Journal of Infrastructure, Policy and Development 2024, 8(2), 2873.
https://doi.org/10.24294/jipd.v8i2.2873

Article

IFRS implementation challenges in Southern Colombia's agricultural sector

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CITATION

Ultreras-Rodríguez A, Bueno-Fernández MM, Chávez-Hernández A, et al. (2024). IFRS implementation challenges in Southern Colombia's agricultural sector. Journal of Infrastructure, Policy and Development. 8(2): 2873. https://doi.org/10.24294/jipd.v8i2.2873

ARTICLE INFO

Received: 15 September 2023
Accepted: 13 October 2023
Available online: 2 January 2024

Abstract: In the agricultural sector of Huila, particularly among SMEs in coffee, cocoa, fish, and rice subsectors, the transition to the International Financial Reporting Standards (IFRS) is paramount yet challenging. This research aims to offer management guidelines to support Huila's agricultural SMEs in their IFRS transition, underpinning the region's aspirations for financial standardization and economic advancement. Utilizing a mixed-methods managerial approach, data was gathered from 13 representative companies using validated questionnaires, interviews, and analyzed with SPSS and ATLAS.ti. Results indicate that while there is evident progress in IFRS adoption, 12 out of 13 firms adopted IFRS, with rice leading in terms of adoption duration. While 77% found IFRS useful for financial statements, half reported insufficient staff training. The transition highlighted challenges, including asset recognition and valuation, and emphasized enhancing institutional support and IFRS training. Interviews revealed managerial commitment and expertise as significant factors. Recommendations for successful implementation include leadership involvement, continuous professional development, anticipating costs, clear accounting policies, and meticulous record-keeping. The study concludes that adopting IFRS enhances financial reporting quality, urging entities to converge their reporting practices without hesitation for improved comparability, relevance, and reliability in their financial disclosures.

Keywords: agricultural sector; agribusiness; international financial reporting standards (IFRS); SMEs; management guidelines; accounting organization; financial reporting quality

1. Introduction

Global economic integration has witnessed an increasing demand for harmonized financial reporting practices. This demand stems from the disparities in how different countries prepare their financial statements, prompting the need for a unified financial reporting framework. The international financial reporting standards (IFRS), issued by the international accounting standards board (IASB), emerged as the solution. Transitioning to IFRS, however, presents challenges, particularly for firms entrenched in established local accounting standards.

The merits of adopting IFRS are numerous. Enhanced comprehensiveness and utility of financial reports, as evidenced by Alsuhaibani (2012), ensure they cater better to decision-makers. Additionally, improved comparability and transparency of financial statements, as highlighted by Sunder (2010) and Elhouderi (2014) respectively, bolster economic development by making developing nations more appealing to international investors. To accommodate the unique needs of smaller entities, the IASB introduced the international financial reporting standard for small and medium-sized entities in 2009. This was a strategic move, as smaller entities often grapple with challenges such as limited resources and expertise. For instance, SMEs are commonly hindered by a dearth of skilled workforce and robust accounting infrastructure (Altarawneh, 2015).

Turning our focus to Colombia, a nation characterized by its diverse business landscape, there's an evident push towards adopting IFRS. Particularly in Huila, a region pivotal to Colombia's agricultural output, the adoption of IFRS is more than a mere compliance requirement; it is integral to the strategic vision of its agricultural sector. "Huila Crece", the departmental development plan 2020–2023, emphasizes this by highlighting the significance of aligning financial statements with international guidelines. Such alignment, aiming at increased market participation and growth, is driven by the larger vision of Colombia's integration into the global economy, symbolized by its induction into the OECD in 2020. However, these advancements and aspirations are juxtaposed with potential hurdles faced by SMEs in Huila's agricultural sector, spanning from coffee and rice production to fish farming and emerging cocoa cultivation. Despite the evident significance of transitioning to IFRS for regional economic growth and increased competitiveness, several challenges deter the agricultural SMEs in Huila. Potential hindrances include limited organizational readiness, intricate accounting adjustments, and a general unfamiliarity or indifference towards the broader benefits of IFRS adoption.

This research aims to offer management guidelines to support Huila's agricultural SMEs in their IFRS transition, underpinning the region's aspirations for financial standardization and economic advancement. Our research delves into these challenges, aiming to offer insights and managerial guidelines to facilitate the IFRS transition in Huila's agricultural sector. Through an in-depth literature review, a robust methodology, and a comprehensive analysis of findings, we hope to pave the way for Huila's SMEs to harness the transformative potential of IFRS, aligning them with international standards and positioning them for global competitiveness.

2. Literature review

2.1. Factors impacting accounting systems and IFRS adoption across countries

Countries have devised their unique local accounting systems, which are informed by their specific economic, socio-cultural, institutional, and historical contexts (Sawan and Alsaqqa, 2013). The development of these accounting systems is subject to various influential factors. For instance, Mueller et al. (1987) identified factors such as the legal system, political climate, nature of ownership, variations in business entity sizes and complexities, legislative intervention, accounting legislation, speed of business innovations, economic development, growth patterns, and the status of professional education. On the other hand, Černe (2009) distilled these factors into broader categories: capital markets, financial reporting systems, political systems and inter-country relations, accounting education and the profession's stature, firm dynamics, inflation rates, accounting legislation, and cultural influences.

Soderstrom and Sun (2007) noted that interpretations of standards can diverge due to differences in countries' legal systems, historical practices, and accounting cultures. Callao et al. (2007) argued that true convergence in accounting practices is often stymied by countries' adherence to local culture and their aim to maintain a national perspective. Nobes and Parker (2016) further highlighted challenges in standardizing accounting practices, particularly when the chasm between customary local standards and new practices is expansive. Factors like the absence of a global regulatory authority, nationalistic hesitance, and unpredictable economic repercussions further complicate the harmonization process.

2.2. IFRS adoption advantages in developing nations

Despite IFRS largely reflecting the accounting traditions of capital-intensive, Anglo-Saxon countries, several developing nations have successfully navigated local challenges to adopt these standards, thereby bolstering their economic conditions (Chamisa, 2000).

Nobes and Parker (2016) shed light on the merits of standardizing accounting practices in these nations, including administrative cost reductions, enhanced accounting quality, and increased comparability. Brown (2011) proposed that IFRS implementation could bolster confidence in local securities markets, heightening their efficacy and, by extension, benefiting the broader economy. Moreover, embracing international standards signifies modernization, providing developing markets the leverage to engage and collaborate with international counterparts (Mantzari and Georgiou, 2019).

One notable flexibility with IFRS is the allowance for countries to tailor the standards to fit their distinct regulations or requirements, a feature that makes the adoption appealing (Chamisa, 2000). Many developing nations lack the infrastructure to devise independent national accounting standards. Such nations often grapple with weaker accounting institutions and a shortage of expertise (Appiah, 2016). Hence, while adopting IFRS could result in costs associated with training professionals, it's a more cost-effective approach compared to the investment required for establishing new local standards (De George et al., 2016).

2.3. IFRS adoption in Colombia

Colombia commenced its IFRS adoption journey in 2015. Even before its full-fledged adoption, notable comparative effects were observed in 2014 for various firms, notably those listed on the stock exchange. The entity overseeing this convergence in Colombia is the technical council of public accounting, which was established by Law 43 in 1990. This body operates under the aegis of the Ministry of Commerce, Industry and Tourism as well as the Ministry of Finance and Public Credit. By 2009, it had already played a pivotal role in standardizing accounting, financial information, and information assurance (Colombian Government, 2009). Moreover, it took active measures to propose relevant laws, decrees, and resolutions, in collaboration with

Congress, the presidency, and ministerial bodies.

An exploration of local Colombian literature reveals a plethora of studies on IFRS, encompassing various viewpoints. A review by Grajales et al. (2013) spotlighted over 80 articles from just two journals over a span of a decade. These articles varied in nature: Technical (53), conceptual (11), critical (9), comparative (7), and miscellaneous (8). However, a conspicuous absence was noted in empirical studies that gauged the initial impacts of IFRS implementation on Group 1 firms.

An analysis released by the superintendency of companies delved into the financial workings of prominent firms in the real sector as of December 31, 2015. They differentiated between firms utilizing local standards and those employing international standards. A further breakdown of the 1,000 firms in Group 1 delineated their supervisory bodies. Among these, 20 firms registered the highest ordinary activity revenues in 2015, with the mining sector housing seven of them. This sector had its challenges stemming from the global economic landscape, leading to a significant profit dip in 2015 compared to the preceding year. The mining-energy sector stood out and warranted separate scrutiny due to its unique circumstances in 2015, where the data alterations stemmed both from business dynamics and IFRS introduction.

For firms that refrained from IFRS application in 2015, there was a 15.68% surge in operating income, while net income experienced a minimal 0.10% decline. On the other side of the spectrum, the top 1,000 firms using IFRS saw their revenues grow by a modest 3.9%, but profits plummeted by a staggering 70.5%, particularly pronounced in the mining sector (Supersociedades, 2016). The return on equity (RoE) of Group 1 firms fell from 7% in 2014 to just 2% in 2015, a consequence of escalating costs and dwindling profits. Nonetheless, Group 1 firms outside the extractive industries managed to maintain stability, registering an 8% RoE in both 2014 and 2015. By mid-2016, local media outlets highlighted specific cases where firms, post-IFRS adoption, recorded drastic earnings reductions, indicating a shift towards increased conservatism.

3. Methodology

3.1. Study design

This research adopted a mixed-methods approach, prioritizing a qualitative perspective over quantitative (Creswell and Clark, 2017). Emphasizing administrative and managerial dimensions, the study unfolded in three stages: 1) characterizing the coffee, fish, rice, and cocoa subsector firms and identifying their IFRS implementation progress; 2) describing and analyzing the challenges faced by SMEs in the agricultural sector of Huila during their IFRS transition; 3) proposing guidelines that these firms should follow for successful IFRS implementation and accurate financial statement presentation. Due to the confidentiality associated with IFRS adoption processes, direct access to primary internal documents from firms was not possible.

3.2. Sample

The study's focal group consisted of small and medium-sized agricultural enterprises in Huila, specifically those engaged in coffee, rice, cocoa, and fish farming.

Data from the RUES database, procured from the Chamber of Commerce of Huila and updated until 2022, listed 44,148 firms. A breakdown revealed 146 coffee cultivators, 13 rice cultivators, 148 in freshwater aquaculture, and 25 cocoa cultivators. From these, 77 firms met the specific criteria established by the regulatory decree 3022 of December 27, 2013, and compilation decree 2420 of 2015. Factoring in accessibility, geographic location, travel costs, and road conditions, an intentional sample of 13 firms (4 coffee, 3 fish, 3 rice, and 3 cocoa) was selected.

3.3. Data collection techniques and instruments

A structured questionnaire, divided into three sections: IFRS knowledge, management commitment, and IFRS implementation barriers was crafted. Expert reviews ensured its validity. Accounting professionals from the participating firms personally administered this questionnaire. For a more comprehensive insight, in-person interviews were also conducted at the firms' locations. These semi-structured interviews, informed by the theoretical framework, were designed to align with the research objectives and study categories (see Table 7 for structure). After securing consent, the hour-long interviews were recorded and subsequently transcribed.

3.4. Data analysis

Post-collection, survey data was entered into Microsoft Excel® and further analyzed using SPSS® (version 28). Interview transcriptions in Microsoft Word® were carefully perused, and relevant excerpts were selected based on the study's categories. An interpretative approach steered the analysis, aiming to discern criteria that would facilitate and bolster IFRS implementation among Huila's agricultural SMEs. Each research objective was addressed through a tailored analysis, driving toward the study's conclusions.

4. Findings

4.1. Characterization of firms in the coffee, fish farming, cocoa, and rice sectors regarding IFRS implementation progress

Out of the 13 surveyed firms, only a single firm from the coffee subsector has yet to implement IFRS. Notably, 70% of these firms initiated IFRS adoption over five years ago. The rice sector emerged as the pioneer in this aspect with an average implementation time of seven years, followed by fish farming and cocoa sectors. The coffee subsector's engagement with IFRS is relatively recent. Refer to the **Figure 1** and **Table 1** for a detailed breakdown of IFRS adoption timeline among the surveyed entities.

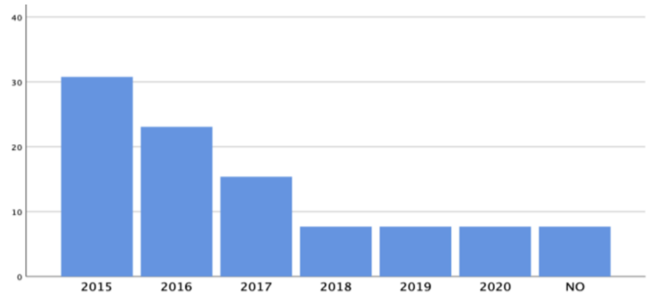

Figure 1. Time spans since initiating IFRS implementation across the studied cases.

A substantial 77% of firms affirmed the utility of IFRS in financial statement preparation, reflecting its significance to management. Interestingly, the fish farming sector did not perceive IFRS as exceptionally beneficial, while the coffee subsector assigned it lesser importance. The **Table 1** below provides a sector-wise delineation of perceived utility and importance of IFRS.

Table 1. Perceived utility and importance of IFRS during financial statement preparation across different sector by firms.

		No	**Yes**
Utility grade	Rice	0	3
	Cocoa	1	2
	Coffee	0	4
	Fish farming	2	1
Total		3	10
Degree of importance rice	Rice	0	3
	Cocoa	1	2
	Coffee	2	2
	Fish farming	1	2
Total		4	9

The survey highlighted a limited engagement of managerial entities in the financial statement preparation and verification processes. Furthermore, nearly 50% of firms reported inadequate training of their personnel in IFRS. The rice sector showcased commendable commitment towards IFRS, whereas the coffee and fish farming sectors lagged in this regard. The subsequent table offers a sector-wise breakdown of these insights. The research also spotlighted a glaring gap in institutional support during IFRS implementation. Merely two firms recognized the Chamber of Commerce of Huila's involvement, while three others identified collaborations with different institutions. A staggering 61% (8 out of 13) reported zero assistance from affiliated institutions.

Several challenges impeding efficient IFRS implementation were identified, majorly revolving around asset recognition, measurement, deferred tax, financial statement structuring, and asset valuation, as detailed in **Table 2**. The survey culminated in pinpointing two primary areas of opportunity: Enhancing institutional support and amplifying IFRS knowledge and training. Directing efforts in these domains can potentially streamline IFRS implementation and utilization in the firms.

Table 2. Challenges obstructing efficient IFRS implementation by firms.

Factors	**Rice firms**	**Cocoa firms**	**Coffee firms**	**Fish firms**	**Total**
Support from the entities	-	2	3	1	6
Strengthen knowledge and training in IFRS	2	1	1	2	6
Recognition and measurement	1	2	-	-	3
Deferred tax	1	-	-	1	2
No Answer	-	-	1	1	2
Other	1	-	2		2
Financial statement structure	-	-	1	-	1
None	-	1	-	-	1
Valuation of assets	-	-	-	1	1
Greater control	1	-	-	-	1
Opportunities for improvement	-	-	-	-	0
Support from the entities	-	2	3	1	6
Strengthen knowledge and training in IFRS	2	1	1	2	6
Recognition and measurement	1	2	-	-	3
Deferred tax	1	-	-	1	2
No answer	-	-	1	1	2
Other	1	-	2	-	2
Financial statement structure	-	-	1	-	1
None	-	1	-	-	1
Factors	Rice firms	Cocoa firms	Coffee firms	Fish firms	Total
Valuation of assets	-	-	-	1	1
Greater control	1	-	-	-	1
Opportunities for improvement	-	-	-	-	0

4.2. Challenges influencing the IFRS Transition among SMEs in Huila's agricultural sector

Interviewed representatives from various firms revealed their distinct experiences and challenges while transitioning to IFRS. The subsequent analysis uncovers these limiting factors faced by SMEs in the adoption of IFRS within Huila's agricultural and livestock domain.

The degree of management's involvement in IFRS adoption emerged as a significant determinant. Effective management support is crucial for optimal outcomes, whereas its absence can be detrimental. As expressed by one respondent, "The managerial oversight plays a pivotal role in adjusting and reviewing annual financial behaviors (Interview_Coffee_1)." In contrast, "some firms experienced managerial disinterest or ignorance about the directives embedded within IFRS (Interview_Coffee_2)."

A recurring theme was the competency gap in IFRS among accounting personnel and the broader organization. "Many admitted their reliance on external experts due to their limited grasp on IFRS (Interview_Cocoa_1)." Some respondents "Underscored their initial lack of preparedness, causing hiccups during the transition (Interview_Rice_1)." Nonetheless, "there's a prevailing sentiment that IFRS offers added assurance and a comprehensive financial overview, aiding in business decision-making (Interview_Rice_3).”

The IFRS adoption necessitated organizational restructuring of accounting processes, especially in financial statement presentation. “This standardization not only aligns businesses with global best practices but also ensures financial clarity for stakeholders, facilitating smoother negotiations and decision-making (Interview_Coffee_1; Interview_Coffee_3). Firms recognized IFRS as an enabler for strategic planning and a catalyst for fostering accounting discipline (Interview_Coffee_2).”

Given their limited IFRS expertise, many firms sought guidance from external entities like tax auditors, consultants, SENA, and Chamber of Commerce. However, “some felt left in the lurch by these organizations, feeling the burden of navigating the IFRS waters largely unassisted (Interview_Coffee_1).”

Compliance with statutory obligations is paramount. As such, IFRS emerged as an essential framework to avoid sanctions and underpin business operations. “Firms felt a pressing need to align their financial records with global norms, especially when audited or presenting projects (Interview_Coffee_1; Interview_Cococa_2).”

Beyond just regulatory compliance, market demands also nudged firms toward IFRS adoption. “Trading partners and international markets often mandate adherence to IFRS for seamless business interactions (Interview_Cococa_1; Interview_Cococa_3; Interview_Rice_2).”

“The initial unfamiliarity with IFRS made some firms vulnerable to inflated implementation costs (Interview_Coffee_1).” This transition also underscored the need for updated accounting software and technology infrastructure investments. While the IFRS transition promises global standardization and business clarity, the journey is dotted with challenges ranging from managerial commitment, expertise gaps, to resource constraints.

4.3. Guidelines for streamlining IFRS implementation in Huila’s agricultural sector

From the insights gathered, several guiding principles were established to facilitate the effective incorporation of IFRS within comparable enterprises:

- **Management engagement.** A steadfast commitment from the highest echelons is pivotal for a seamless IFRS transition. While leadership’s buy-in is indispensable, fostering demand from stakeholders such as preparers, investors, and analysts is equally vital.
- **Capacitation and professional development.** To successfully adopt IFRS, a robust accounting framework is paramount. Essential components of this infrastructure include accessible IFRS materials, affordable training modules, and adept accounting professionals well-versed in the intricate nuances of IFRS.
- **Organizational attitude and readiness for change.** Successful IFRS adoption demands holistic buy-in from both leadership and staff. The transition shouldn’t be perceived as an arduous overhaul but as an opportunity for organizational growth and alignment with global standards.
- **Financial outlay and execution costs.** The financial aspects of IFRS transition,

encompassing consultant fees, tech upgrades, and accounting resources, can be formidable. It's thus crucial for organizations to forecast these costs and engage with bodies that can aid in these ventures.

- **Articulating accounting policies.** It's incumbent upon enterprises to articulate and consistently apply their accounting policies, ensuring they align with the latest IFRS mandates while observing stipulated exemptions and restrictions.
- **Access to essential data.** Securing the requisite data to draft the initial IFRS-compliant financial statements often presents practical challenges, underscoring the importance of adequate preparation.
- **Initiation of IFRS financial reporting.** Entities must draft an inaugural IFRS-aligned financial statement at the onset of the transition, which acts as the benchmark for subsequent IFRS accounting. This statement should encapsulate all IFRS-mandated assets and liabilities, eschewing those not permitted.
- **Limitations on retrospective application.** Certain elements of IFRS, particularly under IFRS 1, curtail retrospective application. For instance, the derecognition of financial elements is forward-looking from the transition date. Existing derivatives at this date must align with IFRS mandates, including fair value assessments.
- **Meticulous record management.** Firms should prioritize establishing a robust record management system and regular updating of financial records. Routine financial closures and audits are crucial for maintaining alignment with IFRS standards.

5. Discussion

The role of IFRS (International Financial Reporting Standards) extends far beyond merely standardizing financial statements. It signifies a company's commitment to adhere to global best practices and standards, ensuring financial transparency, consistency, and comparability on a global stage.

In the context of Huila's agricultural sector, the implementation of IFRS brings forth various significant considerations. A central theme that emerges from our research emphasizes the indispensable role of leadership in successful IFRS integration. Leadership's dedication and proactive approach can be a defining factor in ensuring a seamless transition. This observation aligns with prior studies, including Uwizeyemungu et al. (2020), which identified leadership as the cornerstone for any significant organizational shift. Our study emphasizes the pressing need for targeted IFRS education and training. The foundation of any successful transition lies in the preparedness and proficiency of the personnel involved. This sentiment resonates with Shiferaw and Assefa (2020), who highlighted the critical role of skilled and trained staff. Furthermore, our emphasis on affordable and accessible training underscores the necessity to make IFRS knowledge available widely, breaking down any barriers to access.

Another salient insight relates to the potential perceptual barriers surrounding IFRS adoption. The success of such a transition often depends on how it's perceived by the stakeholders. If viewed as a strategic move towards betterment, rather than a cumbersome change, the process can be much smoother. This aligns with Silva et al.

(2021) and Soares et al. (2023), who noted that psychological challenges could sometimes be more formidable than technical ones. Financially, the IFRS adoption process requires a substantial initial investment. However, our research, corroborated by Roychowdhury et al. (2019), suggests that the long-term advantages of financial cohesion, transparency, and global competitiveness can significantly offset these initial costs.

Given the above discussions, the benefits of IFRS integration are clear. Our research underscores the transformative potential that IFRS holds for financial reporting. By adopting IFRS, entities can significantly elevate their financial reporting in terms of comparability, relevance, and reliability. This not only enhances transparency and accountability but also bolsters investor confidence, attracting greater investments. For entities, especially Nigerian firms eyeing global markets, this translates to a more robust standing on the global stage, opening avenues for cross-border engagements and listings.

IFRS doesn't just offer a standardized reporting format. Its broader benefits permeate various facets of financial operations. For businesses, the adoption can facilitate informed decision-making due to increased transparency, potentially leading to reduced capital costs. From an investor's perspective, the consistency brought about by IFRS aids in the application of the fair value concept, leading to more informed investment decisions. Moreover, processes like internal audits can be fine-tuned under IFRS, leading to potential cost savings. However, it's essential to be cognizant of the challenges accompanying IFRS integration. Foremost among these are the scarcity of IFRS-proficient professionals, intricacies in financial statement preparation, and the overarching need for guiding institutions during the adoption process. Moreover, nuances like fair value accounting bring their own set of challenges, such as estimation complexities. The limited pool of skilled appraisers can sometimes exacerbate these issues. From a holistic stakeholder viewpoint, the potential rewards of IFRS adoption are multifaceted. Beyond serving as a benchmark, IFRS enables real-time reporting, fosters regulatory compliance, and provides valuable insights into risks and returns. Entities aligned with IFRS are poised to leverage these advantages, gaining a competitive edge and streamlining pivotal processes like mergers and acquisitions.

6. Conclusion

IFRS adoption holds transformative potential for financial reporting. Our study highlights the urgency for organizations to align with IFRS, emphasizing its capacity to enhance financial comparability, reliability, and transparency. This heightened clarity strengthens investor confidence, potentially spurring increased investments and enabling firms, especially in Nigeria, to make their mark globally. IFRS's consistent approach empowers better decision-making through increased transparency, which could lead to reduced business costs. It also facilitates clearer investment decisions and optimizes internal audits. While global recognition of IFRS offers numerous advantages, it also presents challenges. These include the need for skilled professionals, intricate financial preparations, and associated adoption costs. Challenges like estimation complexities and a limited pool of adept evaluators further compound the process. Nevertheless, for stakeholders, IFRS promises numerous benefits, from setting industry standards to enhancing regulatory compliance and offering insights into business risks and returns. Ultimately, aligning with IFRS could provide firms with a distinct advantage in the global arena.

Author contributions: Conceptualization, CRG and AUR; methodology, MMBF, ACH, MMM and JHMC; software, YLSB, DKPP and ACV; validation, CP and JECT; formal analysis, CRG, AUR and MMBF; investigation, JHMC and YLSB; resources, JECT and ACV; data curation, CP, ACH and MMM; writing—original draft preparation, AUR, MMBF, JHMC, CP, JECT and CRG; writing—review and editing, AUR, MMBF, ACH, MMM, JHMC, YLSB, DKPP, ACV, CP, JECT and CRG; visualization, MMBF; supervision, AUR; project administration, CRG; funding acquisition, AUR, MMBF, ACH, MMM, and JECT. All authors have read and agreed to the published version of the manuscript.

Conflict of interest: The authors declare no conflict of interest.

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