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The impact of the updated sections of IFRS for SMEson the quality, transparency and comparabilityof financial reporting of enterprises

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Abstract. The purpose of this study was to determine the impact of the updated provisions of International Financial Reporting Standards for Small and Medium-sized Enterprises on the quality, transparency, and comparability of financial reporting. The methodology was based on theoretical, normative, and comparative analysis of the updated International Financial Reporting Standards for Small and Medium-sized Enterprises with case-study analysis. It was established that before the update, financial statements could contain material misstatements related to incomplete recognition of liabilities, which at enterprises with a high share of lease transactions could be underestimated by 27-32%. The results showed that harmonisation of the International Financial Reporting Standards for Small and Medium-sized Enterprises with full International Financial Reporting Standards improved the reliability and analytical value of financial information and reduced information asymmetry. A practical assessment was conducted using HECOTEC and Azerişıq Açıq Səhmdar Cəmiyyəti. For HECOTEC, the updated requirements improved the transparency of financial information through enhanced disclosure of accounting estimates, management judgements and economically significant business relationships. Analysis of Azerişıq Açıq Səhmdar Cəmiyyəti's 2024 financial statements identified impairment losses of AZN 3.0 million, deferred tax liabilities of AZN 98.2 million, exchange-rate effects on cash and cash equivalents of AZN 616 thousand, total liabilities of AZN 841.6 million and equity of AZN 2,779.1 million. These indicators demonstrated the practical significance of the updated requirements for improving the reliability, transparency and comparability of financial reporting. The findings confirmed that the updated provisions improved reporting reliability by reducing distortions in the presentation of liabilities, accounting estimates, financial risks and economically significant relationships

Keywords: harmonisation; disclosure requirements; information asymmetry; corporate governance; decision-making

Introduction

Modern conditions of economic development, globalisation of markets and the growing role of small and medium-sized enterprises in the formation of Gross Domestic Product determine increased requirements for the informativeness and reliability of their financial reporting. In this context, the application of international accounting standards, in particular International Financial Reporting Standard (IFRS) for Small and Medium-sized Entities (SMEs), which are designed to ensure the unity of approaches to recognition, measurement and disclosure of information, is of particular importance.

The complexity of preparing financial statements in accordance with international standards, the presence of differences in approaches to determining qualitative characteristics and assessing reporting elements necessitate further research. In their study, E. Jafarov &

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N. Babayev (2024) analysed the features of preparing financial statements in accordance with international standards. The authors established significant discrepancies between individual sections of the standards, which complicated the reporting process for enterprises. The work substantiated the need to harmonise approaches to determining qualitative characteristics of financial information and improve methods for assessing assets, liabilities, income and expenses. The impact of the implementation of IFRS on the quality of financial reporting of transnational companies was analysed by A. Johri (2024). The author proved the positive impact of IFRS implementation on the relevance, accuracy, understandability, comparability and timeliness of financial information, and also found that the key factors of implementation are perceived benefits, ease of application and government policy.

Variability in the financial reporting of private enterprises, limited transparency and insufficient comparability of indicators necessitate further research into the impact of regulatory changes on the characteristics of reporting. The consequences of implementing a standard based on IFRS for SMEs, as analysed by N. Hellman *et al.* (2022), affected the financial reporting of private companies. The authors found that the implementation of the new standard contributed to a decrease in the level of profit smoothing, an increase in the quality of accounting indicators and an improvement in the comparability of financial reporting of enterprises. A. Hossen *et al.* (2025) in their study analysed the impact of the application of IFRS on the characteristics of financial reporting of enterprises. The authors found that the implementation of the standards contributed to increasing the reliability and relevance of financial information, as well as reducing the level of information asymmetry between enterprises and users of reporting.

The variability of approaches to financial reporting formation, combined with limited preparation effectiveness and the influence of institutional conditions, necessitates further research. The impact of IFRS implementation, as examined by G.V. Paula Alarcón *et al.* (2024), concerned the comparability, quality and efficiency of financial reporting in the public sector and developing countries. The authors found that IFRS application significantly improved comparability and quality of financial reports by enhancing transparency, accuracy and reducing information asymmetry. A study of the opportunities and benefits of applying IFRS for SMEs in Ukraine was conducted by O.M. Savitska & S.S. Ryndenko (2024), who found that the use of the standard contributes to increasing the transparency of financial reporting, improving the comparability of financial indicators and strengthening the trust of stakeholders. It was also determined that the simplified structure of IFRS for SMEs reduces the administrative burden on enterprises and facilitates the transition from national standards to international requirements.

The implementation of international standards depends on institutional, organisational and behavioural factors, as well as the level of enterprise readiness, which necessitates further research. The factors facilitate or hindering IFRS implementation in a developing economy were examined, with H.T. Nguyen *et al.* (2023) focusing on key institutional and organisational determinants. The authors found that compliance with regulations, accountants' qualifications and experience, management awareness and perceived benefits positively influence implementation, while tax pressure and psychological barriers have a negative effect. In their study, T. Kladnytska & A. Meish (2025) investigated the impact of international accounting standards on the financial reporting of enterprises in Ukraine and found that the integration of IFRS contributes to increasing transparency, improving access to financial resources and strengthening investor confidence. The authors also emphasised that the implementation of international standards requires significant organisational, financial and personnel adaptation, including the development of methodological support and professional training systems.

The impact of the updated IFRS for SMEs on the quality, transparency and comparability of financial reporting remains insufficiently studied, considering international context, institutional and economic conditions, and specifics of practical application and recent changes in the standard. The purpose of this study was to determine the impact of the modernisation of IFRS for SMEs on the qualitative characteristics of financial information. To achieve this goal, the following tasks were defined: to analyse the key changes in the updated provisions of IFRS for SMEs and determine their impact on the formation and transformation of enterprises' financial reporting; to assess the impact of the updated provisions of the standard on the qualitative characteristics of financial information, in particular reliability, comparability, transparency and informativeness, based on both theoretical analysis and empirical evaluation of financial statements.

Materials and Methods

The study was of a theoretical and analytical nature and covered the time frame of 2024-2025, which was due to the need to combine a conceptual analysis of the updated provisions of IFRS for SMEs with an assessment of their practical impact on the financial performance of the enterprise. The selected period is associated with the implementation of the updated version of IFRS for SMEs in 2025, which allowed for a comparative analysis of financial reporting before and after changes to the standard in order to establish cause-and-effect relationships between the updates and the transformation of financial indicators. At the first stage, a theoretical analysis of the essence and role of IFRS for SMEs in the formation of financial reporting was carried out using the method of generalisation of scientific sources and regulatory documents. To determine the functional purpose of the standard, the International Financial Reporting Standards (2018) substantiate the qualitative characteristics of financial information as a theoretical basis for the study, to clarify the impact of the standard on the quality and efficiency of reporting.

Next, a structural and comparative analysis of the provisions of the standard was carried out using the comparison method to identify differences between the full IFRS and IFRS for SMEs and justify their simplified nature. At the same time, a normative analysis of the updated applied sections of the standard (Section 7 "Statement of Cash Flows", Section 10 "Accounting Policies, Estimates and Errors", Section 22 "Liabilities and Equity", Section 29 "Income Tax", Section 30 "Foreign Currency Translation", and Section 33 "Related Party Disclosures") was carried out using IFRS for SMEs (2025). This was done to identify changes in approaches to recognition, measurement and disclosure and their potential impact on financial reporting.

The assessment of the conceptual impact of changes on the qualitative characteristics of financial information was carried out using the logical generalisation method. Additionally, the comparison method was used to analyse previous and updated approaches to accounting using IFRS 16 Leases (2016), which allowed identifying typical distortions of financial information. Their systematisation was carried out using generalisation and grouping methods involving C. Honigsberg (2024) and IASB (2021). This was necessary to substantiate the role of the updated standards in increasing the reliability and completeness of financial information. The next stage was the analysis of the transparency of financial reporting and information asymmetry using the method of theoretical analysis and scientific generalisation. The International Financial Reporting Standards (2018) was used to determine the relationship between transparency and the qualitative characteristics of financial information and the role of disclosure as a key mechanism for ensuring it. The transparency of financial reporting and information asymmetry was analysed using the methods of theoretical analysis and scientific generalisation. This allowed substantiating the role of updated disclosure requirements in increasing the transparency of financial reporting and reducing information asymmetry between market participants.

HECOTEC (n.d.) and Azerişıq ASC (n.d.) were selected for practical analysis, since the activities of the first company allow to illustrate the impact of the updated requirements for foreign exchange transactions and related party disclosures in the context of the implementation of long-term projects, while the financial statements of the second company contain indicators necessary to assess the potential impact of the updated provisions on income tax, foreign exchange transactions and disclosures in financial statements.

To assess the potential impact of the updated provisions of Section 10 "Accounting Policies, Estimates and Errors", Section 30 "Foreign Currency Translation" and Section 33 "Related Party Disclosures", a case study method was applied to the activities of HECOTEC (2026). The analysis was carried out on the basis of open information about the company's activities in the field of Engineering, Procurement and Construction, the use of project management systems, control of work performance and preparation of project reporting. The case analysis method was used to compare the features of the implementation of long-term projects, the company's participation in the Absheron gas condensate field development project and interaction with SOCAR (n.d.) Oil and Gas Construction Trust with the requirements of the updated provisions of the standard in order to assess their potential impact on the reflection of foreign exchange transactions and the disclosure of information about economically significant relationships with counterparties (Pauley & Newbold, 2025). To assess the potential impact of the updated provisions of Section 10 "Accounting Policies, Estimates and Errors", Section 22 "Liabilities and Equity", Section 29 "Income Tax", Section 30 "Foreign Currency Translation" and Section 33 "Related Party Disclosures", a case analysis method was applied based on the audited financial statements of Azerişıq ASC (2025). The analysis was carried out by comparing the requirements of the relevant sections of the International Financial Reporting Standards for Small and Medium-sized Enterprises (IFRS for SMEs, 2025), changes in these requirements, related financial statement items, financial indicators of the enterprise, potential risks of information distortion before the standard update, expected consequences after the update and their possible impact on management decisions in order to assess the impact of the updated provisions of the standard on the quality, transparency and comparability of financial reporting.

Results

Theoretical foundations and evolution of the updated provisions of IFRS for SMEs

IFRS for SMEs are a simplified version of the full set of IFRS, developed by the International Accounting Standards Board to provide an accessible, understandable and effective tool for preparing financial statements for entities that do not have public accountability. They are aimed at enterprises that do not publicly offer securities and are not financial institutions, but at the same time require a unified approach to accounting and reporting to ensure trust from users of information. The main goal of implementing IFRS for SMEs is to improve the quality of financial information while reducing the complexity of accounting procedures and the costs of preparing reports (Koppeschaar, 2012). The structure of the standard is built on the principle of thematic sections that cover the key elements of financial reporting, including recognition, measurement, presentation and disclosure of information on assets, liabilities, income and expenses. Unlike full IFRS, the standard for SMEs provides for a significant reduction in alternative accounting methods, simplification of disclosure requirements and limitation of the use of complex assessments, such as fair value, in cases where it is not critically necessary. This allows enterprises with limited resources to more effectively apply international accounting approaches without excessive administrative burden (International Financial Reporting Standards, 2018).

A characteristic feature of IFRS for SMEs is the focus on the needs of the main users of the financial statements of such enterprises, in particular owners, creditors, investors and other interested parties who do not have the opportunity to obtain internal information directly. In this context, the standard ensures the formation of financial statements that are understandable, reliable, relevant and suitable for making economic decisions. Particular attention is paid to ensuring a balance between the quality of information and the costs of obtaining it, which is critically important for small and medium-sized enterprises. The role of IFRS for SMEs in the formation of financial reporting is to create a single methodological basis that helps to increase the comparability of financial indicators between enterprises of different countries and economic environments. Due to the unification of accounting approaches, the level of information asymmetry is reduced, which, in turn, increases the confidence of users in financial reporting. In addition, the application of the standard helps to improve enterprises' access to financial resources, since transparent and understandable reporting facilitates the assessment of their financial condition by creditors and investors. At the same time, the implementation of IFRS for SMEs also has certain challenges related to the need to adapt national accounting systems, improve staff qualifications and ensure an appropriate level of methodological support. Despite the simplified nature of the standard, its effective application requires appropriate knowledge and practical skills, which may be a limitation for enterprises in countries with an insufficient level of professional infrastructure development. However, in general, IFRS for SMEs play a key role in harmonizing financial reporting, improving its quality, and ensuring greater transparency of the activities of small and medium-sized enterprises in the global economic environment (Abdinur & Karcioglu, 2025).

The updates to the applied sections of the IFRS for SMEs (2025) have a systemic conceptual impact on the qualitative characteristics of financial information, as they are aimed at increasing its usefulness for users to make economic decisions. According to the International Financial Reporting Standards (2018), financial information is useful if it provides the fundamental characteristics – relevance and reliable presentation, as well as the enhancing characteristics – comparability, verifiability, timeliness and understandability. In this context, the changes in sections 7 "Statement of Cash Flows", 10 "Accounting Policies, Estimates and Errors", 22 "Liabilities and Equity", 29 "Income Tax", 30 "Foreign Currency Translation" and 33 "Related Party Disclosures" form a complex impact on all of the above characteristics. First of all, the relevance of financial information increases due to the clarification of presentation, recognition and disclosure requirements. In particular, the updated provisions of section 7 "Statement of Cash Flows" improves the usefulness of financial information by providing a more comprehensive view of liquidity management, financing activities and cash flow generation. At the same time, section 10 strengthens the relevance of reporting through expanded disclosure of significant accounting estimates, management judgements and corrections of prior-period errors, allowing users to better assess the assumptions underlying financial statements. Changes in section 22 "Liabilities and Equity" contribute to a more consistent presentation of financial position by clarifying the classification of liabilities and equity instruments, thereby improving the analytical value of solvency and capital structure indicators. The fair presentation of financial information is enhanced by clarifying measurement methods and expanding disclosures about assumptions and accounting judgments. The update of section 29 "Income Tax" contributes to a more complete reflection of deferred tax assets and liabilities, which allows taking into account the future tax consequences of business transactions. At the same time, the expansion of disclosure requirements for transactions with related parties (section 33) provides a more complete and neutral presentation of financial results, reducing the possibility of their distortion. In this case, taking into account the uncertainty of estimates plays an important role, since financial reporting is largely based on assumptions and calculations, which does not reduce its usefulness provided that the relevant information is properly disclosed. The comparability of financial information is significantly improved by harmonising IFRS for SMEs with full IFRS and unifying accounting approaches. In particular, the clarification of the rules for accounting for foreign exchange transactions (section 30) provides a more consistent reflection of exchange rate differences, which allows comparing the financial results of enterprises operating in different currency environments. The verifiability of information is increased by detailing the disclosure requirements and formalising the valuation approaches. This creates an opportunity for independent users, in particular auditors, to confirm the correctness of the reflection of transactions. Timeliness of information is ensured by simplifying individual procedures and reducing alternative accounting approaches, which reduces the time for preparing reports. Clarity, in turn, is increased due to a clearer structure of requirements and the logic of presenting information. An important aspect is also limiting the costs of forming financial information, since the introduction of new requirements is accompanied by both an increase in the quality of reporting and a potential increase in the costs of its preparation. However, the general direction of the updates is to achieve a balance between the benefits of improving the quality of information and the costs of its formation, which corresponds to the concept of cost constraint.

The updates to IFRS for SMEs in 2025 provide for the improvement of approaches to the formation of financial reporting by clarifying the requirements for recognition, measurement and disclosure of information. It has been established that changes in the applied sections of the standard have a systemic impact on the qualitative characteristics of financial information, in particular relevance, reliability and comparability. Aligning the provisions of IFRS for SMEs with full IFRS contributes to increasing transparency of reporting and reducing information asymmetry. At the same time, the effectiveness of implementing the updates depends on the level of preparation of enterprises and requires further research in different institutional settings.

Impact of updated IFRS for SMEs on reporting quality

The updates to the IFRS for SMEs application sections in 2025 have a systemic impact on the reliability and completeness of financial information, as they eliminate structural distortions characteristic of previous accounting approaches. According to the International Financial Reporting Standards (2018), a reliable presentation implies completeness, neutrality and the absence of material errors, and it is completeness that ensures the inclusion of all information necessary for an understanding of the economic substance of transactions. In this context, the updated requirements for recognition, measurement and disclosure are aimed at eliminating the understatement of liabilities, assets and risks, which previously led to a distortion of financial reporting. The most significant impact of the changes is manifested in the reflection of liabilities, which were systematically understated under previous standards. In particular, the lack of requirements for capitalisation of lease transactions led to the failure to reflect a significant part of the liabilities in the balance sheet, which underestimated their volume by 27-32% in enterprises with a high share of leases (IFRS 16 Leases, 2016). Recognition of income without taking into account the fulfilment of obligations under contracts also led to premature recognition of revenue and an underestimation of contractual obligations. A systematisation of key misstatements of financial information without the application of updated standards is provided in Table 1.

Table 1. *Major misstatements of financial statements without applying the updated standards*

Category	Element	Cause of distortion	Impact on financial reporting
Liabilities	Lease obligations	Recognised off-balance sheet	Understatement of liabilities by 27-32%, distortion of leverage ratios
	Credit losses	Recognition based only on incurred losses	Underestimation of credit risk and reduced reliability of future cash flow assessment
	Contract liabilities	Absence of performance obligation model	Premature revenue recognition, understatement of liabilities
Assets	Intangible assets	Research and Development, brands and software expensed immediately	Understatement of assets, artificially inflated return on assets
	Data and human capital	Not recognised as assets	Limited reflection of knowledge-based resources in financial reporting
Equity	Fair value measurement	Use of historical cost instead of fair value	Understatement of equity and investment performance
Risk exposure	Derivatives and off-balance sheet entities	Lack of fair value measurement and consolidation	Hidden financial risks and obligations

Source: *compiled by author based on IFRS 16 Leases (2016), C. Honigsberg (2024), IASB (2021)*

The presented data demonstrate that the absence of updated accounting requirements leads to systematic distortions in financial reporting, primarily through the understatement of liabilities, assets, and risk exposure. Such distortions reduce the completeness of financial information and undermine faithful representation, as key economic elements remain unrecognised or insufficiently disclosed. The implementation of updated IFRS for SMEs provisions eliminates these inconsistencies by ensuring recognition based on economic substance and enhancing disclosure requirements. As a result, financial statements become more complete, reliable, and suitable for informed decision-making by stakeholders.

The updated sections of the IFRS for SMEs (2025) address these distortions by introducing clearer recognition and measurement rules. The completeness of financial information is significantly enhanced by expanding disclosure requirements, in particular regarding related parties, risks and contingent liabilities. This ensures the reflection of not only formal indicators, but also the economic context of the enterprise's activities, including potential future obligations and sources of risks. Disclosure of risk information allows to assess the variability of future cash flows, and information about related parties allows to identify transactions that may affect the objectivity of financial results. At the same time, the increasing role of estimates, in particular when determining fair value or expected losses, increases the level of subjectivity in financial reporting. However, the modern concept of fair presentation takes this factor into account, since it assumes that information can remain reliable even in the presence of uncertainty, provided that assumptions and valuation methods are properly disclosed. Thus, the updated standards form a more complete and objective reflection of economic reality, ensuring an increase in the quality of financial information and its suitability for making management and investment decisions.

Transparency of financial reporting is not defined as a separate category in the International Financial Reporting Standards (2018), but is considered as a result of the application of its key principles, in particular qualitative characteristics and disclosure requirements. It is formed by ensuring relevance and reliable presentation of information, and is also enhanced by such characteristics as comparability, verifiability, timeliness and understandability. At the same time, the main mechanism for achieving transparency is disclosure, which allow users to get a complete picture not only of the formal indicators of financial reporting, but also of the economic essence of business transactions. In this context, the updates to the IFRS for SMEs in 2025 are aimed at increasing transparency by expanding and clarifying the requirements for disclosure, which directly affects the reduction of information asymmetry between market participants (Mohammadi & Moein Nezhad, 2015).

Information asymmetry arises from unequal access to information between different groups of users, in particular between management and external investors, borrowers and creditors, as well as between more and less informed market participants. The management of the enterprise has internal information about the financial condition, risks and development prospects, while external users are forced to rely exclusively on published financial statements. This situation can lead to inefficient decisions, an increase in the cost of capital and a distortion of the market valuation of enterprises (Wittenberg-Moerman, 2006). That is why increasing transparency through disclosure is considered a key tool for reducing information asymmetry. The updated IFRS requirements for SMEs significantly expand the scope of information to be disclosed, especially in the areas of financial risks, and transactions with related parties. A summary of the key changes is given in Table 2.

Table 2. *Key disclosure enhancements in IFRS for SMEs and their impact on transparency*

Section	New disclosure requirement	Transparency impact
Section 7 – cash flows	Reconciliation of financing liabilities and supplier finance disclosures	Identifies hidden financing and liquidity pressures
Section 10 – accounting policies, estimates and errors	Expanded disclosure of significant accounting estimates, management judgements and corrections of prior-period errors	Improves understanding of assumptions used in financial reporting and increases reporting reliability
Section 22 – liabilities and equity	Clarified classification and presentation requirements for liabilities and equity instruments	Enhances understanding of capital structure and improves comparability of financial position indicators
Section 30 – foreign currency translation	Enhanced disclosures regarding foreign currency transactions, exchange differences and currency-related exposures	Improves transparency of currency risks and the effects of exchange-rate fluctuations on financial performance
Section 33 – related parties	Disclosure of commitments, key management services and control relationships	Exposes hidden transactions and conflicts of interest

Source: *compiled by author based on International Financial Reporting Standards (2018), D. Dawkins Brown (2025), IFRS for SMEs (2025)*

As can be seen from the table, the updated IFRS for SMEs requirements place greater emphasis on the transparency of financing activities, accounting estimates, capital structure, foreign currency transactions and relationships with related parties. The enhanced disclosure requirements improve the completeness and clarity of financial information, facilitate the assessment of financial risks and sources of financing, and contribute to reducing information asymmetry between enterprises and users of financial statements. As a result, the updated provisions strengthen the reliability, transparency and comparability of financial reporting.

A special role in reducing information asymmetry is played by the expansion of requirements for the disclosure of transactions with related parties. Such transactions may be carried out not on market terms, which create a risk of distortion of financial results due to hidden transactions or conflicts of interest. New requirements, in particular regarding the disclosure of liabilities and remuneration of key management personnel, allow identifying such transactions and providing a more objective assessment of the enterprise's activities. Disclosure of risk information also significantly affects the assessment of future cash flows, as it allows you to move from a static assessment of financial indicators to an analysis of their variability. The availability of detailed information on credit, liquidity and market risks allowsers to assess the probability of deviation of actual results from forecasts, which increases the validity of investment and credit decisions. Empirical studies confirm that the expansion of disclosure leads to a decrease in information asymmetry, which is manifested in a decrease in spreads between purchase and sale prices, increased market liquidity and a decrease in the cost of capital (Campbell *et al*., 2020). At the same time, IFRS for SMEs maintain a balance between transparency and information overload by reducing secondary disclosures and focusing on the most relevant aspects. This ensures an increase in the informativeness of financial reporting without excessively complicating its structure. Thus, the updated disclosure requirements contribute to the formation of more transparent financial reporting, reducing information asymmetry and increasing the efficiency of economic decision-making by users.

Practical consequences of implementing changes for SMEs and their impact on financial performance

HECOTEC (n.d.) is an Azerbaijani company operating in the field of Engineering, Procurement and Construction and implementing projects in the water, energy and oil and gas sectors. The company provides engineering design, project management, procurement, construction works, quality control and inspection services. According to available open data, the annual turnover of HECOTEC LLC is about USD 1.71 million, and the activities are focused both on the domestic market of Azerbaijan and on further expansion of its presence in regional and international markets. The company's feature is the use of modern project management systems, in particular, the development of detailed work schedules in Primavera P6, the construction of S-curves, progress analysis using the Earned Value Management method, the preparation of regular reporting on project implementation and constant monitoring of deviations from approved plans. The company also declares the principles of transparency, accountability and the use of international project management standards, which creates increased requirements for the quality of financial information and its consistency with actual project implementation and management processes. The most significant impact on the company's activities may be associated with the updated requirements of Section 10 "Accounting Policies, Estimates and Errors". Since HECOTEC LLC specialises in the implementation of engineering and construction projects that often extend over several reporting periods, the preparation of financial information requires the application of significant accounting estimates, assumptions and professional judgements. The company's use of systems for measuring project progress, detailed schedules, S-curves and Earned Value Management analysis creates a structured basis for assessing project implementation, monitoring deviations from planned indicators and supporting managerial decision-making. The updated requirements of IFRS for SMEs place greater emphasis on the disclosure of significant accounting estimates and judgements applied in the preparation of financial statements, thereby increasing the transparency of information provided to users. Enhanced disclosure of accounting policies, estimation techniques and management assumptions allows users of financial statements to better understand the factors influencing reported financial results and project performance. For enterprises operating in the Engineering, Procurement and Construction sector, where project implementation is often accompanied by uncertainty regarding costs, timing and resource allocation, such disclosures improve the reliability and comparability of financial information. This approach contributes to a more transparent presentation of project-related activities and provides additional support for project control, resource management and financial planning (Pauley & Newbold, 2025).

The updated provisions of Section 30 "Foreign Currency Translation" can also be considered in the context of HECOTEC LLC's activities. The company notes that it uses international project management standards, pays attention to transparency and accountability, and also applies modern tools and methodologies to monitor project progress and support management decisions. In such conditions, the correct reflection of exchange rate differences becomes important for ensuring the reliability of financial information. According to the updated requirements of IFRS for SMEs, monetary assets and liabilities denominated in foreign currency are subject to revaluation at the rate at the reporting date with the exchange rate differences reflected in the financial result. This approach provides a more consistent reflection of the impact of currency fluctuations on financial indicators and increases the transparency of information used to control projects and make management decisions. The practical aspects of applying the updated requirements of Section 33 "Related Party Disclosures" can be illustrated by the example of HECOTEC LLC's participation in the implementation of the Absheron gas condensate field development project in the Caspian Sea (International Financial Reporting Standards, 2025). Open information indicates that the company operates as an independent private enterprise with no publicly identified subsidiaries or parent structures. At the same time, HECOTEC (2026) participated in the project as a subcontractor of SOCAR (n.d.) Oil and Gas Construction Trust, providing project management support, planning and reporting on its implementation, technical change management, preparation of construction management documentation, quality control and compliance with Health, Safety and Environment requirements. Under such conditions, expanding the requirements for disclosure of information about economically significant relationships allows users of financial statements to obtain a more complete picture of the nature of cooperation between project participants, the degree of dependence on individual customers and the potential impact of such relationships on the financial results of the enterprise. More detailed disclosure of information about contractual relationships, obligations of the parties and the role of management in the implementation of joint projects helps reduce information asymmetry, increases the transparency of the control structure and provides a more objective assessment of the risks associated with the concentration of contracts on individual counterparties.

Also, the available audited financial statements of Azerişıq ASC (2025) for 2024 were used. Azerişıq ASC is the state-owned electricity distribution system operator in Azerbaijan and is responsible for the operation, modernisation and development of the country's electricity distribution infrastructure. The scale of the company's operations results in significant amounts of receivables, tax liabilities, long-term investments and transactions related to government regulation, making the company a suitable case study for assessing the potential impact of the updated IFRS for SMEs.

According to the results of 2024, Azerişıq ASC's revenue amounted to AZN 1,710.4 million, net profit – AZN 15.6 million, total assets – AZN 3,620.7 million, equity– AZN 2,779.1 million, and total liabilities – AZN 841.6 million. In addition, deferred tax liabilities in the amount of AZN 98.2 million were reflected in the structure of liabilities, and total income tax expenses amounted to AZN 15.7 million. The cash flow statement also reflected the impact of exchange rate changes on the cash balance in the amount of AZN 616 thousand, which confirms the presence of a currency factor in the financial activities of the enterprise. The presence of these items allows to assess the potential impact of individual updated sections of IFRS for SMEs on the quality and transparency of the enterprise's financial reporting. Unlike the approach limited to comparing indicators before and after the implementation of the standard, the updated requirements directly affect the procedure for recognition, measurement and disclosure of information, which changes the economic content of individual indicators and increases their informativeness for reporting users. To systematise the impact of individual updated sections of IFRS for SMEs on the financial reporting of Azerişıq ASC, it is advisable to compare the changes in the requirements of the standard with the relevant financial reporting items, the enterprise's financial indicators and their potential impact on management decisions (Table 3).

Table 3. *Potential impact of the updated IFRS for SMEs provisions on the financial statements of Azerişıq ASC*

IFRS for SMEs section	Change in requirements	Financial statement item	Azərişıq ASC financial indicator (2024)	Potential risk of misstatement before the update	Expected effect after the update	Impact on management decisions
Section 10 Accounting Policies, Estimates and Errors	Expanded disclosure of significant accounting estimates, management judgements and corrections of prior-period errors	Impairment losses	AZN 3.0 million	Insufficient transparency regarding assumptions used in estimating asset impairment and financial results	Improved disclosure of estimation methods and management judgements	Better assessment of estimation uncertainty and support for risk management decisions
Section 22 Liabilities and Equity	Clarification of classification and presentation requirements for liabilities and equity instruments	Total liabilities; equity	AZN 841.6 million; AZN 2,779.1 million	Limited comparability and inconsistent presentation of capital structure elements	More consistent classification and presentation of liabilities and equity	Improved assessment of financial position, solvency and capital structure
Section 29 Income Tax	Clarification of the recognition of current and deferred tax assets and liabilities	Deferred tax liabilities; income tax expense	AZN 98.2 million; AZN 15.7 million	Incomplete recognition of future tax obligations	More accurate presentation of tax burden and future tax payments	Support for tax planning and cash flow forecasting
Section 30 Foreign Currency Translation	Consistent remeasurement of monetary items using the closing exchange rate	Effect of exchange rate changes on cash and cash equivalents	AZN 616 thousand	Underestimation of foreign exchange risk and its impact on financial performance	Timely recognition of exchange differences and currency-related risks	Improvement of currency risk management and financial planning
Section 33 Related Party Disclosures	Expanded disclosure requirements regarding relationships and transactions with related parties	Transactions with government-related entities and related parties	Disclosed within the state-controlled operating environment of the entity	Limited transparency of economically significant relationships	Reduction of information asymmetry and greater transparency of the control structure	Better assessment of dependency risks associated with key counterparties and government-related entities

Source: *compiled by author based on International Financial Reporting Standards (2018), IFRS for SMEs (2025), Azerişıq ASC (2025), International Financial Reporting Standards (2025), Income Tax Act (2025)*

The data in Table 3 show that the impact of the updated IFRS for SMEs provisions on the financial statements of Azerişıq ASC is not limited to changes in individual accounting procedures, but extends to the formation of key financial indicators of the enterprise. The most significant impact is related to accounting estimates and judgements, the presentation of liabilities and equity, tax liabilities, foreign exchange transactions and the disclosure of information about related parties. In particular, expanded disclosure of accounting estimates and management judgements contributes to greater transparency regarding impairment assessments and the assumptions underlying financial reporting, which is relevant given the recognition of impairment losses amounting to AZN 3.0 million. Clarified requirements for the classification and presentation of liabilities and equity improve the comparability of financial position indicators and provide a more consistent representation of the enterprise's capital structure, reflected in total liabilities of AZN 841.6 million and equity of AZN 2,779.1 million. At the same time, the clarification of the procedure for recognising current and deferred tax assets and liabilities contributes to a more accurate reflection of the tax burden, which is confirmed by the presence of deferred tax liabilities amounting to AZN 98.2 million and income tax expenses of AZN 15.7 million. Updated requirements for the translation of monetary items in foreign currency ensure the timely recognition of exchange rate differences and improve the reliability of currency risk assessment, which is particularly important given the recorded effect of exchange rate changes on cash and cash equivalents amounting to AZN 616 thousand. In addition, expanded disclosure of information about related parties increases the transparency of the control structure and allows users of financial statements to better assess potential risks associated with economically significant relationships. Thus, the economic effect of the updated IFRS for SMEs provisions is formed through changes in approaches to recognition, presentation and disclosure of information, which, in turn, enhances the reliability of financial indicators, increases the transparency of reporting and improves the information basis for management, investment and credit decisions.

To further illustrate the economic implications of the updated IFRS for SMEs provisions, it is advisable to present the sequence through which changes in recognition, measurement, and disclosure requirements affect financial statement indicators and, consequently, the decisions of financial statement users (Fig. 1). So, the impact of the updated IFRS for SMEs requirements extends beyond individual accounting procedures and affects the overall quality of financial reporting. Changes in recognition, measurement, and disclosure approaches lead to adjustments in financial statement items and key performance indicators, resulting in more reliable, transparent, and comparable financial information. Consequently, users of financial statements obtain a more accurate basis for assessing financial position, performance, risks, and future prospects, which contributes to more informed managerial, investment, and lending decisions. The examples of HECOTEC LLC and Azərişıq ASC indicate that the practical effect of the updated requirements is manifested through improved assessment of tax obligations, foreign currency exposure, and economically significant relationships with related parties.

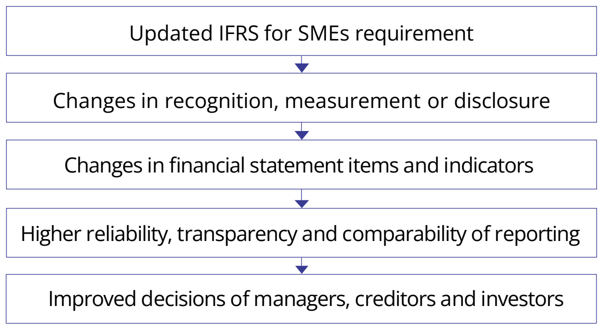

Figure 1. *Mechanism of the impact of updated IFRS for SMEs requirements on financial reporting quality*
Source: *compiled by the author based on IFRS for SMEs (2025)*

Discussion

In the context of economic globalisation, improving the quality of financial reporting has become particularly important for ensuring the transparency of enterprises and trust from information users. The introduction of international financial reporting standards was considered a key tool for harmonising accounting and reducing information asymmetry. A comparison with the study by O.S. Shaban & A. Omoush (2025) logically continued the idea that the quality of financial information is a key factor in reducing information asymmetry. If in this work this effect was achieved through updating IFRS for SMEs and eliminating specific distortions (understating liabilities by 27-32%), then O.S. Shaban & A. Omoush demonstrated a different mechanism through the use of artificial intelligence, which had a positive impact on corporate governance, risk management and interaction with stakeholders. Thus, both approaches converged in the result, but differed in the tools: regulatory changes versus technological solutions. This logic was reinforced in comparison with the study by B. Gardi *et al.* (2023), where IFRS were considered as a connecting link between corporate governance and reporting quality. In contrast to the generalised empirical analysis presented by B. Gardi *et al.*, this work specified this connection, demonstrating how changes in the standard transform enterprise performance. Thus, if the study by B. Gardi *et al.* explained why such transformations occur, this study explained how they manifest themselves in practice. A similar evolution could be traced in comparison with the study by I. Naeem (2024). This approach remained mainly theoretical, emphasising IFRS as a universal language of financial reporting, while this work supplemented these provisions with empirical content through the analysis of real financial changes. In contrast, the study by S. Bathla *et al.* (2024) broadened the context by showing how scholarly interest in IFRS evolved over time, allowing the results of this work to be seen as part of a broader scholarly trend.

A more critical perspective was offered by R. Warren (2024), who viewed IFRS not only as a technical tool but also as an element of economic power. Against this background, the results of this study appeared more pragmatic, focusing on the practical benefits of standards for enterprises. A similar balance between theory and practice was also observed in the work by H. Kabir (2026), who analysed the standardisation process itself, while this work analysed its consequences. The results of previous studies did not provide grounds for an unambiguous conclusion about the universally positive impact of IFRS. In particular, I.E. Ebaid (2024) found a limited statistical effect of their implementation, which differed from the results of this study, where improvements in financial indicators after the update of IFRS for SMEs were identified. Similar ambiguity was observed in the studies by A.D. Adekanmi *et al.* (2021) and S. Rathnayake *et al.* (2021), in which the effectiveness of the standards or their relationship with enterprise performance was not sufficiently confirmed. This indicated the dependence of the impact of IFRS on the institutional environment, research methodology and conditions of practical application of the standards. In contrast, the studies by J.Y. Yeap & S.M. Shabri (2023) and N.N. Jamil (2021) allowed understanding the prerequisites of these differences, focusing on institutional factors and characteristics of reporting quality. As a result, unlike these works, which focused on the conditions or models of implementation, this study demonstrated the ultimate effect of IFRS implementation through increasing the reliability, transparency and analytical value of financial reporting.

In the study by S.F. Zainal *et al.* (2024), the quality of financial reporting was considered not through the prism of standards, but through the internal environment of the enterprise. The authors showed that the transparency and reliability of SME reporting depended on ethical culture, including formal and informal rules, leadership and religious values. This echoed the present study, which also emphasised the need to increase trust in financial information. However, the mechanism for achieving this goal differed: in the study by S.F. Zainal *et al.*, the emphasis was placed on behavioural and organisational factors, while this work focused on updating IFRS for SMEs, eliminating distortions and improving enterprise performance. Another perspective was proposed by T. Dănescu & R.M. Stejerean (2022), who linked the quality of financial reporting to the broader economic context, particularly pre-crisis and post-crisis conditions. Their study showed that the level of reporting quality could vary depending on the market segment and the influence of macroeconomic factors. In contrast, this work focused not on external crisis conditions, but on regulatory changes in IFRS for SMEs. The common understanding remained that reliable, relevant and comparable information forms the basis for management and investment decision-making, but T. Dănescu & R.M. Stejerean analysed market behaviour at the company level, whereas this work demonstrated the applied effect of standards within enterprise reporting practice.

Closer to the topic of this study was the research by E.E. Alharasis *et al*. (2024), as it also assessed the impact of IFRS on the quality of financial reporting. The authors proved that the implementation of IFRS 7 had a positive impact on the relevance, fair presentation, comparability and timeliness of reporting, although it did not significantly affect its understandability. This was partly consistent with the results of this study, where the update of IFRS for SMEs contributed to increasing the transparency and reliability of financial information. At the same time, E.E. Alharasis *et al*. worked with banking sector data and used quantitative methods, while this study had a micro-level focus and concentrated on the practical analysis of the reporting of an individual enterprise. The study by N.N. Jamil & S.N. Rosli (2021) complemented this block of research, as it considered the quality of SME reporting through a conceptual model of the impact of MPERS based on IFRS for SMEs. The authors emphasised the importance of relevance and timeliness of information, i.e., the characteristics that in this study were also considered as a result of improving standards. However, N.N. Jamil & S.N. Rosli remained mainly at the level of theoretical justification, while this study moved to applied verification through the analysis of real financial data, identification of distortions and assessment of the impact of the updated IFRS for SMEs on enterprise financial performance.

Particular attention to the practical difficulties of implementing standards was paid by E. Ortiz-Martínez *et al.* (2022). Their study showed that the harmonisation of accounting with IFRS not only improved the comparability of reporting, but also complicated professional practice by requiring additional training of specialists. This is important for interpreting the results of this study, because even though the update of IFRS for SMEs provided a positive effect, its implementation required enterprises to adapt to new rules. Thus, E. Ortiz-Martínez *et al.* focused on the perception of changes by the professional community, while this study focused on the economic consequences of such changes in reporting. Similar issues, but in the Namibian context, were considered by D.W. Kamotho & P.K. Kaudo (2023). Their results showed that SMEs did not fully apply IFRS due to a lack of qualified accountants, high costs, insufficient staff training and reluctance to disclose financial information. Against this background, this study demonstrated another aspect of the issue: not barriers to implementation, but the consequences of effective application of the updated standards. Therefore, these studies did not contradict each other, but rather reflected two stages of the same process: D.W. Kamotho & P.K. Kaudo described the difficulties of transition, while this study demonstrated the potential outcomes of such a transition.

The study by S.Z. Msechu *et al.* (2024) also confirmed that the formal existence of standards did not guarantee high-quality reporting. The authors found that the level of compliance with IFRS for SMEs in Tanzania remained relatively low, and compliance depended on enterprise size, age, profitability and auditor type. This allowed a broader interpretation of the results of this study: the positive impact of the updated IFRS for SMEs was possible only if the standards were properly applied. While S.Z. Msechu *et al.* focused on compliance factors, this study demonstrated how compliance with updated provisions changed the quality and analytical value of reporting. On the other hand, E.H. Turner & C.M. Wheatley (2024) drew attention to the fact that IFRS implementation could produce ambiguous consequences. Using the example of the integration of IFRS, the authors showed partial convergence of indicators, but also identified increased volatility and tax burden. This differed from the findings of this study, where the update of IFRS for SMEs was mainly assessed positively because it contributed to eliminating distortions and increasing liquidity, income and equity. Thus, E.H. Turner & C.M. Wheatley emphasised the value of comparability, whereas this study emphasised its practical benefits. In the study by I. Benhayoun & I. Zejjari (2024), attention shifted to the pre-transition stage, when IFRS for SMEs had not yet been implemented. The authors analysed factors influencing the readiness of Moroccan enterprises to adopt the standards, particularly industry characteristics, implementation methods, organisational factors and individual characteristics. In this context, this study appeared to be a logical continuation of that approach: while I. Benhayoun & I. Zejjari investigated the prerequisites for implementation, this study assessed the results after applying the updated provisions of IFRS for SMEs. The final generalisation was presented in the study by L. Judijanto & N.Y. Renggaala (2024), in which the impact of IFRS on financial reporting quality was examined through a bibliometric analysis of scientific publications. The authors demonstrated growing scholarly interest in this topic and identified key research directions related to earnings quality, audit and fair value. In contrast, this study did not describe the global scientific landscape, but instead deepened one of its practical directions by analysing the impact of updated IFRS for SMEs on actual enterprise performance. Thus, Judijanto & N.Y. Renggaala outlined the general development of research, while this study specified its applied dimension.

The generalisation of the research results showed that the update of IFRS for SMEs contributed to increasing the transparency, reliability and comparability of financial information. It was found that the elimination of distortions in reporting allowed a more objective reflection of the financial condition of the enterprise and improved its key indicators. At the same time, the effectiveness of the implementation of standards depended on the conditions of their practical application, the institutional environment and the level of personnel training. The results obtained confirmed the feasibility of further improving the standards and adapting enterprises to their requirements.

Conclusions

The generalisation of the results of the study showed that the updates to IFRS for small and medium-sized enterprises had a significant impact on the quality, transparency and comparability of financial reporting. It was found that before the update of the standard, financial statements could contain material misstatements related to incomplete recognition of liabilities, financial risks and contractual obligations. In particular, an analysis of previous accounting approaches showed that the volume of liabilities of enterprises with a high share of lease transactions could be underestimated by 27-32%, which negatively affected the assessment of financial stability and the level of risk. Updated requirements relating to accounting estimates and judgements, liabilities and equity, income tax, foreign currency transactions and related party disclosures provide a more complete reflection of the economic consequences of enterprises' activities and increase the analytical value of financial information.

A practical assessment of the impact of the updated IFRS for SMEs provisions was carried out using the example of HECOTEC LLC and Azerişıq ASC. For HECOTEC, the most significant impact is associated with enhanced disclosure requirements related to accounting estimates and economically significant business relationships, which improve the transparency, reliability and comparability of financial information in long-term Engineering, Procurement and Construction projects. For Azerişıq ASC, an analysis of the 2024 financial statements identified impairment losses amounting to AZN 3.0 million, deferred tax liabilities amounting to AZN 98.2 million, and the effect of exchange rate changes on cash and cash equivalents amounting to AZN 616 thousand. In addition, the company reported total liabilities of AZN 841.6 million and equity of AZN 2,779.1 million, which allowed an assessment of the potential impact of the updated requirements for the presentation of liabilities and equity. These indicators confirm that the updated provisions relating to accounting estimates and judgements, liabilities and equity, income tax, foreign currency translation and related party disclosures directly affect the reliability, transparency and comparability of financial information and improve its usefulness for management decision-making.

The generalisation of the research results allows to conclude that the updated provisions of IFRS for SMEs are not limited to changing individual accounting procedures, but form a systemic economic effect by increasing the transparency, comparability and reliability of financial reporting. The limitation of the study is that the practical assessment was based on illustrative case analyses of HECOTEC LLC and Azerişıq ASC, which limits the direct generalisation of the results. Further research should expand the empirical base and assess the impact of updated IFRS for SMEs provisions in different institutional and sectoral environments.

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Conflict of Interest

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Вплив оновлених розділів МСФЗ для малих та середніх підприємств на якість, прозорість та порівнянність фінансової звітності підприємств

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Анотація. Метою даного дослідження було визначення впливу оновлених положень Міжнародних стандартів фінансової звітності для малих та середніх підприємств на якість, прозорість та порівнянність фінансової звітності. Методологія базувалася на теоретичному, нормативному та порівняльному аналізі оновлених Міжнародних стандартів фінансової звітності для малих та середніх підприємств з використанням аналізу конкретних прикладів. Було встановлено, що до оновлення фінансова звітність могла містити суттєві викривлення, пов'язані з неповним відображенням зобов'язань, які на підприємствах із високою часткою операцій з оренди могли бути занижені на 27-32 %. Результати показали, що гармонізація Міжнародних стандартів фінансової звітності для малих та середніх підприємств із повними Міжнародними стандартами фінансової звітності підвищила надійність та аналітичну цінність фінансової інформації та зменшила інформаційну асиметрію. Було проведено практичну оцінку на прикладі компаній HECOTEC та Azerişıq Açıq Səhmdar Cəmiyyəti. Щодо HECOTEC, оновлені вимоги підвищили прозорість фінансової інформації завдяки розширенню розкриття інформації про бухгалтерські оцінки, судження керівництва та економічно значущі ділові відносини. Аналіз фінансової звітності Азерішік Ачік Сехмдар Джемієті за 2024 рік виявив збитки від знецінення у розмірі 3 млн манатів, відстрочені податкові зобов'язання у розмірі 98,2 млн манатів, вплив курсових різниць на грошові кошти та їх еквіваленти у розмірі 616 тис. манатів, загальні зобов'язання у розмірі 841,6 млн манатів та власний капітал у розмірі 2779,1 млн манатів. Ці показники продемонстрували практичне значення оновлених вимог щодо підвищення надійності, прозорості та порівнянності фінансової звітності. Отримані результати підтвердили, що оновлені положення підвищили надійність звітності завдяки зменшенню спотворень у відображенні зобов'язань, облікових оцінок, фінансових ризиків та економічно значущих взаємозв'язків

Ключові слова: гармонізація; вимоги до розкриття інформації; інформаційна асиметрія; корпоративне управління; прийняття рішень