportunities for international trade, strategic partnerships, and market expansion, supporting their sustainable growth and competitive positioning in the global economy.

Recent research indicates that complying with established accounting standards enhances the credibility of small and medium-sized enterprises (SMEs) with investors, creditors, and customers. This increased credibility fosters trust, which can facilitate access to financing and strengthen relationships with key stakeholders (Abdinur *et al.*, 2023).

Implications for Financial Reporting

Standardization Versus Practicality

While IAS 21 promotes uniformity in financial reporting, its comprehensive requirements might not always be practical for SMEs due to resource and knowledge constraints. This discrepancy suggests the need for adaptable or simplified guidance tailored to SMEs' specific contexts (Kamotho *et al.*, 2023). IAS 21, which addresses the accounting for foreign exchange rate fluctuations, aims to promote consistency and comparability in financial reporting among entities operating in multiple currencies. However, its detailed and technically demanding requirements can pose significant challenges for small and medium-sized enterprises (SMEs), which may have limited access to specialized accounting expertise and resources needed for full compliance. SMEs often encounter difficulties in areas such as identifying the appropriate functional currency, translating foreign transactions accurately, and applying exchange rates for consolidating financial statements. This can result in a disconnect between the standard's original intent and its practical implementation within smaller organizations. Therefore, there is a strong motivation to develop simplified or proportionate guidance that preserves the core principles of IAS 21 while reducing complexity, thereby enhancing its accessibility and applicability to the operational context of SMEs.

Policy and Regulatory Considerations

Regulatory authorities should consider the unique challenges faced by SMEs and develop supportive measures, such as simplified standards, targeted training programs, and awareness initiatives. These steps can mitigate implementation barriers and promote compliance (Bello *et al.*, 2024). Regulatory authorities play a vital role in ensuring compliance across various industries. Small and medium-sized enterprises (SMEs) often encounter unique challenges due to limited resources, technical expertise, and administrative capacity. To support these businesses, authorities should consider implementing proactive and tailored strategies that address their specific needs. Simplifying regulatory standards can help reduce complexity and facilitate easier compliance, while targeted training programs can strengthen internal capabilities and improve understanding of regulatory requirements. Furthermore, awareness campaigns can keep SMEs informed about regulatory updates and best practices, encouraging a proactive approach to compliance. Collectively, these initiatives can not only alleviate the compliance burden for SMEs but also promote more effective regulation and foster broader economic growth.

Research indicates that the adoption of accounting standards supports small and medium-sized enterprises (SMEs) in meeting their legal and regulatory requirements, thereby helping to minimize the risk of penalties and legal disputes resulting from non-compliance (Putra 2019). Small and medium-sized enterprises (SMEs) often encounter

challenges when implementing IAS 21, including limited internal technical expertise for interpretation and application, the associated costs of updating accounting systems and engaging external consultants, and the inherent complexity of managing foreign currency transactions and translations. Nonetheless, adopting IAS 21 offers significant benefits such as enhanced financial transparency, increased confidence among investors and stakeholders, and better alignment with international financial reporting standards—advantages that are increasingly vital in today's globalized economic environment. To facilitate this transition, targeted support from policymakers and regulatory authorities is essential. Such support may include simplified guidance, subsidized training programs, and advisory services specifically designed for SMEs, thereby enabling smoother adoption of IAS 21 and allowing these organizations to realize its long-term benefits.

Research Methods

This study employs an integrative literature review approach to examine and analyse SMEs' knowledge and application of IAS21: Challenges, opportunities and implications for financial reporting. The integrative review methodology, as described by Whitemore and Knafl (2005), allows for a comprehensive evaluation of existing literature, ensuring a rigorous synthesis of evidence from various primary studies employing diverse research methods. The search criteria focused on peer-reviewed scholarly articles relevant to SMEs' knowledge and application of IAS21: Challenges, opportunities and implications for financial reporting. Data collection was conducted through multiple academic databases, including Scopus, Emerald, Wiley Online Library, and ABI/Inform, to identify relevant studies. Additional sources, such as ScienceDirect, SABINET, Bing, and Google Scholar, were also utilized to supplement the research. Both primary and secondary data sources—including journal articles, industry reports, authoritative publications, and supplementary materials—were included in the review. Search terms were carefully chosen to encompass concepts related to SMEs' knowledge and application of IAS21: Challenges, opportunities and implications for financial reporting with an emphasis on best practices and recommendations.

DISCUSSION

IAS 21 — The Effects of Changes in Foreign Exchange Rates — establishes the accounting principles for foreign currency transactions and the translation of financial statements for foreign operations. While this standard is essential for entities engaged in international activities, its complexity can present significant challenges for Small and Medium-sized Enterprises (SMEs).

Knowledge and Awareness Among SMEs

Existing literature consistently indicates that SMEs often experience limited awareness and understanding of IAS 21. Many owners and financial personnel may lack formal accounting expertise, and even where training has been undertaken, the specific intricacies—such as identifying functional currency or accounting for exchange rate fluctuations—may be misunderstood or neglected.

Recent studies have identified insufficient knowledge and training as key barriers to the effective adoption of IFRS for SMEs. Enhancing accountants' understanding through targeted education and training initiatives is essential to ensure successful implementation and adherence to the standards (Uyah *et al.*, 2013). Extensive literature indicates that a significant proportion of small and medium-sized enterprise (SME) proprietors and entrepreneurs may lack a thorough understanding of accounting principles, which can lead to insufficient financial record-keeping and potential challenges in maintaining compliance with established accounting standards (Putra, 2019). Additionally, Gardi *et al.* (2021) also discovered that the level of formal education among business owners significantly impacts their utilization of accounting information. Specifically, higher levels of formal education are associated with more effective use of accounting data in business management practices.

Implementation Challenges

Complexity of the Standard

IAS 21 mandates meticulous tracking of exchange rates, remeasurement procedures, and the differentiation between functional and presentation currencies. For SMEs with limited financial personnel or reliance on external advisors, managing these requirements can be resource intensive.

Recent literature suggests that small and medium-sized enterprises (SMEs) may face challenges in fully complying with existing accounting standards due to limited expertise and resources. As a result, the complexity of these standards might hinder their adoption among SMEs (Zahid et al., 2019). The sophisticated nature of accounting standards can be particularly difficult for SMEs with less specialized accounting knowledge, potentially leading to misunderstandings and inconsistent application of the standards (Putra, 2019).

Research has shown that several countries in Africa face notable challenges related to the limited availability of professional accountants with adequate technical expertise in International Financial Reporting Standards (IFRS) (IFAC 2007). Additionally, small and medium-sized enterprises (SMEs) often regard IFRS for SMEs as overly complex for practical implementation. This perception is supported by a study conducted by Lackson et al. in 2021, which found that multiple countries have experienced difficulties in effectively adopting IFRS for SMEs. The study highlighted concerns such as the perceived administrative burden on small and micro enterprises, specific technical difficulties associated with certain sections of IFRS for SMEs, and the potential complexities involved in the preparation of financial statements for these entities.

Inadequate Systems

Many SMEs utilize basic accounting software that does not support multi-currency features or real-time exchange rate tracking, complicating compliance. Research has indicated that a significant proportion of small and medium-sized enterprises (SMEs) currently lack comprehensive accounting systems (Nyawo et al., 2022). This deficiency poses challenges to the effective adoption and implementation of International Financial Reporting Standards (IFRS) for SMEs. Approximately 64.3% of survey respondents indicated that the absence of a reliable accounting framework constitutes a substantial barrier to achieving compliance. Additionally a study by Magidi et al. (2021) underscored the critical importance of targeted training for accountants within the SME sector. They stressed that providing financial statement preparers with the requisite skills is particularly vital in contexts such as Zimbabwe, where proper accounting records are often inadequate. The authors further advocated for a structured training approach to enhance SME accountants' understanding of IFRS for SMEs, thereby promoting successful implementation and organizational compliance.

Cost Considerations

Achieving compliance may involve upgrading accounting systems, providing staff training, or consulting experts, which can be financially burdensome for smaller organizations. Recent research indicates that the transition to SME-IFRS can entail significant costs related to training, implementation, and financial statement preparation. These financial requirements may outweigh the expected benefits of adoption, posing a complex decision-making challenge for small and medium-sized enterprises. The expense associated with adopting new accounting standards and maintaining compliance may be substantial for many SMEs, particularly those operating under limited budgets (Putra, 2019).

Regulatory Environment

In certain jurisdictions, enforcement of IFRS standards for SMEs is inconsistent, or local adaptations are ambiguous, leading to varied application practices. Putra (2019) highlighted that adherence to governmental regulations, such as Indonesia's Law No. 17/2013—which requires small business owners to maintain proper accounting records—is a key factor motivating organizations to comply with established accounting standards. Mukoffi et al. (2019) concurred that organizations are responsible for maintaining accurate financial records and complying with relevant tax laws, reporting standards, and industry-specific regulations. As regulatory frameworks become more complex and evolving, small and medium-sized enterprises (SMEs) increasingly adopt accounting information systems (AIS) to facilitate compliance, automate financial reporting processes, and reduce the risk of penalties resulting from non-compliance. The need for timely and precise financial statements, tax filings, and audit trails encourages SMEs to invest in AIS solutions that enhance operational efficiency and ensure alignment with legal requirements. Overall, the regulatory landscape serves as a significant motivation for SMEs to implement AIS, helping to ensure compliance and reduce the likelihood of errors or legal issues.

Potential Opportunities

Despite these challenges, several opportunities can facilitate better application of IAS 21:

Global Business Opportunities

Adoption of transparent financial reporting aligned with international standards can support SMEs in expanding into foreign markets or attracting international investment. Putra (2019) noted that as small and medium-sized enterprises (SMEs) expand, establishing a strong accounting foundation is essential for scaling operations and facilitating entry into new markets or product lines. According to findings by Al-Hattami (2022), the integration and effective use of Information Technology (IT) and Information Systems (IS) by SME owners lead to measurable benefits, including improved organizational performance, enhanced decision-making capabilities, cost efficiencies, and increased revenue streams. These benefits enable SMEs to strengthen their market position and develop a competitive advantage that supports their long-term success and sustainability. Additionally, the growth and stability of these enterprises contribute significantly to the overall economic development of the country, as their achievements are closely linked to national economic progress.

Research has shown that as SMEs grow, a reliable accounting framework becomes increasingly important to support expansion initiatives—whether through launching new product lines, entering additional markets, or scaling current operations—by providing a solid basis for managing more complex financial transactions (Abdinur *et al.*, 2023).

Advances in Technology

The proliferation of affordable cloud-based accounting solutions designed for IFRS compliance makes it increasingly feasible for SMEs to manage complex currency translation requirements. Research indicates that the integration of cloud-based accounting systems can significantly enhance the capability of small and medium-sized enterprises (SMEs) to manage intricate accounting processes. For example, a recent study by Vo Van *et al.* (2024) demonstrates that utilizing cloud-based accounting information systems contributes to improved organizational performance by increasing the efficiency of accounting processes, which is vital for accurate financial reporting and adherence to standards such as IFRS. Additionally, Alshenaifi and El Sayad (2024) have identified that cloud accounting solutions—including platforms like Sage One and Xero—are widely adopted by micro, small, and medium-sized enterprises in Saudi Arabia. These technologies foster compliance with accounting standards and promote effective financial management practices. Furthermore, research by Dlamini and Schutte (2025) concerning SMEs in Zimbabwe reveals that, although adoption rates remain relatively low, those organizations that have implemented cloud accounting systems experience notable improvements in financial management capabilities, particularly in managing complex currency translation issues and ensuring compliance with IFRS standards.

Educational and Development Initiatives

Increased efforts by professional bodies and development agencies are providing targeted training programs to support SMEs in understanding and implementing IAS 21. Professional organizations and development institutions are steadily expanding the availability of specialized training initiatives aimed at supporting small and medium-sized enterprises (SMEs) in comprehending and applying International Accounting Standard (IAS) 21, which pertains to the impacts of foreign exchange rate fluctuations. These efforts are intended to promote best practices in financial reporting and to ensure adherence to international accounting standards (IFRS Professional cert).

Within South Africa, the SA Accounting Academy offers a range of courses designed specifically for SMEs. These include webinars and short training sessions on IFRS for SMEs, covering areas such as provisions and contingencies (Section 21), income tax (Section 29), and revenue recognition (Section 23). The objective of these programs is to equip accounting professionals with the expertise necessary to implement IFRS for SMEs competently, thereby elevating the quality of financial reporting in small and medium-sized businesses (IFRS for SMEs).

Development organizations play a vital role in empowering SMEs through training programs and resource provision aimed at strengthening their financial reporting competencies. For example, the South African Institute of Chartered Accountants (SAICA) has undertaken initiatives to streamline financial reporting for SMEs, including the development of Micro General Accepted Accounting Principles (GAAP) to further reduce the compliance burden on smaller enterprises (Mohammed 2025).

Research indicates that while adopting IFRS for SMEs has contributed to enhanced financial reporting standards, challenges persist, particularly related to the complexity and costs associated with implementation for smaller entities. Literature underscores the importance of comprehensive training programs to address these challenges and to improve the efficacy of IFRS for SMEs within the South African business environment (Stainbank 2025).

4. IMPLICATIONS FOR FINANCIAL REPORTING

Data Reliability and Comparability

Inconsistent adherence to IAS 21 can impair the accuracy and comparability of SME financial reports, potentially impacting stakeholder decision-making. Inconsistent application of the International Accounting Standard (IAS) 21, **The Effects of Changes in Foreign Exchange Rates**, may adversely affect the accuracy and comparability of financial statements prepared by Small and Medium-sized Enterprises (SMEs). Ensuring consistent adherence to this standard is essential to provide stakeholders with reliable and comparable financial information, particularly in contexts such as South Africa where SMEs significantly contribute to economic activity.

Impact on Financial Reporting Quality

Research by Sirembe, Moyo, and Oseifuah (2025) investigated the influence of IFRS for SMEs on financial reporting quality within South Africa. The study indicated that while the adoption of IFRS for SMEs was intended to improve financial reporting practices, inconsistent application of standards—including IAS 21—resulted in stable yet suboptimal discretionary accruals. This suggests that, although reporting stability was maintained, substantial improvements in accuracy and consistency have yet to be achieved, highlighting areas for further standardization and adherence (Sirembe et al., 2025).

IAS 21 provides comprehensive guidance on accounting for foreign currency transactions and translating financial statements into a presentation currency. Variations in the application of these guidelines can lead to inappropriate recognition of exchange differences, potentially resulting in financial statements that do not accurately portray the economic position of the enterprise. Consistent implementation of IAS 21 is therefore crucial to ensure transparency and comparability (Cayirli, 2020).

Financial reports serve as vital tools for stakeholders—including investors, creditors, and regulatory agencies—to make informed decisions. Variability in the application of IAS 21 can lead to inconsistencies and a lack of comparability between financial statements over time and across entities. This can diminish the usefulness of financial information, potentially affecting investment decisions, credit evaluations, and regulatory oversight (Mesioye et al., 2024).

Auditing Difficulties

Insufficient documentation remains a common challenge in audit activities. It hampers auditors' ability to clearly understand the nature, timing, and scope of procedures performed, as well as the results obtained and conclusions reached. Such gaps in documentation can lead to misjudgements and may compromise the overall reliability of the audit. Typical issues include missing working papers, incomplete checklists, and inadequate recording of professional judgments or compliance testing procedures (Taky 2023).

Disorganized or incomplete record-keeping can complicate auditors' verification processes. Challenges such as missing documents, outdated records, or inconsistent filing systems can cause delays and raise questions regarding the integrity of the client's record management system. High operational complexity and workload can increase cognitive strain on auditors, potentially leading to stress and inadvertent errors. Such cognitive fatigue may impair judgment and hinder accurate assessment of an entity's financial position (Persellin et al., 2019).

Rapid advancements in technology can introduce new risks to the compliance audit process, particularly if not supported by a comprehensive governance, risk, and compliance (GRC) framework. Issues such as inaccessible or corrupted digital files, software compatibility problems, or difficulty retrieving deleted or overwritten data can obstruct auditors' ability to verify compliance efficiently.

These challenges can impact the effectiveness of the audit process, increasing the likelihood of errors in audit reports. Such errors are more prevalent under tight deadlines and may diminish when auditors dedicate additional effort or when engagement risk is elevated. Moreover, inaccuracies in audit reports are correlated with financial reporting discrepancies, emphasizing the importance of thorough documentation and comprehensive understanding to ensure high audit quality.

Risk of Misstatement

The improper application or misinterpretation of IAS 21—The Effects of Changes in Foreign Exchange Rates—can substantially impact the accuracy and reliability of a company's financial disclosures. This standard outlines the principles for translating foreign currency transactions and the financial statements of foreign operations into the reporting entity's functional and presentation currencies. Deviations from these guidelines, whether unintentional or deliberate, may compromise the comparability and integrity of financial statements.

Implications of Non-Compliance

Incorrect translation practices, such as applying the wrong exchange rates to assets and liabilities, can result in distorted asset valuations and equity figures. For example, translating non-monetary items at current rates instead of historical rates can misstate key financial metrics like net income and shareholders' equity, thereby reducing the usefulness of financial information for decision-making. Research by Emeke et al. (2022) indicates that although IAS 21 provides a structured approach for foreign currency translation, management discretion may undermine its principles, risking inaccurate reporting.

The standards for translating the financial statements of foreign operations, particularly in hyperinflationary environments, require meticulous application. Inconsistent practices—such as neglecting to restate foreign operation reports before translation—may lead to significant disparities between the parent company's and subsidiaries' reported financial positions. Such inconsistencies can potentially mislead stakeholders regarding the overall financial health of the organization. - Kampanje (2022) examines the inconsistencies in applying IAS 21 and IAS 29 in hyperinflationary contexts, highlighting how such discrepancies can affect the accuracy of consolidated financial statements.

Some academic perspectives note that IAS 21 lacks comprehensive conceptual clarification, especially concerning translation methodologies for foreign operations. This ambiguity can result in differing interpretations among preparers, auditors, and regulators, increasing the possibility of errors or intentional misstatements. Holt (2022) discusses the lack of clear conceptual guidance within IAS 21, suggesting that this contributes to varied applications and potential reporting inaccuracies.

CONCLUSION

This review underscores that while IAS 21 is integral to ensuring consistency and transparency in financial reporting within a globalized economy, SMEs often face significant hurdles—stemming from limited technical knowledge, resource constraints, and system deficiencies—that hinder full compliance. Nonetheless, ongoing technological innovations and increasing support mechanisms present promising pathways to improve application. To address these issues, policy measures such as the development and promotion of simplified reporting standards tailored for SMEs (e.g., IFRS for SMEs), combined with targeted training programs and affordable digital tools, are crucial. Enhancing SMEs' understanding and capability to implement IAS 21 will foster greater compliance, bolster their credibility in international markets, and support sustainable growth.

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