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The Adoption of International Financial Reporting Standards and Quality of Financial reports of Small and Medium Enterprises in Uganda

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Abstract

The goal of the national and international initiatives to adopt IFRS for SMEs is to raise the caliber of financial reports for SMEs. Regrettably, Ugandan SMEs' financial reports fall short of expectations, although ICPAU has required these organizations to follow IFRS for SMEs in their reporting. Based on the adoption position of ICPAU, Uganda is reported as one of the jurisdictions worldwide that report using IFRS for SMEs. Nevertheless, no research has been done to evaluate the rate of adoption within the nation as well as the elements that support or obstruct adoption. This study evaluated the adoption of IFRSs for SMEs as well as the factors that facilitate and hinder adoption. A cross-sectional survey design was used to gather information from 398 SMEs in the districts of Kampala and Mbarara. Data were gathered using questionnaires, interview schedules, and a checklist of documents. A thorough understanding of the results was produced by triangulating the data that was gathered from several sources. The findings show low adoption rates, with 35% of SMEs fully adopting IFRS, 54% partially adopting them, and 11% not adopting them at all. Additionally, with a disclosure index of 76%, the disclosure levels for the entities that have adopted IFRS for SMEs fall short of expectations.

Additionally, the results of the logistic regression indicated that the adoption level of IFRS for SMEs is significantly influenced by inhibitors ($p = 0.049$) and size ($p = 0.012$). It was also discovered that the relationship between adoption inhibitors and adoption level was mediated by size. The major players need to make conscious efforts to dispel the myths surrounding adoption while taking the size of the entity into account.

Keywords: International Financial Reporting Standards, Financial Reports, and SMEs

Introduction

A set of financial reporting standards called the IFRSs for SMEs was developed to meet the reporting requirements and capacities of SMEs. SMEs are typically defined by their incapacity to access stock exchange markets, their heavy reliance on commercial banks for funding, and their hazy ownership and management

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boundaries. It was extremely difficult for SMEs to report using the mainstream International Accounting Standards (IFRS) with such characteristics.

High-quality, easily comprehensible, objective, and comparable financial reports are essential for SMEs to improve decision-making, productivity, and market access. Achieving long-term and sustainable economic growth has been found to depend critically on the development of an active SME sector and the efficient use of high-quality financial reports (Gordon et al. 2012, Riva & Salotti, 2015). Indeed, financial reporting and the financial performance of SMEs are strongly positively correlated, according to a Muinde (2013) survey conducted in Kenya. The adoption of IFRS for SMEs, the financial reporting issue, the study's theoretical foundations, empirical studies, methodology, conclusions, and study implications are all explained in this report.

On July 9th, 2009, the International Accounting Standards Board (IASB) released a set of International Financial Reporting Standards (IFRS) intended for use by SMEs. According to the Institute of Certified Public Accountants of Uganda (ICPAU) implementation guidelines, financial statements covering periods beginning on or after January 1, 2010, in Uganda, must use IFRS for SMEs. As a result, IFRS for SMEs may be used by any organization that prepares general-purpose financial statements but is not publicly accountable. The Institute defined SMEs in terms of accountability obligations as an entity that doesn't have public accountability and publish general-purpose financial statements for external users, which clarified who should adopt the framework.

Despite its broad nature, the definition functions as a guide to determine which entities can use IFRS for SMEs for reporting. According to the IFRS Foundation (2016), Uganda is among the 63 jurisdictions that have implemented IFRS for SMEs without any alterations. There is a growing trend worldwide in the adoption of IFRS for SMEs (Kaya & Koch, 2015). Over 90% of businesses in the European Union (EU) are SMEs (Kaya & Koch, 2015), and a sizable percentage of these businesses have adopted IFRS for SMEs. SMEs are seen as important forces behind social and economic development in Africa (Kiraka et al., 2013).

SMEs make up the great majority of businesses in the majority of developing nations, and they account for a sizeable portion of output and employment overall (Nichter and Goldmark, 2005). Particularly in Uganda, SMEs play a significant role in creating jobs and revenue. For example, in Uganda, ninety percent of the working-age non-agricultural population is employed by small businesses. In Uganda, at least one-third of the people are business owners. Regretfully, inadequate financial

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reporting is one of the factors contributing to the SMEs' extremely low growth rate (Turyahebwa et al., 2013).

The majority of accounting regulatory frameworks acknowledge the necessity of distinguishing between entities that are listed and those that are not (IASB, 2016). Many nations subject smaller entities to differential financial reporting and exempt them from statutory audits in recognition of the challenges faced by these entities. There are compelling reasons to be generous with the financial reporting requirements for small and medium-sized enterprises (SMEs). These reasons center on the needs of the reports' users, potential disclosures, and the reason the financial reports are prepared.

Literature Review

Public interest theory

Although the theory's origins are unclear, Kumekawa (2017) explains that it can be linked to Pigou's 1902 works by relating them to welfare economics and externalities. The theory states that balancing the costs and benefits of regulation benefits stakeholders. A socially optimal response to market imperfections like natural monopolies, externalities, information asymmetries, and excessive competition is regulation, according to the public interest theory. According to Kothari et al. (2010), information asymmetries are less persuasive in supporting the regulation of GAAP than they are in supporting financial disclosure regulation. The author highlights the public good quality of accounting information. The government-regulated supply of accounting information has been deemed necessary to meet the informational demands of various parties, and this will likely lead to efficient contracting. The best choice would be to use international standards because Uganda does not have national accounting standards. Adopting a set of globally recognized accounting standards can benefit the public by increasing the internal and external managers of businesses' trustworthiness regarding accounting information. The theory's main flaw in the Ugandan context is the small number of SMEs participating in the stock exchange market and, consequently, the low volume of information requests from stakeholders.

The positive accounting Theory

Ross developed the theory first in 1978, and Watts and Zimmerman refined it in 1986. The efficiency and opportunistic perspectives are the two main points of view, which are crucial to this investigation. The efficiency view explains how managers select accounting techniques that accurately depict the performance of the company. In contrast, the opportunistic perspective views managers as self-serving agents of the principal. Managers thus embrace accounting practices that benefit them in the belief that the company benefits as well. As a result, how much information SMEs disclose will rely on how well the efficiency and opportunistic viewpoints are combined. The interests of stakeholders in financial reporting are given more weight in the theoretical framework under analysis. The theories do not take into account the variables that affect the degree of disclosure and the acceptance of accounting regulations. In this regard, this study has contributed.

IFRs for SMEs adoption decision and level

The choice of whether or not to implement IFRS for SMEs is based on knowledge of the standard and the potential facilitators and barriers to adoption. According to a study by Fortuin (2011), a lot of companies are still unaware of their options or how IFRS for SMEs can work in their favor. A lack of knowledge suggests that SMEs are unable to evaluate the factors that facilitate and hinder adoption. Furthermore, according to the 2012 Deloitte survey results, 43% of SME respondents were unaware of the IASB's standard IFRS for SMEs. Previous research examined the need for a distinct set of standards for SMEs and the suitability of the IFRS for SMEs for micro-sized entities.

Bunea et al. (2012), for example, looked into the opinions of accounting professionals regarding IFRS for SMEs in Romania. According to their findings, a sizable portion of the respondents advocated for more simplification of the current reporting system for a group of entities that will be chosen based on variables like employee count, turnover, and total assets. According to Kilic et al. (2014), the majority of accounting professionals are aware of the adoption process of IFRS for SMEs, have a moderate level of knowledge about IFRS for SMEs, are optimistic about the adoption process, and have attended IFRS for SMEs training. Although most accounting professionals prepared in some way for the IFRS for SMEs, a sizable portion of participants did not.

Adoption level

As per the Deloitte Touche (2016) report, the adoption rate of IFRS for SMEs remains low, with only 18 African countries (34%) indicating their intention to adopt the standards. Adopting the standards and merely indicating intentions to do so are two entirely different things. In their 2009 study, Ramanna and Sletten examined 102 non-European nations to determine the various justifications for and against the adoption of IFRS for SMEs. The research was conducted between the years of 2002 and 2007. They tested whether a country, or other country nearby, and its trading partners, are likely to adopt IFRS for SMEs using the economic theory of networks. It was discovered that "a country may find it more attractive to adopt a set of standards like IFRS for SMEs if other countries around it and other trade partners have adopted it as well." According to Ramana and Sletten's (2009) research, a country's decision to adopt IFRS for SMEs is influenced by the number of adopters in its immediate geographic area. It is anticipated that supranational forces will be less common in non-EU nations, according to Kaya and Pillhofer (2013). The decision to adopt IFRS voluntarily for SMEs is based on three key benefits over adoption that are required: Initially, voluntary adoption allows each company to determine whether IFRS for SMEs is the set of accounting standards that best suits its unique requirements. This is especially crucial for the diverse group of private companies since there is a good chance that the costs and benefits of implementing IAS will vary from company to company. Second, allowing rather than requiring IFRS for SMEs is likely to result in lower political and economic costs. Third, voluntary adoption would result in a more equitable environment for accounting standards (Kothari et al., 2010; Sunder, 2002 and 2011).

Adoption enablers and SMEs' adoption decision

There are several incentives for SMEs to implement IFRSs for SMEs. The attractions listed below were listed by the IASB (2009): (i) luring banks to lend money to small and medium-sized businesses. (ii) Increasing suppliers' trust in the caliber of information provided. (iii) utilizing a uniformly generated financial information database to facilitate SMEs' credit rating. obtaining reliable financial data from foreign suppliers to evaluate the likelihood of a sustainable long-term business partnership; luring international venture capital investors to invest in SMEs; and (vi) if the standards are adopted, owners of SMEs with distinct ownership and management will have more confidence in the financial data provided. The comparability of financial statements produced by SMEs was another draw. When the organizations used to report on different bases, it was challenging to compare the financial statements of various organizations. A common reporting standard for SMEs would make it easier to compare their financial performance and position, which is crucial for making decisions. The reduction of financial reporting expenses is another draw. The task of converting financial statements into a format that a potential investor can understand is eliminated, along with the associated costs, when SMEs use a single set of high-quality financial reporting standards.

Countries and organizations looking to attract foreign direct investment will then find adopting IFRS for SMEs more appealing. Kanu et al. (2014) provided support for this by pointing out that reporting expenses would be reduced if SMEs adopted IFRS for SMEs. According to earlier research, SMEs would benefit from IFRS because they would improve financial statement comparability, reliability, and transparency (Siam & Rahahleh, 2010; Albu et al., 2013; Uyar & Güngörmüş, 2013; Kılıç et al., 2014). Adoption of IFRS by SMEs is attracted by effective financial reporting and increased access to national and international financial sources, as noted by Kılıç et al. (2014) and Uyar & Güngörmüş (2013).

Adoption inhibitors and SMEs' adoption decision

SMEs are prevented from reporting per IFRS for SMEs for a variety of reasons. The inability of important SME's stakeholders to use financial reports as a decision-making tool is one of the barriers. This mostly affects owners who are more concerned with payments and remittances in cash. According to a Hoxha (2014) survey, small business owners primarily rely on daily activity data records rather than financial statements when making business decisions.

The analysis also shows that financial statements are primarily prepared for taxation purposes. According to a study by Eiere et al. (2011), those who are against IFRS for SMEs emphasize the standard's complexity for small businesses and highlight its limited applicability to businesses that engage in international trade. Limited knowledge of IFRS among SMEs is another issue. According to a study by Kanu et al. (2014), SMEs in Nigeria face difficulties adopting IFRS due to low awareness of the standards. The issues with awareness stemmed from SMEs' inability to obtain information about the standards and, even when they did, their inability to understand it and apply it to the preparation of reports. Another issue is how much it costs to produce financial accounting data for SMEs using IFRS. Creating the financial reports, whether internally or by hiring an accountant to do so, is one of the costs involved. Other costs include printing and publishing the information and paying a third party to verify that the data reported is accurate and fair. The opportunity cost of creating financial reports is another type of expense since managers must divert scarce resources to do so (Kaya & Pillhofer, 2013).

In addition, there's the possible expense of giving information to a rival business, and lastly, there's the expense of following the law. It is noteworthy that the majority of these expenses remain constant regardless of the entity's size. Smaller organizations must therefore bear the expense of reporting in accordance with the suggested regulatory framework. Albu et al. (2010) and Mazhindu and Mafuba (2013) state that the ability to enforce the adoption of IFRS for SMEs, which leads to higher quality financial reporting, is a key factor that influences adoption levels of IFRS for SMEs in Africa rather than the inability to adopt IFRS for SMEs. In fact, the researchers stress that due to a lack of necessary systems, structures, and resources, few African nations can afford to enforce the standards. It is inevitable that legislation will need to be changed in order to adapt company and tax laws to a new set of accounting

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standards in order for SMEs in African nations to adopt IFRS (Bertoni and DeRosa 2010).

As an alternative, companies must prepare two sets of accounts: one for regulatory purposes (Local GAAP) and another (IFRS for SMEs) to meet the information needs of a large group of outsiders about the company (Zülch et al. 2011). Therefore, the likelihood of adopting IFRS for SMEs is lower in nations where local GAAP is the predominant set of accounting standards. Furthermore, because these institutions fear losing their control over accounting standard setting to the IASB, it is expected that powerful lobbying groups like auditors and national standard setters will be biased against internationally developed standards. The ability to employ accountants with the necessary skills to prepare financial reports in accordance with IFRS for SMEs is another barrier to adoption. Hiring a professional accountant can be costly for SMEs, as few of them can afford the fees. Few SMEs, according to Hope et al. (2006), have the capacity to hire competent accountants at a reasonable rate, who would help with the preparation of financial reports. Research also shows that in order for SMEs to adopt IFRS, stringent enforcement measures are required (Daske et al. 2008, Leuz 2010).

Accordingly, it is unclear whether the adoption of IFRS for SMEs as a whole improves accounting quality and comparability (Kaya and Pillhofer 2013). Additional barriers to adoption include a lack of trained staff (Uyar & Güngörmüş, 2013; Kılıç et al., 2014); the intricacy and detail of standards being difficult to understand (Quagli & Paoloni, 2012; Kılıç et al., 2014); the expense of the adoption process (Kılıç et al., 2014); potential reporting duplication costs (Albu et al., 2013); and training expenses (Albu et al., 2013).

The mediation influence of size on IFRS for SME's adoption decision

Concerning this matter, Albu (2013) looked into the possibility that the size has an impact on IFRS coverage for SMEs in Romania. The study's conclusions indicated that if the scope of IFRS for SMEs is determined solely by size, a sizable number of businesses may be exempted, which could result in compliance problems. Brigitte and Axel (2009) conducted an empirical investigation in a previous study to determine the impact of size on the suitability of IFRS for SMEs in Germany. The findings showed that an organization's entity size matters only if it is exposed to foreign markets. Additionally, there must be a distinction between ownership and management for size to matter.

Ultimately, the researchers concluded that many small businesses are not interested in having their entities compared internationally. Despite the researchers' best efforts, no

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study has evaluated the effect size's mediating influence on the relationship between adoption factors and adoption decisions.

Methodology

Research design

The study used a cross-sectional survey design (Kothari, 2004) to investigate the factors that facilitate and hinder the adoption of IFRS for SMEs in Uganda. Data for the study came from SMEs in the Kampala and Mbarara Districts whose business owners were chosen at random. A critical humanism paradigm was used in the research design, taking into account the subjects of the study. According to Briggs (2009) and Asika (1991), this type of design is primarily employed in social science and business research, where the researcher's goal is to describe the current situation without making any attempt to control or modify the variables being studied. Following Kothari's (2004) guidance, the researchers used this design and a variety of methods of inquiry to determine the current situation. The SME served as the unit of analysis, and the professionals at the Institute of Certified Public Accountants (ICPAU), professional accountants, and technical staff members were the unit of inquiry. Both primary and secondary sources of data were used in the investigation. The SMEs' financial reports were among the secondary sources, and the answers to questionnaires and interviews made up the primary sources.

Sample

A consensus definition of SMEs has not been established (Kayanula & Quarty 1999, Quartey 2001, Manuel, 2002). There are many different types of definitions; some are based on assets and business turnover, while others are based on employee count. Even within those different categories, definitions differ from nation to nation based on the definition's goal and the size of the economy. The Uganda Investment Authority (2008) adopted the definition of a "Micro-Enterprise" as an enterprise employing up to four people, with an annual sales/revenue turnover or total assets not exceeding Uganda shillings 10 million. Uganda, like other countries, does not currently have a nationally agreed definition for SMEs. Conversely, small businesses employ five to forty-nine people and have total assets of up to but not including one hundred million UGX.

Consequently, the Medium Enterprise has 50–100 employees and total assets of more than $100 million but not more than $360 million. The Uganda Investment Authority's definition of an SME was taken into consideration for this study, with an emphasis on employment numbers between five and one hundred. The town clerks of the Mbarara District and the divisions of Kampala City Council that oversee Nakawa,

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Makindye, Lubaga, Kawempe, and Central provided the names and addresses of 4,165 SMEs that fit the aforementioned requirements. The researchers were able to group the organizations based on their industries—services, retail, manufacturing, construction, and real estate—thanks to the database of licensed organizations that they had obtained. From the list, four hundred and ten (470) businesses were randomly chosen, and they were given questionnaires. Nonetheless, 398 questionnaires were retrieved, yielding an 84.6% effective response rate.

Measurement of Variables

IFRS for SMEs Adoption decision

The adoption level of IFRS for SMEs and accounting disclosure level (disclosure) were used to gauge the decision. Respondents were asked to indicate whether they complied with particular applicable standards in order to gauge the degree of disclosure. Three possible configurations were identified from the responses: 1) satisfy the standard's disclosure requirements; 2) don't satisfy the standard's disclosure requirements; or 3) don't apply (N/A), as some companies' accounts don't require disclosure. The number of standards that were followed out of all the applicable standards was then used to calculate a disclosure index. Lopes and Rodrigues (2007) previously employed a similar method. A binary variable was used to gauge the adoption of the International Accounting Standard for SMEs. Its value was one (1) if the company fully complies with the IFRS for SMEs, two (2) if it complies partially, and zero(0) otherwise.

Adoption enablers & inhibitors

Measurements of the research variables of facilitators and barriers were made with items modified from scales that had been used before. The Likert scale was used to measure the items had five points, ranging from "strongly disagree" to "strongly agree." Enablers included improved comparability, transparency, understandability, higher-quality financial decisions, finding additional funding, and lower financial reporting costs. These six items were used to measure enablers. Six other dimensions—external consultation costs, account preparation costs, hiring competent personnel costs, accounting systems costs, and exposure of the entity's financial secrets—were also used to identify inhibitors.

Two stages of data collection were carried out: a primary study and a pilot study. A questionnaire was used to gather information from annual financial report preparers. The respondent had to be acquainted with financial reporting standards and a financial report preparer to be eligible to answer the questionnaire. The preparers

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were asked to rate the firm's level of compliance and determine whether it fully complies with all applicable IFRS for SMEs in the questionnaire.

In addition, the respondents were asked to rate their agreement or disagreement with the extent to which IFRS for SMEs adoption facilitators and barriers were addressed on a five-point Likert scale. On this scale, a score of 1 indicates that they strongly disagreed with the enabler or inhibitor item, a score of 5 or 4 indicates strong agreement with the enabler or inhibitor, and a score of 3 or 2 indicates that the item is thought to be fairly important but not essential. Schipper (2010) employed comparable scales and discovered that they were appropriate. The mean score was computed to derive a score for these questions. Due to the similarities between the characteristics of the firms in Wakiso Municipality and Kampala District, a pilot study was conducted there. To pretest the questionnaires, thirty (30) SMEs were chosen at random from the town clerk's municipality business database. Financial statement preparers were given the questionnaires. To ascertain whether there were any issues with the questionnaire, interviews were also done with four preparers.

Very small changes were made to the questionnaire for the next round of data collection based on input from these preparers. The final study did not incorporate the pilot study's responses. Questionnaires for the small and medium-sized businesses in the survey sample were sent to their preparers during the main survey phase. A questionnaire and a cover letter outlining the survey's objectives were included in the package. The respondents received guarantees regarding the privacy of their answers.

Instrument Reliability and Validation

The Cronbach's Alpha coefficient was utilized to evaluate the internal consistency or reliability. As indicated by Nunnally (1978, p. 245), all of the reliability coefficients were above the cutoff of 0.70, as indicated in Table 1.

Table 1 Reliability

Variable	No. of items	Cronbach Alpha
Adoption decision	24	0.951
Enablers	6	0.757
Inhibitors	6	0.864

Factor analysis was used to look at construct validity, which measures how one item relates to other items measuring the same variable. Every factor loading exceeded Nunnally's suggested cutoff point of 0.50 (1978, p. 245)

Factor Analysis of Research Variables

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Table 2 Rotated Component Matrix of Enablers

Enabler statement	Enablers	
	Quality of financial reports	**Cost saving**
Increased comparability of our financial reports with those of similar organizations.	.827	
Improved quality of financial reporting for your organization.	.822	
Increased financial reporting transparency& understandability of information of our business affairs	.819	
Enhanced understandability of information of our business affairs.	.821	
Improved the decision usefulness of financial reporting.	.719	
Adoption of IFRS makes it easy for the entity to access external funding	.695	
Adoption of IFRS reduces costs of extra financial reporting requirements (e.g., reporting to Uganda Revenue Authority).		.888
Adoption of IFRS reduces costs of obtaining extra financing from banks and other financial institutions.		.837
Adoption of IFRS has legal relevance for taxation		.790
Adoption of IFRS results in reduced costs of financial analysis which our organization performs		.559

Table 3 Component Matrix of inhibitors

Inhibitor statement	Score
The costs of External consultation is high	.805
The other operating costs associated with adopting IFMS for SMEs are high	.770
The cost of collecting additional data to ensure that transactions comply with IFRS for SMEs is high.	.704
The cost of regulatory compliance	.642
High adoption monitoring costs	.752
Loss of financial competitive information	
Internal personnel/employee cost are high	.631

These two closely related dimensions were measured using items that were combined into a single variable in this study. The total of a respondent's scores on items designed to measure each composite research variable served as the score for that variable in the statistical analysis that followed.

Results

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Table 5 presents the adoption status of IFRS for SMEs, breaking down the number of firms that have fully adopted the standards, those that have adopted some of them, and those that have not yet adopted them. According to the findings, 35% of the companies had fully adopted the standards, 54% had done so partially, and 11% had not. This demonstrated unequivocally that there is still a low level of full adoption. While the percentage of partial adopters (54%) may seem high, this group is very important. Frequently, the auditor's report indicates that these SMEs report in accordance with IFRS for SMEs; however, upon close examination of the way certain accounting items are handled, this is not the case. Users may be greatly misled by such reports.

Table 5 General adoption level based on adoption status

STATUS	Freq.	%
Full adoption	141	35%
Partial adoption	213	54%
Not adopted	44	11%
Total	398	100

As a result, the researcher reclassified adoption into two groups: non-adopters and adopters, using data from financial reports. In actuality, none of the businesses that had indicated a partial adoption of the standards had done so. Consequently, 89% of the companies had not fully embraced IFRS for SMEs; however, 54% of them had done so to some extent.

Table 6: General adoption status and age of the entity

		Full adoption	**Partial adoption**	**Non adoption**	**Total**	**Total (%)**
Age of firm	Less than 1 year	1	6	13	20	5%
	1 – 5 years	26	46	15	87	22%
	Above 5 - 10 years	32	124	11	167	42%
	above 10 years	82	37	5	124	31%
Total		**141**	**213**	**44**	**398**	**100%**

According to data in Table 6, the majority of SMEs used in the study (73%) had an age above five. When it comes to the rates of adoption, 58% of businesses that have fully embraced IFRS for SMEs are over ten years old, whereas 64% of businesses that have not adopted are five years or younger.

Table 6 General adoption status based on firm size of the entity

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		Full adoption	Partial adoption	Non adoption	Total	Total %
Number of employees	5 – 25	22	40	30	92	23%
	26 – 49	24	70	11	105	26%
	50 – 80	49	93	2	144	36%
	81-100	46	10	1	57	14%
Total		**141**	**213**	**44**	**398**	

The chosen SMEs' sizes are fairly evenly distributed across the various age groups, with the largest score (36%) going to those that have been in business for between 50 and 80 years, and the lowest score (14%) going to those that have been in business for more than 80 years. When considering adoption status in relation to size, the majority of businesses that have fully embraced IFRS for SMEs have more than 50 employees. These are middle-sized organizations in comparison. According to certain accountants interviewed, fairly large SMEs have a lot of stakeholders to report to, most of whom require the adoption of reliable accounting standards. "The owners of this company know what they want, and they set profit targets for me," said an accountant. They decided that since they trust IFRS for SMEs, we should report in accordance with these guidelines so they can trust the financial results that are disclosed. "The SMEs whose books I have audited follow IFRS for SMEs with some not fully compliant to the provisions of the standard on some aspects impairment of assets, provisions for contingent liabilities, and accounting for Agriculture," stressed another interviewee.

IFRS for SMEs disclosure levels

The adoption of IFRS for SMEs by the firms that were analyzed as having done so was further investigated by evaluating the firms' levels of disclosure regarding five financial reporting issues. The financial reports, inventory, property, plant, and equipment, intangible assets, and financial assets are the reporting issues. Table 7 shows the disclosure levels for each component and the index as a whole.

Table 7 Disclosure Level

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	N	Minimum	Maximum	Mean	Std. Deviation
Disclosure Index	398	.00	1.00	.7643	.27951

Reporting item	Disclosure level (%)
Financial reports	97
Property, Plant and Equipment	94
Intangible assets	52
Inventory	83
Financial assets	58

The average disclosure index, according to the results, was 0.7643. This suggests that, in accordance with the IFRS for SMEs standard, 76% of SMEs on average disclose financial information. It is crucial to remember that a company can only use IFRS for SMEs if it complies with all relevant accounting standards.

FRS for SMEs adoption enablers

The quality of financial reports, comparability, lower costs of financial analysis, foreign capital inflows, ease of credit access, lower reporting requirements, decision-making, transparency, and ease of use of accounting information systems were among the enablers that were examined. Table 9's results show that adoption enablers' overall mean perceptual score is 4.088, which is quite high.

Table 8IFRS for SMEs adoption Enablers

Adoption enablers	Mean	SD
Adoption of IFRS results in improved quality of financial reporting for your organization.	4.16	.606
Adoption of IFRS results in increased comparability of our financial reports	4.11	.552
Adoption of IFRS results in reduced costs of financial analysis which our organization performs	3.93	.609
Adoption of IFRS reduces costs of obtaining extra financing from banks and other financial institutions.	4.06	1.065
Adoption of IFRS has legal relevance for taxation	4.26	.814
Adoption of IFRS improves the decision usefulness of financial reporting.	4.13	.770
Adoption of IFRS increases transparency and understand ability of information of our business affairs.	4.14	.723
Adoption of IFRS makes assessment of management decisions using accounting information easy.	4.14	.632
Adoption of IFRS results in improved quality of financial reporting for your organization.	4.16	.606
Adoption of IFRS results in increased comparability of our financial reports with those of similar organizations locally and internationally.	4.11	.552

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Adoption of IFRS results in reduced costs of financial analysis which our organization performs	3.93	.609
Overall	**4.088**	

n= 398

With the exception of attracting foreign capital flow, lowering the costs of financial analysis, and reducing the costs of financial statement analysis, all of the listed enablers have scores higher than the grand mean of 4.088, as shown in table 8. According to the results, SMEs give adoption enablers a positive evaluation. The decision-making and cost-saving enablers were the two categories into which the adoption facilitators were divided. The findings show that the decision-making enablers had a mean score of 4.083 and the cost-saving enablers had a mean score of 4.000. As a result, decision-making enablers carry a slightly greater weight than cost-saving ones, but both are crucial. The adoption enablers' findings were analyzed with respect to the companies that had implemented and those that had not implemented IFRS for SMEs. According to the findings, adopters scored an average of 3.977 on adoption benefits, compared to 4.160 for non-adopters. This suggests that, in comparison to their counterparts, non-adopters of IFRS for SMEs view adoption enablers as highly significant.

IFRS for SMEs adoption inhibitor

The costs of adopting IFRS for SMES were evaluated in terms of adoption inhibitors, including prohibitive staff training costs, system modifications, external consultation, high internal accounting costs, and operating costs. Table 9 presents the findings.

Table 9 IFRS for SMEs adoption inhibitors

Adoption costs	**Mean**	**SD**
The cost of training staff is prohibitive	2.94	1.310
The cost of System changes(hardware/software) is high	3.65	.807
The costs of External consultation is high	3.93	.545
Internal personnel/employee cost are high	3.66	.900
The cost of collecting additional data to ensure that transactions comply with IFRS for SMEs is high.	3.88	.638
Risk of losing financial information to competition	3.95	.556
The other operating costs associated with adopting IFRS for SMEs are high	3.84	.770
Overall	3.65	

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n= 398

The respondents consider adoption inhibitors to be high, as indicated by the overall mean of 3.65 in the results. The costs associated with accounting staff, the additional financial data incurred due to adoption, and the possibility of losing important financial data to competitors stood out among the other dimensions.

The influence of adoption enablers and inhibitors on IFRS for SME adoption level

Examining the impact of adoption enablers and inhibitors on SMEs' decisions to adopt IFRS for SMEs was one of the study's goals. A logistic regression was employed, considering firm size in addition to facilitators and inhibitors. When analyzing the dependent variable as a dummy variable, the values of one (1) and zero (0) were used, respectively, depending on whether the company adopted IFRS for SMEs. A multivariate analysis was conducted using a binomial logistic regression model. Two factors led to this decision: (1) because the dependent variable is dichotomous, the ordinary least square approach should not be used. (2) Several studies on the adoption of IFRS, such as Zeghal and Mhedhbi (2006), have used the logistic regression model.

Multicollinearity

The degree of bi-variate correlation between the explanatory variables is ascertained by the Pearson test. Variance inflation factors (VIF) were employed to identify multicollinearity, which reduces the accuracy and dependability of empirical findings. There are multicollinearity effects because of the higher VIF. According to Hair et al. (2006), if the factor is more than 10, multicollinearity is an issue. Table 11's Variance Inflation Factor (VIF) values are all less than 10, which suggests that the independent variables' multicollinearity condition was met by the items.

Model		**Unstandardized Coefficients**		**Standardized Coefficients**	**T**	**Sig.**	**Collinearity Statistics**	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.662	.211		3.137	.002		

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	Inhibitors	-.144	.042	-.175	-3.472	.001	.929	1.077
	Enablers	.056	.045	.064	1.247	.213	.929	1.077

a. Dependent Variable: Adoption of (IFRS) for SMEs

Table 10 Variance Inflation Factors

Results of the multivariate logistic regression model on IFRS for SMEs determinants

The results of the logistic regression are displayed in Table 11, along with the coefficients and the relative contributions of each explanatory variable used to calculate the probability that SMEs will adopt IFRS for SMEs.Specifically, the researcher tested the logistic regressions below:

LOGIT [Pi / (1 - Pi)] = ß0 + ß1 inhibitors + ß2 enablers + ε

Table 11 Results of multivariate logistic regression model on IFRS for SMEs determinants

	B	**Wald**	**P value**
Inhibitors	512.806	34.677	.053
Enablers	1187.783	38.717	.997
Dependent variable: Adoption level			

Number of companies n=398
Hosmer and Lemeshow Test: Chi square (χ^2) = 7.524 ; P = 0.376

Nagelkerke's R^2= 0.586

To investigate the effects of facilitators and barriers on SMEs' adoption of IFRS, logistic regression analysis was conducted. Table 12's results showed that the two-predictor model outperformed the constant-only model with a statistically significant improvement ($\chi2$ (3, N= 398) = 7.524, p =.376. The model explained 58.6% of the total variance, according to the Nagelkerke R2. The results of the Wald tests indicated that while enablers do not significantly predict (p=.05) the adoption of IFRS for SMEs, inhibitors do. Therefore, when deciding whether or not to adopt, SMEs don't always look to adoption enablers for guidance.

In contrast, the adoption inhibitors are seriously considered. Follow-up interview with some owners of SMEs indicated that benefits of access to finance from commercial finance institutions is central for the decision of whether or not to adopt.

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However, the benefits of attracting foreign direct investment is not critical. This contradicts the conclusion drawn by Kilic (2014) that attracting foreign direct investment is a key attraction to firms to adopt IFRS for SMEs.

On the issue of adoption costs, one manager of an SME that has not adopted IFRS for SMEs commented; *"we have no problem with generating our reports following IFRS for SMEs, but you need professional accountants to do it but they are very expensive, we shall end up making loses*". An accountant of an SME that has partially adopted said; "*these SMEs cannot pay us our worth, getting a professional qualification and sustaining through membership fees are expensive investments. When they pretend to pay you, you also pretend to work*."

Conclusion

One of the oldest professions, accounting is referred to as the "grandchild of civilization" and the "child of commerce," as described by Woolf (1912: xix). 8 However, additional complexity has been brought about by the accounting infrastructure's ever-complex regulatory environment. The authors of The End of Accounting and the Path Forward for Investors and Managers, Baruch Lev and Feng Gu, have argued, quite rightly, that while business enterprises—especially global ones—have complex organizational and operational structures, the regulations governing their accounting and reporting exceed this complexity. We haven't heard investors or managers whine that they don't understand the business world or how companies operate, but we have heard a lot of them, including those with degrees in accounting, bemoaning the fact that they can't understand the disclosures that follow (like the ones about the risk of financial institutions). One of the main reasons for the statutory corporate financial information system's declining usefulness is its mind-numbing complexity, which is always increasing. Contrary to popular belief, complex regulations frequently make regulated entities or structures more complex (Lev and Gu, 2016: 221– 222).

Concerns regarding the contradiction, ambiguity, and dualism of the FRA on issues like Council formation, chief executive qualification, dual registration of auditors, setting accounting and auditing standards, audit practice review, enforcement of penalty and imprisonment for auditors, and framing of Super Regulatory Body instead of Oversight Body may be mentioned in this regard (taken from the

September 2023 document on proposed FRA, which has mostly been remained in the FRA 2015) (ICAU, 2023: 10).

Additionally, the World Bank suggested creating the proposed FRC as an Oversight Body in its "2014 update to the Report on the Observance of Standards and Codes Accounting and Auditing (ROSC A&A)". The specific recommendation was to: adopt the principles set by the International Forum of Independent Audit Regulators (IFIAR) and aim to become a member of the body to benefit from international collaboration on issues regarding audit regulation if GoB9 moves forward with the cabinet-approved Financial Reporting Act and establishes a Financial Reporting Council (World Bank, 2015: 52). "The basis of building businesses, states, and empires" (Soll, 2014: xi) and "(t)he delicate interplay between accounting and accountability can decide the fate of a company or, indeed, a nation" (Soll, 2014: xvi) are two statements made by Soll (2014) about accounting. Although the FRC was legally established in April 2016, it has been more than a year and a half since the FRA passed away in September 2015. The appointment of the FRC Chairman has not yet been finalized, even though the Search Committee chose two candidates roughly two months ago (Faruque, 2017: 1). However, we may see the FRC and all of its effective and efficient operations shortly because of certain development partners connected to the capital market's intense attention to the government's commitment to making the FRC operational.

Therefore, to fully utilize our potential and competency in accounting, accounting professionals like us should exercise extreme caution in preparing ourselves to understand the altered regulatory landscape of the accounting infrastructure. To safeguard the public interest of a variety of entities and provide the most valuable product (accounting information), we must also demonstrate that we are members of the most respectable profession with the highest ethical standards. This will allow us to operate an entity with the highest level of relevance and dependability. This evidence must be "in appearance" as well as "in fact".

As members of the accounting profession, we are expected to exercise much greater caution so that we are not altered by regulatory changes and become targets for enforcement by super regulators. Instead, we must become "change-masters" by mastering the altered regulatory landscape of the accounting infrastructure and utilizing our true accounting competency and capability. We also need to demonstrate that we belong to the most esteemed profession with the highest ethical standards, protecting the public interest of a variety of entities by offering the most valuable product—accounting information—to operate an entity with maximum relevance and dependability.

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