INTERNATIONAL FINANCIAL REPORTING STANDARDS FOR SMALL AND MEDIUM ENTERPRISES ADOPTION AND THE QUALITY OF THEIR FINANCIAL REPORTS/ STATEMENTS KAWEMPE DIVISION- KAMPALA DISTRICT- UGANDA.

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THE DESSERTATION SUBMITED TO KYAMBOGO UNIVERSITY GRADUATE SCHOOL IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE AWARD OF MASTERS DEGREE IN BUSINESS ADMINISTRATION (FINANCE & ACCOUNTING OPTION) OF KYAMBOGO UNIVERSITY

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DECLARATION

I Robert Kalyowa declare that this dissertation is my original work as far as I am aware and it has never been submitted to any institute or university of higher learning for the award of Master's degree or any other academic award.

Sign…………………………………………..Date:……………………………………….

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APPROVAL

This is to certify that this research dissertation was carried out by Robert Kalyowa under the title "*International financial reporting standards for Small and medium Enterprises adoption and the quality of their financial reports / statements of Kawempe division-Kampala districts'* was carried out under my supervision and now ready for examination by the board of Examiners as a requirement for the a word of a Master's Degree of Business administration of Kyambogo University

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DEDICATION

This research is dedicated to my beloved parents, my wife and I also dedicate this book to my sisters, brothers and relatives.

May the Almighty God bless you all

ACKNOWLEDGEMENT

I thank the Almighty God the provider of knowledge and wisdom for seeing me throughout my studies and for enabling me to undertake my dissertation   successfully and without His grace I wouldn't have made it.

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LIST OF ABBREVIATIONS/ ACRYORUS

ACCA   Association of Chartered Certified Accountants

GAAP   Generally Acceptable Accounting Principles

CPDs   Continuous Professional Development

FASB   Federation of Accounting Standards Board

PTA   Positive Accounting Theory

IAS   International Accounting Standards

IASB   International Accountant Standards Board

IFAC   International Federation of Accountants

IFRS   International Financial reports / statements Standards

ICPAU   Institute of Certified Public Accountant of Uganda

IIRC   International Integrated reports council

SMEs   Small and Medium Enterprises

UIA   Uganda Investment Authority

URA   Uganda Revenue Authority

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ABSTRACT

The intent of this study was to examine the effect of IFRS for SMEs adoption and the quality of financial reports / statements of SMEs in Kawempe division. The objectives of the study were to; investigate the effect of IFRS for SMEs adoption benefits on the quality of financial reports / statements of SMEs, investigate the effect of IFRS for SMEs adoption cost on the quality of financial reports / statements of SMEs and examine the moderating effect of entity size on the relationship between IFRs for SME adoption and the quality of financial reports / statements in Kawempe division-Kampala District.

The study adopted a case study design. Data were collected from primary sources using questionnaire, interview guide and documentary checklist from a sample of 103 and a total of 85 respondents from Kawempe division were able to participate giving a response rate of 79.54%.

The findings revealed that 41.8% of the SMEs that participated in this study revealed that adoption benefits leads to improved quality of reports in SMEs, 60.8% of the SMEs that participated in the study revealed that adoption cost affect the adoption of IFRS for SMEs and the quality their financial reports / statements and 48.2% of the SMEs that participated in this study revealed that size of SME affects the adopt IFRS for SMEs and the quality of their reports. To note is 50.49% of the SMEs that participated do not comply with IFRS for SMEs.

The study findings on adoption benefits and quality of financial reports / statements indicate that 41.8% of the SMEs that participated can state that adoption benefits leads to improved quality of reports in SMEs, it's below average and need to be improved. This study recommends that the government should put in place policies that enforce all SMEs to use and adopt IFRS for SMEs to improve the quality of their financial reports. 60.8% of the SMEs that participated revealed that adoption costs affects the quality of financial reports / statements of SMEs and this study recommends that the government should put in place certified public accountants to offer probono audit services to SMEs so that they can reduce on the cost of adopting IFRS for SMEs and for objective three, the government should further categories SMEs into different sizes and re-direct the application of IFRS for SMEs so that at least each category can have asset of financial reporting standards to adopt.

1.1   Background to the Study

This study examines the effect of International financial reporting standards (IFRS) for Small and Medium Enterprises (SMEs) and the quality of financial reports / statements of SMEs in Kawempe division. SMEs are crucial to the engine of the countries' economic growth and development (Ogundana, Okere, & Ayomoto, 2017). The quality of SMEs' financial reports / statements is very key, if the country is to achieve sustainable growth (Ramanna & Sletten, 2014). IFRS for SMEs was adopted in Uganda to improve the quality of financial reports / statements for SMEs (Hoxha, 2014), ease the decision making process (Salin, 2017) and enable SMEs to improve their capital structures by either get loans from financial institution or attract investors to invest in their entities (Rudzani & manda, 2016). Much as the quality of financial reports / statements is important, the situation is different from the researchers' area of study. Recent reports both globally and locally show that financial reports / statements of SMEs are still a challenge. The records kept by these SMEs are still poor (Bakayaga, 2017) .Chapter one covered the background to the study, research problem, the purpose of the study, specific objectives, research questions, scope of the study, significance of the study and conceptual and theoretical frameworks.

1.1.1 Historical Background

This study examines the effect of IFRS for SMEs adoption and the quality of financial reports / statements of SMEs in Kawempe division. The wall St. Crash of 1929 and its impact that led to misrepresentations and fraud in financial reports, a number of issues came up among which was a strong need of accounting standards which resulted into the introduction of small generally acceptable accounting principal (GAAP) a set of accounting principles to provide an overview of the entity's financial performance and position after a specified period of time

aimed to improve the quality of financial reports. Countries were preparing their financial statements following the GAAP and used to receive a clean opinion from which the rating agencies preferred to work with as compared to those that were not using GAAPs (Michael, Deninie, & David, 1995). Globally there was a need to standardized accounting so as to have a uniform financial reports / statements language that can be understood and interpreted by the users (Hughes, 1995). International Accountant Standards Board (IASB) issued IFRS for SMEs on 9 July 2009 to reduce on the reports burden for SMEs, today SMEs are required to report following IFRS for SMEs in order to produce quality financial reports / statements to ease management decision making process (Muchira, 2012), attain long term and sustainable economic growth (Ilenloa, 2013) and obtain financial support from financial institutions (Sikhwari, 2016). Despite all these benefits enjoyed by SMEs preparing their financial reports / statements following IFRS for SMEs, a number of SMEs' financial reports / statements is still a challenge in Kawempe division.

In Africa, financial reports / statements can be traced as far back as barter exchange (Akinyemi, Okoye, & Izedonmi, 2015) and with time, financial reports / statements has been integrated to meet the reports needs of investors and their credibility (OBE, 2016), even when this is so SMEs have been faced with the challenge of maintaining a good accounting system (Ezeaba, 2017) and this has made them to produce poor financial reports / statements that may not enable manager and shareholders to make good decisions regarding their investments (Tanja, 2016). In Uganda, financial reports / statements is regulated by ICPAU which was established by the accountant Act 1992 which was later replaced by Accountant Act 2013. ICPAU adopted IFRS for SMEs in July 2009 to ensure that SMEs produce quality financial reports. ICPAU has put in place a number of initiatives like seminars, financial reports / statements awards among others to enable SMEs to adopt IFRS for SMEs. However,

this seems not to be working out, SMEs in Uganda still face a challenge of poor financial reports / statements as a result of poor accounting records (Mwebesa, 2018).

1.1.3 Theoretical Background

This section presented a brief description of the theory that the researcher selected to underpin the study and the narrative is presented as follows;

1.1.2.1 Positive Accounting Theory (PAT)

The study adopted the Positive accounting theory because it avoids confusion that will be created among the users of accounting information (Mahd, 2013), PAT will predict the real events in SMES and translate them into accounting transactions that will inform management to take a decision in choosing which accounting standard and practice to adopt or not (Joels, 1988), (PAT) was developed by watts and Zimmerman in 1986 as an accounting theory that tries to make good predictions of real world events and translate them into accounting transactions (Ross L. Watts, 1986), in practice, accountants and managers live to make decisions regarding investments which will enable them to benefit from the SMEs (Gerard, 2017), it's on record that preparers of financial reports / statements have a lot of freedom regarding which accounting practice to use and leave out through their professional judgment (Gerard, 2017) therefore PAT will guide managers and accountants on which international financial reports / statements   standard SMEs will adopt and not so they declare the information on the basis of what they want to mean (Gerard, 2017), it's on this basis that managers use IFRS for SMEs to reflect the true position of the financial information reported in the financial statements (Hughes, 1995) .

1.1.3 Conceptual Background

The key concepts in this study are IFRS for SMEs adoption and the financial reports / statements with their literal meaning explicated as follows;

IFRS for SMEs adoption is a process of accepting the guidelines and procedures set by IASB regarding the implementation of IFRS for SMEs and prepare financial reports / statements following IFRS for SMEs and financial reporting is the process of producing financial statements that disclose the SMEs' financial status to management, investors and government. However, experts in the field explicated the concepts as follows.

IFRS for SMEs adoption, is where a country implements IFRS for SMEs in the same manner as issued by IASB and would be 100% compliant to the guidelines of ISAB (IASB, 2010), (Hoxha, 2014), via a questionnaire methodology concluded that IFRS for SMEs adoption is the process of adding value to the SMEs' financial statements to ease decision making.

Financial reporting is the extent to which financial reports / statements reveal an entity's underlying economics in a way that is readily understandable by those using the financial reports / statements (Barth, 2008) .Bragg (2018), stated that financial reports / statements is the process of adding value to financial results released to the public. Financial reports / statements refer to the disclosure of information to the public about the performance of the company over a specified period of time (Shawn, 2018).

SME is an entity that does not have public accountability and publishes general- purpose financial statements for external users or has debt or equity instruments traded in a public market (or it is in the process of issuing such instruments) and holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (Young, 2018). In Uganda Small Enterprises employ between 5 and 49 and have total assets between UGX 10 million and not exceeding100million. The Medium Enterprise therefore, employs between 50 and 100 with total assets more than 100 million but not exceeding 360 million (Authority, 2016)

1.1.4 Contextual Background

Adoption of International financial reporting standards (IFRS) for Small and medium Enterprises (SME) was meant to improve the quality of financial reports / statements in order to meet the changing needs of users (Hoxha, 2014).Globally, the adoption of IFRS for SMEs has been slow for example 33% of SMEs in the Netherlands have adopted IFRS for SMEs this has significantly impacted on the quality of financial reports / statements in Netherlands (Jarvis, 2017), The quality of financial reports / statements in the republic of Serbia is unfortunate (Tanja, 2016), (Jarvis, 2017), concluded that IFRS for SMEs are not appropriate for ASEAN countries and as a result financial reports / statements is a challenge, instead of making SMEs to have economic growth, IFRS for SMEs have create a burden to economic growth through unnecessary imposition of financial reports / statements and regulatory requirements which in turn results in reduced innovations (Jarvis, 2017)\ .It has been noted from literature that SMEs to grow and sustain themselves, management need to keep updated records including all business transactions (Ozkan, 2011).

Uganda's SMEs are performing poorly and their development has been affected by improper documentation and financial accounting (Bakayaga, 2017). The Uganda Government Annual Performance Report (2015/16) indicated that financial reports / statements produced by SMEs are gauche, incomplete and not provided on a timely basis, the accounting framework and regulations has to work hard in order to change the quality of accounting (Bank, 2014) and financial reports / statements in Uganda because it is still a challenge Stephen, Venanao, Waswa, & Stephen (2013), it was stated that Uganda's SMEs and Micro entity's financing has been majorly affected due to poor financial reports.

Small scale business enterprises in Kawempe division have been put on record to have poor quality financial statements resulting from poor record keeping (Achan, 2011), Kawempe division was ranked second division with un reliable and non- understandable accounting

records in the Kampala city (Moses, 2014), according to AWA-Project appraisal report 2017, SMEs prepare poor financial reports / statements due to lack of financial and management skills which results into poor accounting records, in the Auditor general's report 2015/2016 on Mulago National referral Hospital located in Kawempe division indicated a qualified audit opinion due to non- compliance .It is clear that the quality of financial reports / statements in Kawempe division is still poor given the adoption of IFRS for SMEs . This leaves the researcher with a number of questions like Would IFRS for SMEs adoption benefits influence the quality of financial reports / statements in Kawempe division? , Does the adoption of IFRS for SMEs cost impact on the quality of financial reports / statements in Kawempe division? And whether the size of an entity can impact the adoption of IFRS for SME in Kawempe division?

1.2 Statement of Problem

The study intend to examine the effect of IFRS for SMEs adoption and the quality of financial reports / statements of SMEs in Kawempe division- Kampala district. IFRS for SMEs were established to support SMEs in preparing financial reports / statements which are relevant, reliable and timely (Foundation, 2016) with effect from January 2010, SMEs in Kampala district- Uganda (Kawempe division) were required to prepare their financial reports / statements following IFRSs for SMEs. Since ICPAU came up with a number of initiatives like training, seminars, financial reports / statements award competitions to promote the adoption of IFRS for SMEs to improve the quality of their financial reports. Unfortunately the quality of SME's financial reports / statements in Kawempe division is still a challenge. Moses (2014), stated that Kawempe division accounting record are poor, the Auditor general report qualified Kawempe division accounts due none compliance (Muwanga, 2016/2017), the auditor ggeneral report 2018 on the financial statements of Uganda Investment Authority were qualified. It is not clear whether or not SMEs have

adopted the standards as directed. If indeed SMEs have adopted the standards then one wonders why the quality of financial reports / statements is still poor. If this problem is not sorted out, SMEs in Kawempe division will continue to die out after their first anniversary (Lyatuu, 2017), consequently Uganda's GDP figures will reduce among others as a result Uganda may not achieve her Vision 2040.This study sought to examine the effect of adoption of IFRS for SMEs on the quality of their financial reports / statements in Kawempe division-Kampala district –Uganda.

1.3 Purpose of the Study

This examined the effect of IFRS for SMEs adoption and the quality of financial reports / statements of SMEs in Kawempe division, Kampala district –Uganda.

1.4 Objectives of the Study

    i.   To investigate the effect of IFRS for SMEs adoption benefits on the quality of financial reports / statements of SMEs in Kawempe division, Kampala district -Uganda

    ii.   To investigate the effect of IFRS for SMEs adoption cost on the quality of financial reports / statements of SMEs in Kawempe division, Kampala district –Uganda.

    iii.   To examine the moderating effect of entity size on the relationship between IFRS for SME adoption and the quality of financial reports / statements in Kawempe division, Kampala district –Uganda.

1.5 Research Questions

    i. Would IFRS for SMEs adoption benefits influence the quality of financial reports / statements of SMEs in Kawempe division, Kampala district -Uganda?

    ii. Does IFRS for SMEs adoption cost impact on the quality of financial reports / statements of SMEs in Kawempe division, Kampala district -Uganda?

iii. Would the size of an entity affect the adoption of IFRS for SMEs in Kawempe division, Kampala district -Uganda?

1.6 Scope of the Study

1.6.1 Content Scope

The study focused on IFRS for SMEs adoption, cost, benefits and the mediation effect of size on the relationship between IFRS for SMEs adoption and the quality of financial reports. This was because the researchers wanted to obtain the findings in order to answer the research questions and draw conclusions.

1.6.2 Geographical Scope

The study was conducted in Kawempe division which is one of the five divisions that makes up Kampala capital city, its located in the north of Kampala capital city. The area was chosen because it an industrial area with a number of industries ranging from manufacturing like Riham industries ltd, service industries like transport and health among others, the area fitted well in researcher population target, accessed with educated respondents that gave a feedback within a specified period of time.

1.6.3 Time Scope

The study covered information and data on the adoption of financial reports / statements standard for SMEs for the period of 2 years between 2016- 2018. This period give relevant information on IFRS for SMEs adoption that answered the research questions.

1.7 Significance of the Study

The results of this study may educate ICPAU, members of Uganda Small Scale Industries Association, Uganda Investment Authority, accountants, members of the Private Sector Foundation, Universities, Banks, Uganda revenue Authority and researchers about the current

trend on the adoption level of IFRS for SMEs in Uganda, the relationship between the cost of IFRS for SMEs adoption and quality of reports how the size of an SME affects the adoption of IFRS for SMEs. This information may influence accounting reports regulatory policies and investment decisions in the SME sub-sector.

1.8 Operational Definitions of key terms

Financial reports:

It is the disclosure of financial information to various stakeholders about the financial performance and financial position of the organization over specified period of time**.**

IFRS for SME Adoption

IFRS for SMEs Adoption is a situation where an entity implements IFRS for SMEs in the same manner as issued by IASB and would be 100% compliant as per the issued by guidelines of IASB (Bala, 2010).**A Small Enterprise** is defined as an enterprise employing maximum 50 people; annual sales/revenue turnover of maximum Ugandan Shillings 360 million and total assets of maximum Ugandan Shillings 360 million.

A Medium Enterprise is defined as an enterprise employing more than 50 people; annual sales/revenue turnover of more than Ugandan Shillings 360 million and total assets of more than Ugandan Shillings 360 million.

1.9 Conceptual / Theoretical Frame Work

Figure 1.1:The relationship between IFRS for SMEs adoption and the quality of financial *reports of SMEs*

INDPENDENT VARIABLES (IV)	DEPENDANT VARIABLES

ADOPTION OF IFRS FOR SMES	QUALITY OF FINANCIAL REPORTS
• Cost of adoption • Benefits of adoption	• Understandability • Comparability • Timeliness

MODERATING VARIABLE (MV)
• Size of the SME
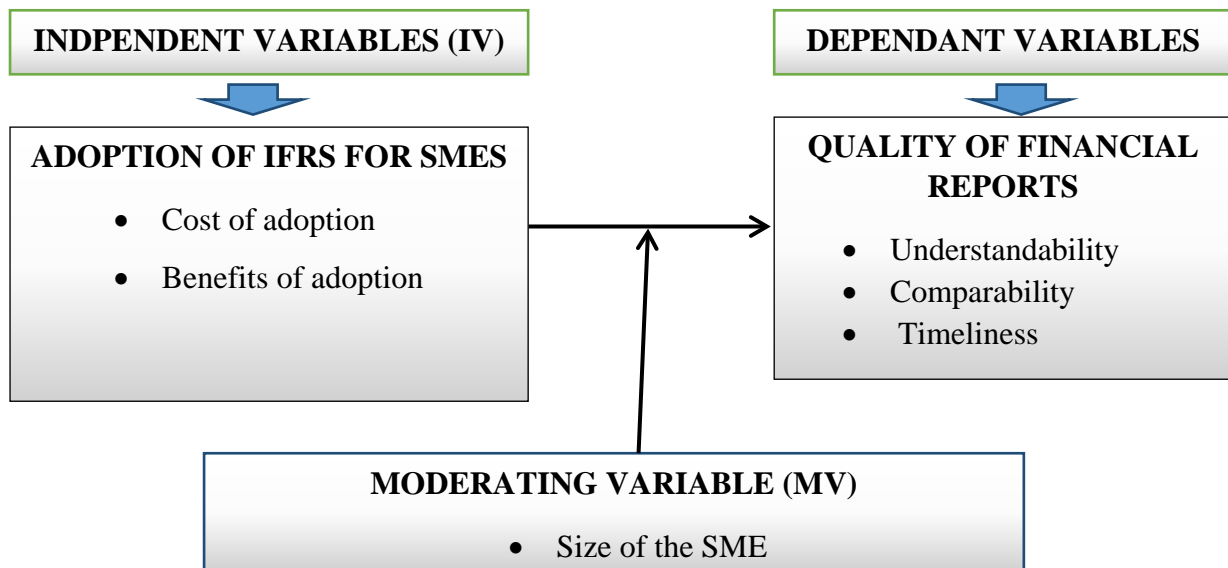
Source*: Perceived Benefits and challenges of IFRS adoption in Ghana (Mbawuni, 2017)*

for IV and Conceptual Framework for Financial Reports, 2010 for DV.

The conceptual frame work above highlights the relationship between adoption of IFRS for SMEs as the dependent variable and quality of financial reports / statements as the dependent variable. Adoption of IFRS for SEMES is conceptualized with dimensions or sub variables which include cost of adoption and benefits of adoption (Mbawuni, 2017). Quality of financial reports / statements is conceptualized with constructs which include understandability, comparability and timelines. The two variables were moderated with size of SME to reduce on the effect of adoption of IFRS for SMES on the quality of financial reports.

Conclusively therefore, this chapter covered the background to the study, research problem, the purpose of the study, specific objectives, research questions, scope of the study, significance of the study and conceptual and theoretical frameworks. The researcher collected enough data which was analyzed in chapter four to answer the objectives and significance of this study.

CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction

This chapter is basically based on reviewing existing literature on the effect of IFRS for SMEs adoption and the quality of financial reports / statements of SMEs in Kawempe division. This chapter reflects the views and opinions of various authors in relation to the topic under investigation and literature review is presented chronologically following the order of research objectives. The chapter will discuss theoretical literature and literature by objectives.

2.2 Theoretical Review

This section describes the theory in detail selected to underpin the study, relevant literature on the study objectives and the gap in the literature. The study was underpinned by Positive Accounting theory (PAT).

2.2.1 Positive Accounting Theory (PAT)

The study adopted Positive Accounting theory (PAT) because of its relevancy to the problem at hand. PAT was developed by watts and Zimmerman in 1986. PAT is one of the theories that consist of different accounting policies and practices used to affect the result of an entity. The managers can adopt behaviors which can favor their interest at the expense of the shareholders; one of the ways they can do this is through being opportunistic by adopting accounting standards which can maximize the company value (Maznah, Nur Asiah, & Maryam, 2012), Jean (2008) asserts that such characteristics in an entity are geared towards improving the wealth of managers at the expense of shareholders. The incentives based on performance valid and used in Europe where managers are taken to be workers of high integrity (Jean, 2008), Accounting numbers does not affect only the figures but also entity so

if they are not true, the all economy will be affected (Leuz, 2010), financial institutions uses financial statement ratios to determine the performance of the entity and assess whether they qualify to enter into debt contract and they demand specific requirements like debt leverage ratio, interest coverage ratio if they are not true the entity will be affected the more because it will fail to pay the debt and fines that will accumulate as a result of non-payments (Anderson &Sanderson, 1996).

The financial statements prepared with optimistic behavior of managers will affect the performance and growth of SMEs, It is therefore important that Managers prepare the financial reports / statements following the IFRS for SMEs to reflect the true picture of an entity so that SMEs can be developed and sustained. The literature discusses relevant measures to facilitate the adoption of accounting standards and practices in an entity (Kaya, 2017). However, the theory has limitations and these include lack of prescription. This theory lacked clear means of improving the accounting practices as seen above, PAT assumes that all actions are driven by the interests of manager to maximize entity's wealth this is a wrong assumption because it represents a destructive perspective. Despite, the limitations, PAT contributes to the research because it explains, predicts accounting practices and the implications so shareholders will also request accounts to be prepared following IFRS for SMEs to valid the self-interest of managers on the company value.

2.2.2 Conceptual review

Globally, SMEs have an important part to play in the economy of each country as they are engines in economic growth and development (Ogundana, Okere, and Ayomoto, 2017). The accounting information provided by SMEs is very crucial for effective decision making (Dinuja, 2015). The adoption of IFRS for SMEs will contribute to enhancing the quality and comparability of SMEs financial statements which will better our economy (Odia and

Ogiedu, 2013). The existing gap in the current literature where a lot has been put in place by the government of Uganda through ICPAU and a number of SMEs have not adopted IFRS for SMEs need to be changed.

2.3 IFRS for SMEs adoption level

This section presents a mixed feeling about the adoption of IFRS for SMEs and sought to guide the researcher about what is known regarding the adoption level and parameters.

2.3.1 IFRS for SMEs adoption level

Various scholars have studied the level of IFRS for SMEs adoption across and the researcher described their views and conclusions, according to Hoxha (2014), in a study conducted via a questionnaire methodology, he concluded that the decision to adopt IFRS for SMEs is premature, (Athanasios, Micheal, & Stavros, 2015), in the study conducted in Greece (Kavala area) via questionnaire methodology concluded that SMEs are not ready to adopt IFRS for SMEs due to lack of enough resources and experienced personnel to man the system. It is worth noting that 57.7% of accountants in Romania (Europe) have never used or referred to IFRS for SMEs (Maria & Anamaria, 2016), this was concluded in the study they conducted via a questionnaire methodology.

Sikhwari & Manda (2016) disagreed with Hoxha (2014) and other scholars, they concluded that 67% of the SMEs contacted via a questionnaire methodology adopted and implemented IFRS for SMEs in South Africa (Vhembe district), the level of IFRS for SMEs adoption is increasing in developing countries because they are relevant (Onyinye, 2014), this was discovered in the study conducted in Nigeria via questionnaire methodology. Currently IFRS for SMEs adoption shows an increasing trend (Kaya, 2015).

2.3.2 IFRS for SME adoption parameters

SMEs play a very significant role in the economic development of the country through creating employment opportunities (PERERA, 2015),(Richard, 2018) they attract foreign investors (Nadide Sevil Tülücea, 2014). In 2003, IASB started to develop a uniform accounting framework which is simple, high –quality and can meet the need of SMES (Müllerová*et al.*, 2010). In 2004, views about IFRS for SMEs commenced and in 2005, IASB issued a staff questionnaire to obtain views about the recognition and measurement IFRS for SMEs; in 2007 the exposure drafts were published (Fearnley & Hines, 2007). In July 2009, IFRS for SMEs was published as a new financial reports / statements standard for SMEs (Albu *et al.*, 2010). IFRS for SMEs were published for entities that (a) does not public accountability, (b) that publish general purpose financial statements for external users, (c) entities whose debt and equity instruments is not traded in public market and not in the process of issuing such instruments in public market and (d) an entity that does not hold money in fiduciary capacity for a broader group of outriders (IASB foundation, 2015).

Uganda adopted IFRS for SMEs in July 2009; the implementation was effective 1st January 2010. Since then, IFRS for SMEs has gone through comprehensive reviews and amendments for measurement and direction (PERERA, 2015)Scholars have come up to explain factors that influence the adoption of IFRS for SMEs, according to Albu et al. (2010), in the study conducted in Romania through in-depth interview methodology examined the issues around possible implementation of IFRS for SMEs and concluded that state is the main user of financial statements of SMEs and other stakeholder are not sure of the information generated from these financial statements. Albu et al. (2013) asserted that accounting and taxation are related therefore the state is the main users of the financial statements of SMEs, Bunea et al. (2012), studied the views of accountant professionals in Romania about IFRS for SMEs and

their conclusion was that a big percentage of the respondents needed other simplified set of IFRS for SMEs that will respond to the needs of SMEs.

2.4 IFRS for SMEs adoption Benefits and the Quality of Financial Reports

The critical question here was what IFRS for SMEs adoption benefits was linked to the quality of financial reports. The IFRS for SMEs adoption Benefits include transparency of financial reports, enhanced funding options, fostering comparability and improved decision making.

2.4.1 Transparency of financial reports.

IFRS for SMEs was introduced and adopted to improve transparency of SMEs financial reports / statements Joachim (2017), in a study he conducted with a sample population of 24 accounting experts around 24 jurisdictions, the findings were; adoption of IFRS for SMEs improves transparency of SMEs financial reports / statements unfortunately, the results in this study remained a trail and cannot be generalized to benefit this researcher problem, following a study conducted in Turkey about the perception of SMEs about IFRS for SMEs, it was conclusion that financial statements prepared following IFRS for SMEs are transparent (Ali, Merve, & Basak, Perception of SMEs on the IFRS for SMEs: The case of Turkey, 2013), the limitation to this study is that only SMEs perceptions were investigated, the researcher did not consider accountants of these SMEs, Accountants in practice and other academicians may be their perception could different . Similarly in the study conducted in Swaziland in 2015 where 60 Accountants from 60 SMEs were investigated (Tanaka, 2015) and the study concluded that IFRS for SMEs leads to transparency of financial reports. Fazeena et al. (2012) also discovered via in- depth interviews that a single set of IFRS for SMEs if adopted will result into transparency of SMEs' financial statements and improve consistence and comparability of the financial reports, the limitation of the study was the small sample that limited the generalization the findings to developing economies like Uganda, Kawempe

division inclusive. Adoption of IFRS for SMEs leads to high quality financial reports / statements which are transparent and their benefits outweighs their disadvantages (Mabruk, 2013).

2.4.2 Enhanced Funding Options

The literature reviewed under this section presents a mixed filling about adoption of IFRS for SMEs on the enhancement of funding options as put forth by previous scholars in the some field, despite the other challenges of IFRS for SMEs like being costly to the implementers (Kipchoge, 2015). Turyahikayo, (2015) revealed in the study he conducted in Uganda via a questionnaire that SMEs do no longer fear obtaining loans from financial institutions as used to be before the adoption of IFRS for SMEs. Bank officers are assisted to make right decisions regarding the credit history and payment ability of any entity (Dinuja, 2015),this was concluded in the study he conducted via a questionnaire however, the study was limited by the small sample taken by the researcher as a result the findings could not be generalized to benefit developing economies Kawempe division inclusive. Waheeda (2017) in the study he conducted in South Africa via a questionnaire asserted that the banks were so much assisted by the introduction of IFRS for SMEs.

Sikhwari and Manda (2016) further asserts that IFRS for SMEs has indirectly benefited SMEs through accessing loans and grants from banks and government respectively in a study they conducted in Vhembe district of South Africa through structured and unstructured questionnaires and they have improved their confidence in applying for financial supports from these banks Madawaki (2014).Zairani and Zaimah (2013), disagree with Sikhwari & Manda (2016), they reveal that considering the hustles SMEs go through to adopt IFRS for SMEs, most of them are finding it hard to access loans from the financial institutions like banks, the same is confirmed in the world bank report (World Bank, 2015), which asserted

that 60% of the 760,000 SMEs in Malawi are un able to access funding from financial institution and are not allowed to raise funds from public markets

2.4.3 Fostering Comparability

IFRS for SMEs adoption benefit and the quality of financial reports / statements being the main objective analyzed under this section, the financial statements prepared following the IFRS for SMEs are comparable with the previous periods and among different SMEs (Mbawuni ,2017), this will help SMEs to follow trends and improve their performance. Sutthira (2012) asserted that adoption of IFRS for SMEs has reducing the book keeping problems and increased comparability. It's now very eased for SMEs to compare their financial reports / statements externally and tracks their investors' portfolio (Bertoni, 2013). Odia and Ogiedu (2013) asserted that with improved comparability as a result of the adoption of IFRS for SMEs in the financial reports, professional accountants can now move freely in the global world there by addressing the problem poor quality financial reports / statements of SMEs which was a challenge.

2.4.4 Improved Decision Making

This section presented literature about IFRS for SMEs adoption benefits and the quality of financial reports. The decision making as stated by previous scholars indicating that application of IFRS for SMEs could change the firms decision making from rule based to a transparent one (Nadia and Catalin, 2014).Muchira (2012) asserted that the implementation of IFRS for SMEs improves decision making.

Solanke, Adinnu and Alhassan (2016) asserted that adoption of IFRS for SMEs would improve the decision making capacity of SMEs thereby improving the entity's accountability levels. This was concluded in the study they conducted in Nigeria via a self-administered questionnaire; the study however, was limited. Onyinye (2014), asserted that IFRS for SMEs informs good notes disclosures in financial reports / statements which guides the

shareholders' decision making, this was concluded in the study that was conducted in Nigeria via descriptive survey design and the study was limited by a small sample size that limited its generalization yet Dinuja (2015), agreed that adoption of IFRS for SMEs will guide the shareholders to make various decision making.

Hoxha (2014) disagree with the rest of schools in the study conducted in Albania via a questionnaire, his finding was that even when SMEs adopt IFRS for SMEs, the quality of decisions made basing on these financial reports / statements does not improve.

2.5 Adoption Cost and the Quality of Financial reports / statements

This section of literature presented a mixed filling about the adoption cost and the quality of financial reports / statements as discussed in the previous literature as one wonders whether adoption costs of IFRS for SMEs will affect the quality of financial reports / statements for SMEs. The researcher wants to know whether the adoption cost can positively or negatively affect the quality of financial reports / statements for SMEs. It's very important to note that many SMEs have not adopted IFRS for SMEs because of its cost (Solanke, Adinnu and Alhassan, 2016), (Ali & Merve, 2017), in the study conducted in Turkey via in-depth interview methodology asserted that adoption of IFRS for SMEs cost is one of the greatest disadvantages to the adoption process and this has affected the quality of financial reports / statements , while in complying to IFRS for SMEs in order to produce quality financial reports / statements is excessively troublesome and costly Bertoni (2013) , Boateng (2014) stated that SMEs that have adopted IFRS for SMEs have greatly reduced the cost of Capital made their financial reports / statements transparent and have improved their reports (Odia and Ogiedu, 2013), adoption of IFRS for SMEs is less costly compared to the cost of developing local accounting standards (Bonito, 2018). Cristian, Christian, Theresa and Monica (2011),disagreed with Solanke, Adinnu, & Alhassan, (2016) regarding the adoption

cost and the quality of financial reports, in the study they conducted in Italy via a questionnaire methodology which concluded that IFRS for SMEs are not costly but the process of transiting from their local Accounting standards to IFRS for SMEs , this is in line with the conclusion made by Ballas et al (2010), and Albu *et al.*, (2013) which asserted that the cost of adopting IFRS for SMEs is considered high and this has affected the quality of financial reports / statements for SMEs (Kanu, 2014), asserted that the complexity of the application process of IFRS for SMEs and costs of employing qualified accountants are attributable to un satisfactory financial reports / statements of SMEs in the different jurisdictions.

2.6 Size of SMEs and Adoption of IFRS for SMEs.

The critical question here was would the size of an entity affect the adoption of IFRS for SMEs. It's not clear whether the size of an entity makes it easy to adopt IFRS for SMEs or not. The literature will present a mixed discussion.

Brigitte & Alex (2009) stated that SMEs don't have the resources and human resource needed to adopt and maintain IFRS for SMEs, this was reveled in the study they conducted in German via a questionnaire methodology, Lorena & Adrian (2013), asserted in the study conducted in Croatia via questionnaire that ISAB need to develop another set of accounting standard to meet the financial needs of very small entity. its' likely that firms with medium size will adopt IFRS for SMEs faster than small enterprises Kipchoge (2015) because they have the required resources to support the adoption, micro-entities that cannot manage to pay auditing expenses needs to be exempted from reports using IFRS for SMEs (Merve & Ali, 2017). Albu (2013) noted that Micro- entities may need to be exempted from reports following IFRS for SMEs because of their cost implication yet (Agbeibor, 2012), asserted

that micro entities have low levels of operation both globally and locally as a result they may not need IFRS for SME.

Alison(2017), disagreed with Brigitte & Alex (2009), in his study however, concluded that the size of SME is not necessary in determining the scope of IFRS for SME otherwise none of the SMEs will implement the Standards, (Nadia & Catalin, 2014), stated that the size of an entity in adopting IFRS for SMEs may not be related, this was revealed in the study they conducted using qualitative approach.

2.7 Summary of literature review

Generally, from the literature, it is clear that some efforts have been done in IFRS for SMEs adoption and quality of financial reports / statements of SMEs to some extent; they have provided recommendations to improving the quality of financial reports. The key lessons leant from literature were that the decision to adopt IFRS for SMREs was premature (Athanasios, Micheal, & Stavros, 2015), in fact SMEs were not ready to manage IFRS for SMEs adoption system (Maria & Anamaria, 2016), it was clear in the literature that adoption of IFRS for SMEs improves the quality of SME's Financial reports / statements (Joachim, 2017), its costly to produce financial reports / statements using IFRS for SMEs (Boateng, 2014) and the size of SMEs affects the adoption of IFRS for SMEs (Kipchoge, 2015).

The current trend of IFRS for SMEs adoption is that almost all SMEs are required to adopt and apply IFRS for SMEs in European Union (Trimble, 2017), in Uganda all SMEs that prepare general purpose financial statements are permitted to apply and use IFRS for SMEs and those SMEs that do not use IFRS for SMEs use full standards (ICPAU, 2016).

The missing piece in the research literature is the empirical evidence as to whether adoption of IFRS for SMEs can improve the quality of SMEs' financial reports. Empirical evidence regarding improvement in the quality of SME's financial reports / statements as a result of adoption of IFRS for SMEs is still missing. Several scholars researched on the adoption of IFRS for SMEs and quality of financial reports / statements for example (Joachim, 2017) concluded that adoption of IFRS for SMEs leads to transperancy of SMEs' finacial reports, unfortunately the results in this study remained a trail and cannot be generalized to benefit the researcher's problem, but also, the researcher's targeted population was limited to only 24 experts in the field instead of accountant in the SMEs fraternity who might have given the real situation at hand therefore inappropriate sample size which affected the researcher's data analysis. Serwaja (2017) revealed in the study conducted in Uganda via a questionnaire that SMEs do are no longer fear obtaining loans from financial institutions as used to be before the adoption of IFRS for SMEs, Bank officers are assisted to make right decisions regarding the credit history and payment ability of any entity (Dinuja, 2015),this was concluded in the study via a questionnaire however, the study was limited by the small sample taken by the researcher as a result the findings could not be generalized to benefit developing economies Kawempe division inclusive. However, there has been no clear study on adoption of IFRS for SMEs and quality of financial reports / statements in Kawempe division, yet Kawempe division has a number of SMEs and most of them are involved in foreign direct investments. This study will therefore cover this gap by identifying the right sample and adopting the collect methodology to obtain the right findings that can address the researcher's problem at hand

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This chapter presented the measures and procedures that enabled the researcher to collect data which was used to examine the effect of IFRS for SMEs adoption and the quality of financial reports / statements of SMEs in order to answer the questions of this study. The methodology used both quantitative and qualitative data analysis methods. The quantitative and qualitative methods were used because numbers were gathered by quantitative method, then the perception about the IFRS for SMEs adoption and the quality effects were further explained by qualitative method. This chapter also discusses there search design, study population and Sample size, sampling techniques, data collection methods, data collection instruments, quality control, research procedures, data analysis techniques, validity and reliability, ethical considerations and limitations of the study.

3.2 Research design

According to Kirumbi (2018), a research design is a set of methods and procedures used in collecting, analyzing and measuring variables specified in the research problem. The study used a case-study design with the quantitative and qualitative research methods and exploratory strategy were adopted as well. A case-study is a design that focuses on the scope, process and the methodological characteristics of the case study research (Yin,2014) it involved an approach where the researcher explored a case over time through detailed in-depth data gathering (Halena, Malanie, Richard, & Jane, 2017). The design was selected to underpin the study because it was in line with the research questions and the researcher was interested in getting current issues regarding the research problem so it was the only research strategy for the researcher to achieve the set objectives.

3.3 Area of study

The study was conducted in Kawempe division, which is located in the north of Kampala capital city Authority (KCCA), the area was selected because it's an industrial area with a number of SMEs that meets the researcher's target population and near to the researcher's resident, this positively impact on the collected data and reduce on the transport expense.

3.4 Target Population

Creswell (2014) defines target /study population as the total environment of interest to the researcher. The Population of the study was SMEs in Kawempe division specifically those that employee 5 workers and above. The target population included 3 respondents from Technical team on quality accounting firms at the Institute of Certified public accountants of Uganda (ICPAU), 109 SMEs in Kawempe division with more than 5 employees and 44 Big Organizations that qualify to use IFRS for SMEs but are not using (Ugfacts.net, 2019), it is from this target population that the sample size was selected.

3.5 Sample size

A sample has been defined as a listing of all the individuals or substances to be tried in the study (Bryman & Bell, 2007). From the total population of 156 respondents, a total sample size of 103 respondents were studied and this was determined basing on statistical tables of Krejcie & Morgan (1970) for determining sample size from a given total population size. However, the sample size from each sub group was sampled basing on percentage method by dividing the population of each sub group by the total population and multiplying it by total sample size to get exact sample for every sub group.

Table 3.1: Sampling size

Population Category	Target population	Target sample size
Technical team on quality accounting firms at ICPAU	3	2
Registered SMEs in Kawempe with more than 5 employees in division	109	72
Big Organizations that qualify to Use IFRS for SMEs but are not Using	44	29
Total	**156**	**103**

Source: *modified by the researcher using Krejcie & Morgan (1970) table for determining sample size*

3.6 Sampling techniques and Sampling selection

These are techniques and selection procedures used by the researcher to obtain relevant and reliable data which informed the findings and conclusions.

3.6.1 Sampling Techniques.

The researcher used probability and non-probability sampling techniques which include both purposive and simple random sampling techniques. Simple random sampling technique was used to select a sample, 2 Technical team on quality accounting firms at the Institute of Certified public accountants of Uganda (ICPAU), 72 SMEs in Kawempe division with more than 5 employee and 29 Big Organizations that qualify to use IFRS for SMEs but are not using. A simple random sampling was employed to ensure that all respondents stand equal chance of being selected to avoid sample bias and ensure that the results are reliable enough to be generalized. Also purposive sampling technique was used to select 2 Technical team on quality accounting firms at the ICPAU. These respondents were purposively sampled due to their expertise and knowledge about the study and the importance of this sampling technique is that it provides consistency and accuracy of information and also enables to minimize the sampling error to meet the purpose of the study.

3.6.2 Sample selection procedures

The researcher used a random selection technique to select the sample size. This involved creating a sampling frame of all SMEs in Kawempe division with 5 employees and above, a list of the technical team from ICPAU, a list of accountants in practice and a list comprising big organizations but not listed on the USE, then the researcher picked individual entity from whom questionnaires were supplied and later were collected back, analyzed and the research questions were answered.

3.7 Research Instrument

The researcher used questionnaires to collect data from the respondents, interviewing and document review of financial reports / statements that were used for further analysis. Raw data was generated through the questionnaires about the adoption of IFRS for SMEs and the quality of financial reports; analyzed further to answer the research questions.

3.7.1 Questionnaires

The researcher used open and closed ended questions. These questionnaires was structured following a 5- likert scale (where 1= Strongly Disagree, 2= Disagree, 3=Neutral, 4= Agree, 5=strongly Agree) to gather data from the SMEs. The questionnaires was designed and typed in order to obtain the data Wallen & Fraenkel (2000). The questionnaire was organized under 4 Major sections (Section One: Demographic, Section Two: Adoption benefits and quality of financial reports, Section Three: Cost of Adoption of IFRS for SMEs and Section Four: size of an entity as a mediating factor), the questionnaires was subjected to both validity and reliability test to ensure usage that the instrument is filled by the respondent timely.

3.7.2 The Interviews

The researcher used interview guide to obtain data from the field to compliment the information obtained using the questionnaires. The researcher interviewed 2 technical team from ICPAU, CPA Charles Lutimba and Noor Nakabugo Nakato, assistant quality assurance

officer for knowledgeable discussions for which information regarding IFRS for SMEs adoption benefits and the quality of financial reports, the effect of IFRS for SMEs adoption cost and the quality of financial reports / statements of SMEs and the size of an entity in influencing the adoption of IFRS for SMEs were obtained. The researcher used open ended questions and only points relevant to the problem at hand were picked and used to complement the data obtained from the questionnaires (Flick, 2015).

3.7.3 Documentary Review

The researcher surveyed books, scholarly articles and other sources relevant to the issue at hand this provided a description, summary and serious evaluation of these pieces of work to the research problem being investigated and this complemented well with the researcher's findings

3.7.4 Primary Data

Data was collected from 83 respondents out of 103 questionnaires that the researcher distributed to SMEs in Kawempe division, further analysis was done and findings were generated which helped the researcher to answer the research questions (Agee, 2009)

3.7.5 Secondary Data

The secondary data was sourced from the existing information including the financial reports / statements to compliment the primary data that was collected and analyzed from the questionnaires. The researcher was interested in the audited accounts for 2017 specifically the auditor's opinion and emphasis of matter paragraph on the application of IFRS for SMEs and their compliancy (ACCA, 2017).

3.8 Data type and collection procedures

The researcher collected and analyzed data which answered the research objectives, using indicators which measured the research variables, the data instrument was pre-tested for

accuracy and reliable data ,a research permit was obtained and the researcher collected data which was further analyzed and used to the research objectives (Peersman, 2017).

3.9 Data Analysis

Data analysis covered several ways from which the researcher analyzed data to answer the research objectives .The data from the questionnaire was statistically analyzed using Statistical Package for the Social Sciences (SPSS 20). SPSS was used to draw valid and reliable conclusions and recommendations from the data collected. Data from open-ended questions were analyzed qualitatively in the form of discussion. A detailed layout and analysis of the data that was collected from the field was done, the findings were used to answer the research objectives and make conclusions in this study. Section one of the data instrument was analyzed statistically by mean and the interpretation depended on the average score, to state the results, where the score of 3 and above is computed, the variable under investigation were present or otherwise. Section two and three, regression analysis was computed to explain how one variable determines another by percentage and sections four was analyzed using correlation coefficient. This indicated whether there is a relationship between adoption cost and the quality of financial reports / statements of SMEs. Normality test was conducted and anomalies were fixed to ensure that the data is normally distributed and compared (Mishra, 2019).

3.10 Limitation of the Study

American Journal of health education 35 (2004): 66 -67 guides on how to structure this section however, to be able to conduct a good research there un foreseen obstacles that may interfere with the research findings so this section presents some of these issues and how the researcher went about them in order to present fair findings, these issues included the size of the sample, the sample size selected by the researcher may be too small which interfered

with the significant relationship between the variables. The statistical test normally required a large sample size to ensure representative of groups of people.

Another limitation of the study would be lack of available and or reliable data. The researcher needed to limit the scope and sample size to area of interest in order to find a trend and meaningful relationship. This happened because most of the SMEs under study lacked enough money to pay accountants who are able to give meaningful data.

Lack of prior research studies on the topic, there is a likely wood that the researcher may not have understood the topic due to lack of enough literature review to lay a foundation for understanding the research problem.

The researcher managed the limitation as follows , the sample size selected being too small to interfere with the significant relationship between the variables, the researcher used krejcie & Morgan table (1970) which enabled him to select the correct sample size. Lack of reliable data, the researcher limited the scope and sample size to area of interest that gave him a trend and meaningful relationship and Lack of prior research studies on the topic, the researcher reviewed a lot of literature from different scholars that gave him enough literature to understand the research problem.

3.11 Validity and Reliability of data

The reliability and validity of data that was collected for research were controlled by formulating relevant research questions while considering a research question that expressed a relationship between the variables, stating the question in unambiguous form and ensuring that the questions were tested empirically (Black 1993). The questionnaire was designed systematically and precisely to make specific content general. The researcher carried out a pilot study to ensure validity and reliability of data that was collected using the questionnaire. According to Berg and Gall (1989) validity is the degree by which the sample of test items

represents the content designed to be measured. To ensure validity of the study, the researcher issued questionnaires to at least two respondents in the same company at the same time then the two measures were compared to test reliability. The financial reports / statements of the two questionnaires were then correlated. According to Shanghverzy (2003), reliability refers to the consistency of measurement and is frequently assessed using the test – retest reliability method. Reliability is increased by including many similar items on a measure, by testing a diverse sample of individuals and by using uniform testing procedures.

3.12. Content Validity

For the researcher to present the desired response the questionnaires in this study were exposed to scrutiny by the supervisor and or experts in the field of study before being utilized in the field to eliminate errors, the researcher relied on the knowledge of people who are familiar with the problem at hand, the designed questionnaires were sent to experts , then the researcher requested for the feedback on how well each question measures the construct and clarity in the question (Fraenkel & Wallen, 2010), then the feedback analyzed by the researcher and an informed decision were made about the effectiveness of each questions. The following formula was used in the testing process:

Content Validity Index (CVI) = **Agreed items by all Judges.**

$$\text{Content Validity Index (CVI)} = \frac{\text{Agreed items by all Judges.}}{\text{Total Number of Items Judged.}} = \frac{42}{49} = 0.857 \text{ or } 85.7\%$$

From the total of 49 items on the instrument, 42 items were deemed to be valid giving 0.857 (85.7%) results of the content validity index and these items which were declared to be valid were used for data collection.

3.12.2 Reliability

The reliability of the instrument was proved using a pilot test through data collection about the objective of this study from 30 respondents that was drawn from Nakawa division,

different from the researcher sample. Data from the 30 respondents was collected, analyzed and the reliability test was conducted.

Table 3.2: Reliability Statistics results

Variables	Reliability Statistics	
	Cronbach's Alpha	N of Items
Adoption benefits	1.000	5
Adoption cost	.879	6
Quality of financial reports / statements	.833	5
IFRS for SMEs and disclosure level	.891	26

Source: Primary data

The results in table 3.2 above indicate the reliability test statistics computed from SPSS using Cronbach's Alpha. It is revealed that items on the instrument were deemed reliable as the reliability run from 0.833 to 1.000 thus indicating a high coefficient which is more reliable as it is higher than recommended reliability of 0.7 to 0.9 as being acceptable (Haradhan, 2017).

3.12.3 Pilot Test

A pilot study was conducted before the real research which acted as a mini study to confirm whether the instrument can be relied upon to answer the research question upon which the researcher made recommendations. The respondents of the pilot study are not the targeted respondents of this study and the test-retest method was conducted after the changes in the questionnaires have been made. The pilot study was conducted to 30 respondents who were chosen at random from Nakawa division. The results of the pilot study are as follows;

In an evaluation of the IFRS for SMEs adoption and quality of financial reports / statements of SMEs, a pilot study was undertaken prior to the main study that made a definitive assessment of whether the data instrument can relied up to answer the research and make recommendation or not. The objective of pilot studies was to provide sufficient evidence whether the data instrument can be relied upon to answer the research questions and make recommendations about the study or not.

Methods

The researcher used statistical data from the pilot study sample and developed confidence intervals which was interpreted to confirm that the data instrument was fit for the purpose and it can be used in the main study to collect data upon which recommendation can be obtained from. The dimension were rated following the 5 likert scale (where 1= strongly disagree, 2= Disagree, 3=Neutral, 4=Agree and 5= strongly disagree).

Results

In the pilot study 30 SMEs in Nakawa division were randomized and investigated to obtain information as to whether the data instrument was fit for the main study. The questionnaires were filled by accountants in these SMEs. 70% (21/30) respondents completed the questionnaires. 71% (15/21) of the respondents agreed that adoption of IFRS for SMEs leads to quality financial reports. 76% (16/21) agreed that adoption costs affect the adoption of IFRS for SMEs and quality of financial reports / statements and 85% (18/21) agreed that the size of an entity affect the adoption of IFRS for SMEs.

Conclusions

Following the descriptive statistics, estimation and confidence levels of 71%, 76% and 85% , the main study is feasible with close monitoring.

3.13 Measurement of Variable and basis of interpretation

Dependent Variable (DV) is the outcome of the experiment as you change independent variable you can watch what will happen to the dependent variable, it is expected to change as long as the independent variable is manipulated, the researcher's DV is the quality of financial reports / statements of SMEs and Independent Variable (IV) – IFRS for SMEs adoption is a variable which is not affected by anything whatever the researcher does, it is usually plotted on the x axis. The relationship between these variables was measured by

correlation coefficient, the level of adoption, benefit of IFRS to SMEs and Cost of adoption were measured by descriptive statistics and by regression analysis to measure variation between the two variables and the basis of their interpretation were for descriptive statistics include mean and standard deviation. To interpret the mean in chapter four, a legend scale was used (Rodrigues, 2013). Mean scores are interpreted as follows: 4.20-5.00 (very high); 3.4-4.19 (high); 2.60-3.39 (average); 1.80-2.59 (low); and 1.00-1.79 (very low).

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.1 Introduction

The chapter presents study finding focusing on the IFRS for SMEs adoption and the quality of financial reports / statements of SMEs in Kawempe division, Kampala district -Uganda. The findings are presented basing on the study objectives. The objective of the study included; to investigate the effect of IFRS for SMEs adoption benefits on the quality of financial reports / statements of SMEs, to investigate the effect of IFRS for SMEs adoption cost on the quality of financial reports / statements of SMEs and to examine the moderating effect of entity size on the relationship between IFRS for SME adoption and the quality of financial reports / statements in Kawempe division. The chapter comprises of the background information, responses rate and empirical findings of the study.

4.2 Response Rate

The target sample size of this study was 103 respondents who were examined to questionnaires and interviews as indicated in table 4.3 below.

Table 4.3: Response Rate

Instrument	Target sample(N)	Actual sample(N)	Response rate (%)
Questionnaire	101	83	82.1
Interview	2	2	100
Total	**103**	**85**	**82.5**

Source: Primary data 2019

From this, the researcher distributed a total of 101 questionnaires to respondents and a total of 83 questionnaires were filed and returned by the respondents constituting 82.1% and 2 interviews were held of the expected 2 respondents giving 100% as illustrated in table 4.3

above. However, the 82.50% was good representation to enable the researcher to continue with data analysis because it is above 70% as according to Amin (2005), thus this qualifies the study finding to be more reliable.

4.3 Demographic data

The background information of interest to this study included sex, position, period of operation, firm's registration status, industry and the number of employees of the respondents as summerized in table 4.4 below. Such information is vital because it provides an understanding of respondents and the information that influences the attitude towards issues such as IFRS for SMEs adoption and the quality of financial reports / statements of SMEs.

Table 4.4: Demographic data

Variables	Category of response	Frequency	Percent
Sex	Male	28	33.7
	Female	55	66.3
	CEO/Owner	5	6.0
Position	Accountant	76	91.5
	Others	2	2.5
	Less than 1 Year	10	11.1
Period of existence	1 - 3 Years	26	31.3
	Above 5 Years	47	57.6
Firm's registration Status	Partnership	26	31.3
	Private company	57	68.7
	Banking	21	25.3
Industry	Manufacturing	29	34.9
	Construction	15	18.1
	Others	18	21.7
	5 – 25	59	71.0
No. of employees	26- 49	15	18.2
	Above 100	9	10.8

Source: Primary data, N=83

The findings in table 4.4 above show that majoirty of the respondents reprsented by 66.3% were female and 33.7% reprsents the male respondents.This finding implies that both sex are invovled in IFRS adoption for quality finacial report and the majority being the female than their counter parts. It's noted that majority of SMEs accountants in Kawempe division are

female, this is so because most of the SMEs in Kawempe division can only afford to employ women because they are not so expensive compared to men.

The findings on poistion of the respondents in their entities as in table 4.4 above show that 91.5% being the majority are accountants. This finding implies that since the majority respondents were accountants and are the custodian of the IFRS for SMEs and this confirms that the findings of the study are beneficial since they are professional in this field.

With respect to period of existance of the entity, it is evident that most the enitities have existed for the period of over 5 years in operation represented by 57.6% and 31.3% indicating entities which have existed between 1-3 years. This result implies that most of the entities in this division have existed atleast for 5 years and above and in relation to this study, these entities can adopt the IFRS for SMEs so as to attain quality fianacial reports.

The results also show that 68.7% of the entities in this division are private registered firms and 31.3% are partnership registred. This indicates that most of the enitites are private owned registred companies which need to adopt IFRS for SMEs so as to improve on the quality of financial reports / statements to obtain financial support from banks however; most of the owners are so reluctant to have good financial reports / statements (Kaya, 2015).

The findings also indicate that 34.9% SMEs are under manufacturing industry, 25.3% are under the banking industry and 21.7% although are registered they do not follow in any of the identified type of industry in the quenstionnire. From the majority respondnets, it's clearly shown that Kawempe division is dominated by manufacturing companies and in relation to this study; such entities need to observe the relevance of the quality of financial reports / statements in their business.

Lastly, the results inidcate that most of the SMEs in Kawempe division employee between 5-25 employees reprseented with 71.0%.Such a number of employees is presumed to be manageble where finanacial mismagement can easily be obseverd and the adoption of IFRS for SMEs for better quality financial reports.

4.4   Adoption of IFRS for SMEs and disclosure levels

This section intends to address adoption of IFRS for SMEs and disclosure levels.

*Figure 4.2***: Findings on the adoption status of IFRS for SMEs.**
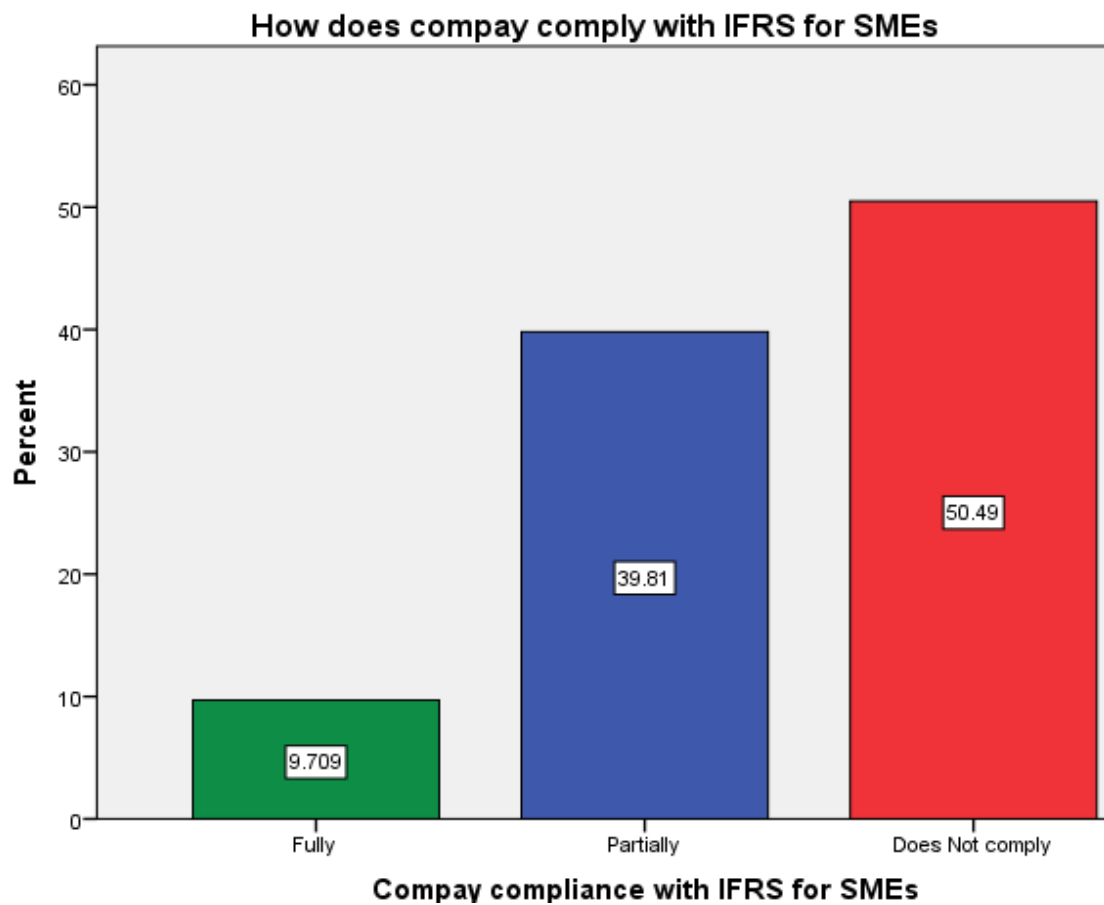
Source: Primary data. N=63

The researcher analyzed the status of SMEs compliance with IFRS for SMEs in Kawempe division, Kampala district-Uganda and the findings were as follows, figure 4.2 above shows that 50.49% of the SMEs that participated in this study do not comply with IFRS for SMEs, 39.81% indicate that companies partially comply with IFRS for SMEs and 9.709% of the companies which fully comply with the IFRS for SMEs. This indicates that over half of the

SMEs in Kawempe division do not comply with IFRS for SMEs. This affects the Gross domestic product (GDP figures) of industries in Kawempe and consequently Uganda's Vision of 2040

*Figure 4.3**: Illustrates the year when the entity adopted IFRS for SMEs*

Indicate the year you adopted IFRS for SMEs
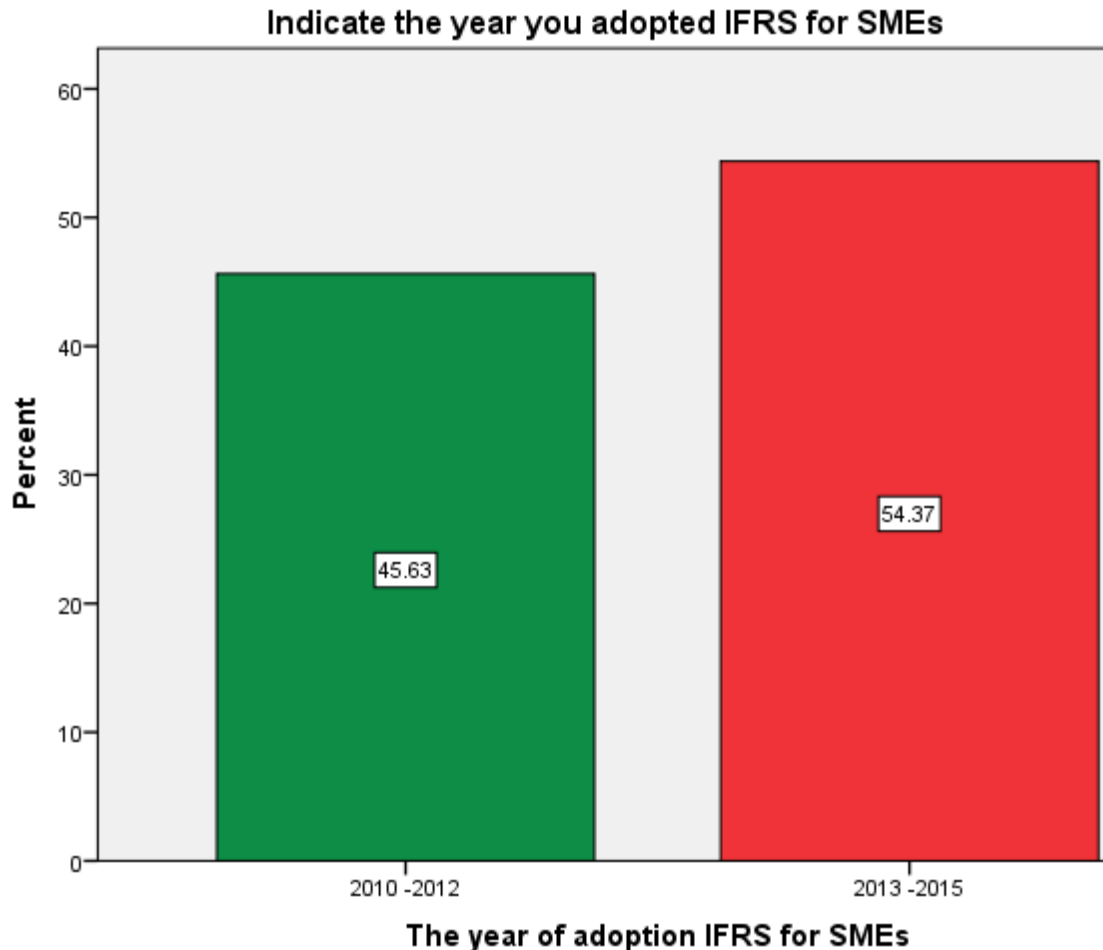
Source: Primary data

The findings in figure 4.3 shows that 54.37% of the SMEs that participated in this study adopted IFRS for SMEs between "2013-2015" and 45.63% indicate of the SMEs adopted IFRS for SMEs between "2010-2012". From the majority as per the findings, it is revealed that those SMEs adopted IFRS for SMEs and participated in this study adopted the IFRS for SMEs between, "2013-2015". It is noted that, the adoption of IFRS for SMEs in Uganda has been slow about 2.91% annually and this calls for more government intervention to improve this.

Figure 4.4: **Accounting standard you were using before**
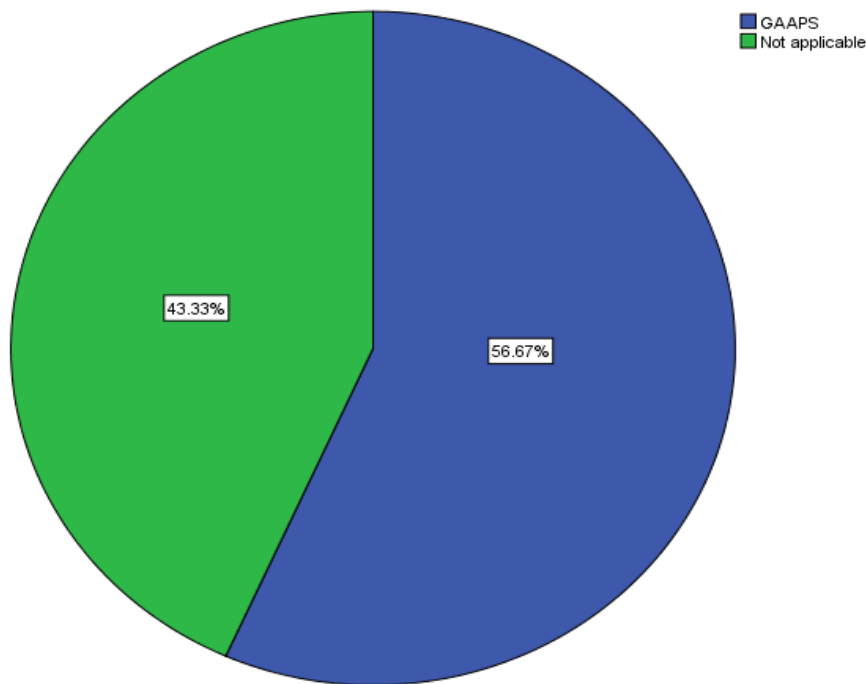
Source: Primary data

Descriptive statistics on the accounting standards used before in figure 4.3 shows that none of SMEs participate in this study were using any accounting standard before, 56.67% of the SMEs that participated indicated that they were not using GAAPs before, nor local accounting standards and 43.33% of the SMEs that participated in this study had never used any accounting standards while preparing their financial reports. This implies that the adoption of IFRS for SMEs in Uganda will help SMEs to improve their reporting and the users of the statement (PERERA, 2015). The quality of SMEs financial reports / statements is still inadequate and a lot is needed to improve them.

Table 4.5: Findings on Adoption of IFRS for SMEs and disclosure levels of IAS 1.

Adoption of IFRS for SMEs and disclosure levels of International accounting standards 1 (IAS 1), IFRS for SMEs contains fewer disclosure requirements in a dramatically shorter document compared to full IFRSs and therefore SMEs must disclose the following; the entity describes accounting policies that are significant to its operations, and at a minimum, has made the disclosure of information on areas in which decision has been applied (AICPA, 2017)

Variable items	Percentages			Measures of central tendency	
	Meet	D/M	N/A	Mean	Std. Deviation
Our Financial reports / statements contains the financial position / balance sheet	80.6	19.4	0.0	1.19	.40
Our Financial statements contains statement of profit or loss and other comprehensive incomes	64.1	35.9	0.0	1.36	.48
Our financial statement contains statement of cash-flows	86.4	13.6	0.0	1.14	.34
Our financial statement contains statement of changes in equity	77.7	21.4	1.0	1.23	.45
Our financial statements contains Accounting policies and Notes to financial statement	72.8	22.3	4.9	1.32	.56
Our financial statements discloses the company main Activities	64.1	28.2	7.8	1.44	.64
Our financial statement contains the directors/ management report	86.4	13.6	0.0	1.14	.34
Our financial statement discloses prior year cooperative information	80.6	19.4	0.0	1.19	.40
Our financial statements discloses the accounting standards adopted in their preparation	79.6	8.7	11.7	1.32	.67

Source: primary data N=83

Descriptive statistics on the adoption of IFRS for SMEs and disclosure levels of IAS 1 in table 4-5, above shows that 86.6% with a mean and standard of (1.19, SD 0.40) of the SMEs that participated in this study, their financial reports / statements meets the financial position / balance sheet. The results also indicate that 64.1% with a mean of (1.36, SD 0.48) of the SMEs that participated in this study their financial statements meets statement of profit or loss and other comprehensive incomes and 35.9% said their financial statements does not meet statement of profit or loss and other comprehensive incomes.

At 86.4% and mean of (1.14, SD 0.34), the findings shows that SMEs that participated in the study, their financial statement meets statement of cash-flows. The findings also indicate that the SMEs that participated in this study their financial statement meets statement of changes in equity and this was revealed at 77.7% with a mean score of (1.23, SD 0.45).The results further indicate that at 72.8% and mean score of (1.32, SD 0.56), it is revealed that the participated SMEs in this study their financial statements meet accounting policies and notes to financial statement.

From the findings in table 4.5, it is revealed that 64.1% with a mean of (1.44, SD 0.64) of the SMEs that participated in this study their financial statements discloses the company main activities. The findings indicate 86.4% and a mean of (1.14, SD 0.34) of the participated SMEs their financial statement contains the directors/ management report. The SMEs that participated in this study their financial statement discloses prior year cooperative information which was reported at 80.6% with a mean of (1.19, SD 0.40), 79.6% and a mean of (1.32, SD 0.69) indicate that their financial statements discloses the accounting standards adopted in their preparation. It should be noted that all SMEs that adopted IFRS for SMEs can disclose the company main activities; their financial statement contains the directors/ management report and financial statements discloses the accounting standards adopted in their preparation (Hoxha, 2014).

Table 4.6: Findings on Adoption of IFRS for SMEs and disclosure levels of PPE

International Accounting standard (IAS 16) guides on the disclosure of Property plant and equipment (PPE). SMEs should disclose the assets composition, the deemed cost, economic useful life of the assets and the policies used to estimate the depreciation of these assets (PKF, 2017), below is the table indicating how SMEs in Kawempe division, Kampala district –Uganda scored.

Variable items	Percentages			Measures of central tendency	
	Meet	DM	N/A	Mean	Std. Deviation
We disclose assets composition in the notes to the financial statement	70.7	29.3	0.0	1.24	.43
Our financial statements discloses the deemed cost of our assets at the first adoption of IFRS for SMEs	59.0	41.0	0.0	1.33	.47
Our financial statements discloses useful economic life of our assets	77.4	23.6	0.0	1.13	.33
Our financial statements discloses the policies used to estimate the depreciation of our Assets	83.2	15.8	1.0	1.08	.30

Source: Primary data N=83

Descriptive statistics on the adoption of IFRS for SMEs and disclosure levels of PPE in table 4.6 shows that of the participated SMEs in this study, 70.7% with a mean (1.24, SD 0.43) disclose assets composition in the notes to the financial statement, 59.0% coupled with a mean of (1.33, SD 0.47) their financial statements discloses the deemed cost of their assets at the first adoption of IFRS for SMEs and 41. % confirmed that their financial statements do not disclose the deemed cost of their assets at the first adoption of IFRS for SMEs. At 77.4% together with a mean of (1.13, SD 0.33) financial statements for the SMEs participated discloses useful life economic life of their assets, 83.2% (1.08,SD 0.30) indicate that financial statements of the participated SMEs discloses the policies used to estimate the depreciation of their Assets (KPMG, 2016). The statistics shows that all SMEs whose financial statements are prepared following IFRS for SMEs disclose the policies used to estimate the depreciation of their assets, this will ease the comparability of reports and performance (AICPA, 2017)

Table 4.7: Findings on adoption of IFRS for SMEs and disclosure levels of Intangible assets and inventory.

Variable items	Percentages			Measures of central tendency	
	Meet	DM	N/A	Mean	Std. Deviation
Our financial statements discloses accounting policies adopted for intangible Assets	62.0	25.6	12.4	**1.36**	**.64**
Our financial statement discloses the composition of our intangible assets	82.2	17.8	0.0	**1.14**	**.51**
Our financial statement discloses the market value/useful economic life or amortization within 10 years	77.0	23.0	0.0	**1.33**	**.47**
Our financial statements discloses the composition of our stocks	70.0	29.2	0.8	**1.27**	**.45**
Our financial statement discloses the policy used to estimate the value of our stocks	77.7	22.3	0.0	**1.22**	**.42**
Our financial statements discloses the fair value of the our stocks	78.9	21.1	0.0	**1.21**	**.41**

Source: primary data N=83

Descriptive statistics on adoption of IFRS for SMEs and disclosure levels of intangible assets and inventory in the Table 4. 7 shows that of the participated SMEs in this study, 62.0% with a mean of (1.36, SD 0.64) confirmed that their financial statements discloses accounting policies adopted for intangible assets, 82.2% coupled with a mean of (1.14, SD 0.51) of the SMEs that participated in this confirmed that their financial statement discloses the composition of our intangible assets. At 77.0% together with a mean of (1.33, SD 0.47) it is revealed that the participated SMEs confirmed that their financial statement discloses the market value/useful economic life or amortization within 10 years, 70.0% (1.27, SD 0.45) indicate that the participated SMEs, their financial statements discloses the composition of their stocks. The findings further indicate that the SMEs which participated in this study, 77.7% with a mean of (1.22, SD 0.42) their financial statement discloses the policy used to estimate the value of their stocks and 78.9% their financial statements discloses the fair value of their stocks.

Table 4.8: Findings on Adoption of IFRS for SMEs and disclosure levels of Creditors / Financing

Variable items	Percentages			Measures of central tendency	
	Meet	DM	N/A	Mean	Std. Deviation
We disclose the accounting policy adopted for financial instruments	84.5	10.7	4.8	1.21	.54
We disclose all our borrowing cost in our financial statements	70.9	14.5	14.6	1.42	.71
We disclose a list of creditors in our financial statement	78.6	20.4	1.0	1.21	.41
We disclose all our financial products in the financial statement	75.7	22.3	1.0	1.24	.43
We disclose the deadlines of meetings our obligations in the financial statements	68.0	20.4	12.6	1.46	.72

Source: Primary data, N=83

Descriptive statistics on the adoption of IFRS for SMEs and disclosure levels of creditors / financing in table 4.8 shows that of the participated SMEs in this study, 84.5% with a mean of (1.21, SD 0.54) disclose the accounting policy adopted for financial instruments, 70.9% coupled with a mean of (1.42, SD 0.71) of the SMEs that participated confirmed that they disclose all borrowing costs in the financial statements. At 78.6% together with a mean of (1.21, SD 0.41) it is revealed that SMEs discloses a list of creditors in the financial statement, 75.5% (1.24, SD 0.43) indicate that the participated SMEs discloses all financial products in the financial statement. The findings indicate that 68.0% of the SMEs which participated in this study discloses the deadline of meetings their obligation in the financial statements.

4.5 IFRS for SMEs and adoption benefits

This intended to investigate the effect of IFRS for SMEs adoption benefits on the quality of financial reports / statements of SMEs. This was important to understand the effect of IFRS for SMEs adoption benefits on the quality of financial reports / statements of SMEs in Kawempe division and the findings are as presented in table 4.9.

Table 4.9: Findings on IFRS for SMEs adoption benefits

	Percentages					Measures of central tendency	
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Std. Deviation
Adoption benefits leads to improved quality of reports in this entity	35.9	18.4	0.0	41.8	3.9	**2.57**	**1.43**
Adoption of IFRS leads to increased comparability of our financial reports / statements with similar entity	30.1	16.5	0.0	46.6	6.8	**2.83**	**1.45**
Adoption of IFRS for SMEs leads to verifiable financial statement	37.9	14.5	0.0	44.7	2.9	**2.58**	**1.44**
Adoption of IFRS for SMEs leads to timely reports that ease the decision making	2.9	39.8	6.8	48.6	1.9	**3.05**	**1.06**
Adoption of IFRS for SMEs increases transparency and understandability of information of our business	9.7	32.0	4.9	50.5	2.9	**3.01**	**1.16**

Source: Primary data, N=83

Descriptive statistics on the adoption of IFRS for SMEs and benefits in table 4.9 above shows that 41.8% with a low mean score of (2.57, SD1.425) of the SMEs that participated in this study revealed that IFRS for SMEs adoption benefits leads to improved quality of reports (Joachim, 2017) and 35.9% of the SMEs that participated in this study strongly disagreed with the statement (Hoxha, 2014). At 46.6% with an average mean of (2.83, SD 1.45) it is revealed that adoption of IFRS leads to increased comparability of financial reports / statements with similar entities under SMEs in Kawempe division (Mbawuni , 2017) [16, 17] of this research and 30.1% of the SMEs that participated in this study disagreed with the statement meaning that SMEs in Kawempe division are not so clear with the benefits of adopting IFRS for SMEs which impacts on their grows and sustainability

The findings in table 4.9 further shows that 44.7% couple with a low means score of (2.58, SD 1.44) reveals that adoption of IFRS for SMEs leads to verifiable financial statement as 37.9% strongly disagreed with this statement. Adoption of IFRS for SMEs leads to timely reports that ease the decision making which was supported by respondent at 48.6 % with an

average means score of (3.05, SD 1.06), 39.8% of the SMEs that participated in this study disagreed with the statement.

At 50.5% and an average mean of (3.01, SD 1.16), it is revealed that adoption of IFRS for SMEs increases transparency and understandability of information for businesses in Kawempe division (Joachim, 2017) [12]. However, 32.0% of the SMEs that participated in this study were in disagreement with the statement as they revealed that adoption of IFRS for SMEs does not increases transparency and understandability of information by zairani and zaiman (2013) [13]. The findings still indicate SMEs which have not appreciated the adoption of IFRS for SMEs, Albu et al. (2010) [14].

The Interview results is in line with the finding obtained from the questionnaire as the technical team that was interviewed revealed that the increase in IFRS for SMEs adoption cannot be quoted with a lot of ease but what is on record is that adoption of IFRS for SMEs has been increasing.

4.5.1 Regression analysis on the effect of IFRS for SMEs adoption benefits on the quality of financial reports / statements of SMEs

Regression analysis was computed to determine the effect of IFRS for SMEs adoption benefits on the quality of financial reports / statements of SMEs. The results are presented in table 4.10 below;

Table 4.10: ANOVA results on IFRS for SMEs adoption benefits and the quality of financial reports / statements of SMEs.

The researcher computed Anova to confirm whether there is a a statistical influence between IFRS for SMEs adoption benefit and the quality of financial reports / statements of SMEs in Kawempe division and below find the table and explanations of the results.

ANOVA^a

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1.774	1	1.774	4.925	.029[b]
	Residual	36.388	60	.360		
	Total	38.162	82			

a. Dependent Variable: Quality of financial reports / statements

b. Predictors: (Constant), Adoption benefits of IFRS for SMEs

Descriptive statistics on the IFRS for SMEs adoption benefits and the quality of financial reports / statements in Table 4.10 above indicate that, F-Test statistic of the model is 4.925 and the corresponding probability P is 0.029. The p value is significant and the results say that the model is jointly significant. This implies that IFRS for SMEs adoption benefits significantly influence the quality of financial reports / statements of SMEs. As the ANOVA table shows a significant influence has been analyzed in the coefficient table below.

Table 4.11: Coefficient results on IFRS for SMEs adoption benefits on the quality of financial reports / statements of SMEs

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.249	.223		10.066	.000
	Adoption benefits of IFRS for SMEs	.170	.078	.217	2.220	.031

a. Dependent Variable: Quality of financial reports / statements

Results in table 4.11 shows that IFRS for SMEs adoption benefits on the quality of financial reports / statements of SMEs are significant factors as their p-value is 0.031. At a constant of

2.249 and beta value of 0.170. As beta value is positive, IFRS for SMEs adoption benefits is said to have a positive influence on the quality of financial reports / statements of SMEs. Therefore, the results indicate that IFRS for SMEs adoption benefits is assumed to influence the quality of financial reports / statements of SMEs.

Table4.12: Model summary results on the effect of IFRS for SMEs adoption benefits on the quality of financial reports / statements of SMEs

The researcher computed regression analysis to determine whether there is a relationship between IFRS for SMEs adoption benefits and the quality of financial reports / statements of SMEs in Kawempe division, Kampala district- Uganda, multiple coefficient of correlation (R) and Adjusted R^2 all were done to confirm whether a reputable relation exits, below is the model summary:-

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.217ᵃ	.046	.037	.60023

a. Predictors: (Constant), Adoption benefits of IFRS for SMEs
b. Significance levels

Descriptive statistics on the IFRS for SMEs adoption benefits and quality of financial reports / statements in table 4.12 from the model summary above, shows that multiple coefficients of correlation (R) is 0.217 and the results indicate that IFRS for SMEs adoption benefits are having a weak joint association with quality of financial reports / statements of SMEs in Kawempe division. Accordingly, coefficient of determination R^2 = 0.046 and the variation of Adjusted R^2 =0.037 explains how much IFRS for SMEs adoption benefits in this study affects quality of financial reports / statements of SMEs. This indicates that 4.6% of quality of financial reports / statements of SMEs has been explained by the regression model. Therefore, the IFRS for SMEs adoption benefits studied influences quality of financial reports / statements of SMEs by 4.6% and the 95.4% can be explained by other factors than IFRS for SMEs adoption benefits. This means that IFRS for SMEs Adoption benefits have

not yet been seen by SMEs in Kawempe division to have an impact on the quality of their reports and this will result into slow adaption of IFRS for SMEs.

Following the interview findings, the technical team from the Institute of Certified Public accountants of Uganda (ICPAU) stated that adoption of IFRS for SMEs has improved the quality of financial reports / statements of SMEs; this is evidenced by the increasing number of SMEs that participate in the Financial reporting a word (Fire) every year.

4.6 Adoption of IFRS for SMEs and the quality of financial reports

This intends to measure how the adoption of IFRS for SMEs leads to the quality of financial reports. This was important to know the quality of financial reports / statements in the SMEs that participated in this study. The findings are presented in table 4:13 below.

Table 4.13: Findings on adoption of IFRS for SMEs and the quality of financial reports / statements

| Variable items | Percentages | | | | | Measures of central tendency | |
	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Std. Deviation
Financial reports / statements prepared are transparent and clear	17.5	27.2	0.0	50.5	4.9	2.97	1.29
Financial reports / statements are understandable and well presented	22.7	23.0	0.0	49.4	4.7	2.92	1.34
Financial reports / statements are comparable to previous period and with other similar entities	34.9	24.2	2.0	35.8	3.1	2.46	1.37
Financial statement prepared with IFRs are relevant	23.4	26.1	0.0	49.1	1.4	2.81	1.27
Entity's Financial statement are reliable and not misleading	20.1	41.9	0.0	36.8	1.20	2.56	1.18

Source: Primary data N=83

Descriptive statistics on the adoption of IFRS for SMEs and quality of financial reports / statements in table 4.13 above shows that 50.5% with an average mean of (2.97, SD1.29) reveal that the SMEs that participated in this study agreed that their financial reports / statements are transparent and clear (Tanaka, 2015) and 27.2% disagreed with the statement. The findings further indicate that financial reports / statements are understandable and well-

presented which was revealed at 49.4% with an average mean of (2.92, SD1.34) and 22.7% of the SMEs that participated in this study disagreed with the statement.

The results in Table 4.13 also indicates that 35.8% and a low mean score of (2.46, SD 1.37) of the SMEs that participated in this study revealed that financial reports / statements are comparable to previous period and with other similar entities (Mbawuni,2017) [16-17] of this research paper . However, 34.9% of the of the SMEs that participated in this study strongly disagreed with the statement as reported that financial reports / statements are not comparable to previous period and with other similar entities.

At 49.1% with a mean score of (2.81, SD 1.27) of the SMEs that participated in this study agreed that their financial statements prepared with IFRs for SMEs are relevant , 26.1% of the SMEs were in disagreement with this statement. Lastly the results in Table 4.13 indicate 41.9% with a low mean of (2.56, SD 1.18) of the SMEs that participated in this study disagreed that their financial statement are reliable and not misleading implying that they nor reliable and misleading, 36.8% agreed that their financial statement are reliable and not misleading.

The interview findings regarding the above revealed that the financial reports / statements of SMEs submitted to the Institute of certified Public accountants of Uganda (ICPAU) for the financial reporting a word are transparent and clear, understandable, can be compared to other entities in the some industry and are reliable and not misleading. Therefore adoption of IFRS for SMEs benefits has improved the quality of financial reports / statements and the performance of SMEs in Uganda can be compared with that of Kenya. This was stated by the technical team from the Institute of Certified public accountants of Uganda (ICPAU).

4.7 IFRS for SMEs adoption cost and quality of financial reports

This intended to investigate the effect of IFRS for SMEs adoption cost on the quality of financial reports / statements of SMEs. This was important to understand the effect of IFRS for SMEs adoption cost on the quality of financial reports / statements of SMEs of Kawempe division, Kampala district -Uganda and the findings are as presented in Table 4.14.

Table 4.14: Findings on IFRS for SMEs adoption costs

	Percentages					Measures of central tendency	
	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Std. Deviation
The cost of training staff to use IFRS for SMEs is high	16.4	20.4	0.0	60.8	0.0	**3.16**	**1.19**
The cost of external auditor is high	13.0	30.0	0.0	53.2	3.8	**2.94**	**1.29**
Internal auditor personnel cost is high	0.0	27.4	0.0	72.6	0.0	**3.48**	**.94**
The continuous professional development to comply with IFRS for SMEs is high	33.3	25.8	1.6	37.3	2.0	**2.47**	**1.33**
Its time consuming to prepare financial reports / statements following IFRS for SMEs	20.1	27.4	0.0	52.5	0.0	**2.78**	**1.29**
Other operating cost associated with adoption of IFRS for SMEs is high	16.7	22.0	2.0	45.5	13.8	**3.11**	**1.35**

Source: Primary data, N=83

Descriptive statistics on the IFRS for SMEs adoption cost and quality of financial reports / statements in Table 4.14 above indicate that 60.8% with mean of (3.16, SD 1.19),it is revealed that with the adoption of IFRS for SMEs, the cost of training staff to use IFRS for SMEs is high for the SMEs that participated in this study. At 53.2% with an average mean score of (2.94, SD1.29), of the SMEs that participated in this study agreed that the cost of external auditor is high. The results also indicate that 72.6% with a high mean of (3.48, SD 0.90), it is revealed that internal auditor personnel cost incurred by SMEs in Kawempe to adopt IFRS for SMEs is high.

The continuous professional development to comply with IFRS for SMEs is high as 37.3% of the SMEs that participated in this study agreed with the statement. However, at 33.3%, some

of the SMEs that participated in this study strongly disagreed that the continuous professional development to comply with IFRS for SMEs is not high and these two opinions draw a low mean score of (2.47, SD 1.29).

At 50.5% with an average mean of (2.79, SD 1.28) the results in table 4.14 indicate that SMEs that participated in this study revealed that its time consuming to prepare financial reports / statements following IFRS for SMEs thus costing them . Although 27.2% disagreed that preparing financial reports / statements following IFRS for SMEs is not time consuming them.

The findings in Table 4.14 above indicate that 45.5% with an average mean score of (3.11, SD 1.35), of the SMEs that participated in this study indicate that other operating cost associated with adoption of IFRS for SMEs is high. However, 22.0% disagreed with the statement as they see other operating cost associated with adoption of IFRS for SMEs being affordable.

The technical team from the Institute of certified Public accountants of Uganda (ICPAU) revealed that "due to the quality of financial reports / statements exhibited by SMEs in Uganda, SMEs in Uganda have got a forum through which they can obtain public capital to improve their operations and the cost of adoption of IFRS for SMEs is not high following the benefits associated with the adoption of IFRS for SMEs". This was stated by the technical team from the institute of certified public accountants of Uganda (ICPAU).

All in all, it's very important to have quality financial statement prepared by SMEs in Uganda to improve their performance and this will help Uganda to achieve the vision 2040.

4.5.1 Regression analysis on the effect of IFRS for SMEs adoption cost and the quality of financial reports.

Regression analysis was computed to determine the effect of IFRS for SMEs adoption cost on the quality of financial reports / statements of SMEs. The results are presented in Table 4.15 below;

Table 4.15: ANOVA results on IFRS for SMEs adoption cost and the quality of financial reports / statements of SMEs.

Model		Sum of Squares	Df	Mean Square	F	Sig.
	Regression	22.115	1	22.115	139.196	.000[b]
1	Residual	16.047	82	.159		
	Total	38.162	83			

a. Dependent Variable: Quality of financial reports / statements

b. Predictors: (Constant), Cost of adoption of IFRS for SMEs

Descriptive statistics on the IFRS for SMEs adoption cost and quality of financial reports / statements in Table 4.15 above indicate F-Test statistic of the model is 139.196 and the corresponding probability is 0.000. The p-value is highly significant and the results say that the model is jointly significant. This implies that IFRS for SMEs adoption cost significantly influence the quality of financial reports / statements of SMEs. As the ANOVA table indicates a significant influence has been analyzed in the coefficient table below.

Table4.16: Coefficient results on IFRS for SMEs adoption cost on the quality of financial reports / statements of SMEs

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
	(Constant)	.084	.228		.370	.712
1	Cost of adoption of IFRS for SMEs	.890	.075	.761	11.798	.000

a. Dependent Variable: Quality of financial reports / statements

Results in Table 4.16 indicate that IFRS for SMEs adoption cost on the quality of financial value of 0.890 as beta value is positive, IFRS for SMEs adoption costs is said to have a positive influence on the quality of financial reports / statements of SMEs. Therefore, the results indicate that IFRS for SMEs adoption cost is assumed to have the quality of financial reports / statements of SMEs.

Table 4.17: Model summary results on the effect of IFRS for SMEs adoption cost on the quality of financial reports / statements of SMEs

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.761ᵃ	.580	.575	.39860

a. Predictors: (Constant), Cost of adoption of IFRS for SMEs

Descriptive statistics on the IFRS for SMEs adoption cost and quality of financial reports / statements table 4.17 of the model summary above, shows that multiple coefficients of correlation (R) is 0.761 and the results say that IFRS for SMEs adoption cost are having a strong inverse association with quality of financial reports / statements of SMEs. Accordingly, coefficient of determination $R^2 = 0.580$ of the variation of Adjusted $R^2 = 0.575$, explains how much IFRS for SMEs adoption costs in this study affects quality of financial reports / statements of SMEs. This indicates that 58.0% of quality of financial reports / statements of SMEs has been explained by the regression model. Therefore, the IFRS for SMEs adoption cost studied influences quality of financial reports / statements of SMEs by 58.0% and the 42.0% can be explained by other factors than IFRS for SMEs adoption cost.

4.8 The Moderating effect of the entity's size and the relationship between IFRS for SMEs adoption and quality of financial reports / statements

This intended to investigate the moderating effect of size of an entity on IFRS for SMEs adoption and the quality of financial reports / statements of SMEs. This was important to understand the link between the sizes of SMEs, IFRS for SMEs adoption and the quality of financial reports / statements of SMEs in Kawempe division .The findings from the interviews and questionnaires are presented as follows:-

Table 4.18: Findings on the size of SMEs and adoption of IFRS for SMEs

	Percentages					Measures of central tendency	
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Std. Deviation
Small Entities finds the Adoption of IFRS for SMEs not easy	26.5	9.9	0.0	58.4.	5.2	**2.93**	**1.40**
Medium Entities finds the Adoption of IFRS for SMEs easy	16.2	18.7	0.0	57.8	7.3	**3.03**	**1.32**
The Size of an entity has no bearing of the Adoption of IFRS for SMEs	21.1	48.2	10.3	18.0	2.4	**2.20**	**0.93**
Small Entities need to be exempted from Adoption of IFRS for SMEs due to the cost element	10.0	30.4	1.5	55.9	2.2	**3.21**	**1.04**

Source: Primary data N=83

Descriptive statistics on the size of SMEs and adoption of IFRS for SMEs in Table 4.18 above shows that 58.4% with a low mean score of (2.93, SD1.440) of the SMEs that participated in this study revealed that small entities finds hard for them to adopt IFRS for SMEs as this continues to affect the quality of their financial reports / statements (Albu, 2013) and 26.5% of the SMEs that participated in this study strongly disagreed with the statement. At 57.8% with an average mean of (3.03, SD 1.32) it is revealed that medium entities finds it easy for them to adopt IFRS for SMEs Kipchoge (2015) as this improves the quality of their financial reports / statements   in Kawempe division and 18.7% of the SMEs that participated in this study disagree with the statement.

The findings in Table 4.18 further shows that 48.2% couple with a low means score of (2.20, SD 0.93) reveals that the size of an entity facilitates the adoption of IFRS for SMEs as 21.1% disagrees with this statement.

At 55.9% and an average mean of (3.21, SD 1.04), it is revealed that small entities need to be exempted from adoption of IFRS for SMEs due to its cost element or else they will not benefit from this set of accounting standards (Kanu, 2014) . However, 30.4% of the SMEs that participated in this study were in disagreement with the statement as they revealed that, this set of accounting standards is still important despite the cost it has on SMEs.

The interview findings revealed that the institute of certified public accountants of Uganda (ICPAU) did not look at the size of an entity to decide which entity adopt IFRS for SMEs but they used the following criteria to determine which entity to adopt IFRS for SMEs (a) Entities that does not have public accountability, (b) That publish general purpose financial statements for external users, (c) Entities whose debt and equity instruments is not traded in public market and not in the process of issuing such instruments in public market and (d) An entity that does not hold money in fiduciary capacity for a broader group of outsiders. This means that all entities that follow into that category should apply IFRS for SMEs. Size of an entity is not an issue they, added. For ICPAU, size of an entity seems not to affect the adoption of IFRS for SMEs but the above (Nadia and Catalin,2014) . The interview finding has diverted from the questionnaires results meaning that ICPAU need to get empirical evidence that will help them to consider size as a key factor in the adoption and implementation of IFRS for SMEs Uganda**.**

4.8.1 Regression analysis of the moderating effect of the entity's size and the relationship between IFRS for SMEs adoption and the quality of financial reports.

Regression analysis was computed to determine if the entity's size has a relation between IFRS for SMES adoption and the quality of financial reports / statements of SMEs in Kawempe division. The results are presented in Table 4.19 below;

Table 4.19: ANOVA results on the moderating effect of the entity's size and the relationship between IFRS for SMES adoption and the quality of financial reports.

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	25.220	1	25.220	97.190	.000[b]
	Residual	26.209	82	.259		
	Total	51.430	83			

a. Dependent Variable: Adoption of FRS for SMES

a.   Predictors: (Constant), Size of SMEs

Results on the size of an entity, IFRS for SMEs adoption and the quality of financial reports / statements in Table 4.19 above indicate that, F-Test statistic of the model is 97.190 and the corresponding probability P is 0.000. The p value is significant and the results say that the model is jointly significant. This implies that the size of an entity significantly influences adoption and the quality of financial reports / statements of SMEs. As the ANOVA table shows a significant influence has been analyzed in the coefficient table above.

Table 4.20: Model Summary results on the moderating effect of the entity's size and the *relationship between IFRS for SMEs adoption and the quality of financial reports*.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.700ᵃ	.490	.485	.50941

b. Predictors: (Constant), Size of SMEs.

The results from the Table 4.20 from the model summary above, shows that multiple coefficients of correlation (R) is 0.700 and the results say that entity's size is has a positive relationship between IFRS for SMEs adoption and the quality of financial reports. Accordingly, Coefficient of determination R^2 =0.490 and the variation of Adjusted R^2 =0.485, explaining how much the size of an entity in this study influences the adoption of IFRS for SMEs and the quality of financial reports / statements of SMEs. The model indicates that the size of an entity explains the relationship between IFRS for SMEs adoption and the quality of financial reports / statements of SMEs by 0.490. The fore the entity's size studied in this study influences adoption of IFRS for SMEs and quality of their financial reports / statements by 49% and the 51% can be explained by other factors than the entity's size.

CHAPTER FIVE

DISCUSSION SUMMARY, CONCLUSION, RECOMMENDATIONS AND AREAS FOR FURTHER STUDIES

5.0 Introduction

This chapter presents discussion and summary of study findings as presented in chapter four, conclusions and recommendations plus areas for further research.

5.1 Discussion of major findings

5.1.1 Adoption of IFRS for SMEs and disclosure levels

According to the findings, it is revealed that the SMEs that participated in this study disclose deadlines of meetings and their obligations in the financial statements (Refer to Chapter 4 page33). This indicates that the majority of SMEs in Kawempe disclose obligations in their financial statements .The findings were in agreement with Perera& hand(2015) whose findings showed that SMEs play a very significant part in the economic development of the country through creating employment opportunities they attract foreign investors (Siam & Rahahleh, 2010). In 2003, IASB started to develop a uniform accounting framework which is simple, high –quality and can meet the need of SMES (Müllerová *et al.*, 2010). In 2004, views about IFRS for SMEs commenced and in 2005, IASB issued a staff questionnaire to obtain views about the recognition and measurement IFRS for SMEs; in 2007 the exposure drafts were published (Fearnley & Hines, 2007). In July 2009, IFRS for SMEs was published as a new financial reports / statements standard for SMEs (Albu *et al.*, 2010). IFRS for SMEs were published for entities that (a) does not public accountability, (b) that publish general purpose financial statements for external users, (c) entities whose debt and equity instruments is not traded in public market and not in the process of issuing such instruments in public

market and (d) an entity that does not hold money in fiduciary capacity for a broader group of outriders (IASB foundation, 2015).

5.1.2 IFRS for SMEs and adoption benefits

The findings on this objective revealed that the SMEs which participated benefit from the adoption of IFRS for SMEs as it leads to timely reports that ease the decision making and increases transparency and understandability of information of their business Refer to chapter 4 page 37).The findings confirms with Mabruk (2013) whose findings showed that IFRS for SMEs was introduced and adopted to improve transparency of SMEs financial reports / statements Joachim (2017), in a study he conducted with a sample population of 24 accounting experts around 24 jurisdictions, the findings were; adoption of IFRS for SMEs improves transparency of SMEs financial reports / statements unfortunately, the results in this study remained a trail and cannot be generalized to benefit this researcher problem, following a study conducted in Turkey about the perception of SMEs about IFRS for SMEs, it was conclusion that financial statements prepared following IFRS for SMEs are transparent (Ali, Merve, & Basak, Perception of SMEs on the IFRS for SMEs: The case of Turkey, 2013).

According to the findings in chapter four, it was revealed that adoption of IFRS leads to increased comparability of our financial reports / statements with similar entity. This finding can be correlated with Fazeena et al. (2012) as also discovered via in- depth interviews that a single set of IFRS for SMEs if adopted will result into transparency of SMEs' financial statements and improve consistence and comparability of the financial reports, the limitation of the study was the small sample that limited the generalization the findings to developing economies like Uganda, Kawempe division inclusive. Adoption of IFRS for SMEs leads to high quality financial reports / statements which are transparent and their benefits outweighs their disadvantages.

5.1.3 Adoption of IFRS for SMEs and quality financial reports

Basing on the findings in chapter four, it was revealed that financial reports / statements prepared are transparent and clear and financial statement prepared with IFRs for SMEs are relevant as per the majority SMEs which participated in this study (Refer to chapter 4 page 40). These are supported by the literature as Boateng (2014) stated that SMEs that have adopted IFRS for SMEs have greatly reduced the cost of Capital made their financial reports / statements transparent and have improved their reports Odia and Ogiedu (2013), adoption of IFRS for SMEs is less costly compared to the cost of developing local accounting standards (Bonito, 2018).

The findings further revealed that financial reports / statements are understandable and well presented. This indicates that the majority of SMEs in Kawempe that financial reports / statements are understandable and well presented. However, it is also found that with some SMEs, their financial reports / statements are not comparable to previous period and with other similar entities this because they don't comply with the IFRS for SMEs. Bertoni, (2013) revealed that it's very important to note that many SMEs have not adopted IFRS for SMEs because of its cost, in the study conducted in Turkey via in-depth interview methodology asserted that adoption of IFRS for SMEs cost is one of the greatest disadvantages to the adoption process and this has affected the quality of financial reports, while in complying to IFRS for SMEs in order to produce quality financial reports / statements is excessively troublesome and costly.

5.1.4 IFRS for SMEs adoption cost and quality of financial reports

Considering the study findings of this objective, it was revealed that the cost of training staff to use IFRS for SMEs and hiring internal auditor personnel are high (Refer to chapter 4 page 48 and 49). This finding meant that majority of SMEs in Kawempe are faced with high cost of training staff to use IFRS for SMEs and hiring of internal auditor personnel. This was in

agreement with Brigitte and Alex (2009) stated that SMEs don't have the resources and human resource needed to adopted and maintain IFRS for SMEs, this was reveled in the study they conducted in German via a questionnaire methodology.Lorena and Adrian (2013) asserted in the study conducted in Croatia via questionnaire that ISAB need to develop another set of accounting standard to meet the financial needs of very small entity. its' likely that firms with medium size will adopt IFRS for SMEs faster than small enterprises (Kipchoge, 2015) because they have the required resources to support the adoption, micro-entities that cannot manage to pay auditing expenses needs to be exempted from reports using IFRS for SMEs (Merve & Ali, 2017).

The findings also indicate that adopting IFRS for SMEs its time consuming to prepare financial reports / statements following IFRS for SMEs. To support the this finding Albu, (2013) noted that Micro- entities may need to be exempted from reports following IFRS for SMEs because of their cost implication yet Agbeibor (2012) asserted that micro entities have low levels of operation both globally and locally as a result they may not need IFRS for SME.

5.1.4 Size of SMEs and adoption of IFRS for SMEs

The findings on this objective revealed that the size of SMEs affects the adoption of IFRS for SMEs. Medium enterprises find it easy to adopt IFRS for SMEs [52-53]. The findings confirms with Kipchope (2015) whose findings showed that Medium sized entities will adopt IFRS for SMEs faster than small enterprises because they have the required resources to support the adoption of IFRS for SMEs process, the findings to this objective also revealed that Small entities need to be exempted from applying IFRS for SMEs due to the cost of applying IFRS for SMEs , following a study conducted by Merve & Ali (2017), it was concluded that small entities which cannot afford to pay audit expenses should be exempted from reports using IFRS for SMEs.

According to the findings in chapter four, it was revealed that the size of an SME has a bearing on the adoption of IFRS for SMEs to SMEs that participated in this study. This finding can be correlated with Agbeibor (2012) as also discovered via in- depth interviews that micro entities have low levels of operations both globally and locally as they may not need IFRS for SMEs.

5.2 Summary of major findings

5.2.1 Adoption of IFRS for SMEs and disclosure levels

The findings in chapter four revealed that SMEs that participated comply with IFRS for SMEs by 49.51% and they adopted IFRS for SMEs between 2013-2015 before they were not using GAAPs as illustrated in figure 2, 3 and 4 in chapter four. In adoption of IFRS for SMEs, at least 80% of the participated SMEs ensured proper disclosure of their financial statements as indicated in table 4.5, their financial reports / statements contains the financial position / balance sheet, statement of cash-flows, the directors/ management report and discloses prior year cooperative information.

The findings in Table 4.6 further indicate that the adoption of IFRS for SMEs and disclosure levels of property plant and equipment at least 87% of the participated SMEs, their financial statements discloses useful life economic life of assets and the policies used to estimate the depreciation of the assets. The findings in Table 4.7 on adoption of IFRS for SMEs and disclosure levels of Intangible assets and inventory indicate that 77% of the participated SMEs their financial statements disclose the composition of intangible assets, the policy used to estimate the value of stocks and the fair value of their stocks. The findings as in Table 4.8 also indicate that in adoption of IFRS for SMEs and disclosure levels of creditors/financing, at least 75% of the participated SMEs in this study disclose the accounting policy adopted for financial instruments, a list of creditors in our financial statement and all their financial products in the financial statement.

5.2.2 IFRS for SMEs and adoption benefits

It was revealed that IFRS for SMEs and adoption benefits significantly affects the quality of financial reports. The significant effect was obtained with a coefficient of determination R^2 (0.046) as indicated in Table 4.10 of chapter four. To support this finding, it was revealed that the SMEs that participated in this study confirmed that adoption of IFRS for SMEs leads to timely reports that ease the decision making and increases transparency and understandability of information of their business.

5.2.3 Adoption of IFRS for SMEs and quality financial reports

According to the findings in chapter four, it was revealed that about 50% of the SMEs that participated in this study, their financial reports / statements prepared are transparent and clear and financial statement prepared with IFRs for SMEs are relevant.

5.2.4 IFRS for SMEs adoption cost and quality of financial reports

The study findings on this objective indicate a significant effect of IFRS for SMEs adoption cost on quality of financial reports. The effect was observed at coefficient of determination R^2 (0.580) of table 13. This implies that the SMEs are affected by IFRS for SMEs adoption cost for the quality of financial reports / statements as the cost of training staff to use IFRS for SMEs is high and Internal auditor personnel cost is high.

5.3.0 Conclusion of the study

5.3.1 Adoption of IFRS for SMEs and disclosure levels

This finding intended to determine the adoption of IFRS for SMEs and disclosure level. The findings in chapter four indicate that the SMEs that participated in this study their financial statement contains statement of cash-flows, the directors/ management report, discloses the policies used to estimate the depreciation of their Assets, discloses the composition of their

intangible assets and the accounting policy adopted for financial instruments. However, the findings in figure 2 indicate about 50.49% of the SMEs do not comply with the IFRS for SMEs to disclose their levels of financial reports / statements which needs to be improved by these SMEs.

5.3.2. IFRS for SMEs and adoption benefits

The study findings as in chapter four on this objective indicate that adoption of IFRS for SMEs leads to timely reports that ease the decision making and increases transparency and understandability of information of the business for SMEs and this was revealed at an average means score of (3.05, SD=1.06). However, it can be revealed that some of the SMEs that participated in this study, the adoption of IFRS for SMEs leads less to verifiable financial statement.

5.3.3 Adoption of IFRS for SMEs and quality financial reports

From the findings as in chapter four, it has been revealed that at an average mean of (2.98, SD=1.28) financial reports / statements prepared following IFRS for SMEs are transparent and clear and relevant. However, much as the results indicate transparency, clear and relevance of the financial reports / statements prepared using the IFRS for SMEs, some financial reports / statements are not comparable to previous period and with other similar entities which need to be improved.

5.3.4 IFRS for SMEs adoption cost and quality of financial reports

The results on this objective indicate that IFRS for SMEs adoption cost significantly affects quality of financial reports. This was revealed at a high mean of (3.42, SD=0.91) as revealed that internal auditor personnel cost is high and the cost of training staff to use IFRS for SMEs is high. However, the results indicate the need to reduce internal auditor personnel cost and cost of training staff to use IFRS for SMEs.

5.3.5 Size of SMEs and adoption of IFRS for SMEs

The results on this objective indicate that the size of SMEs significantly affects the adoption of IFRS for SMEs. This was revealed at a high mean of (3.23, SD=1.02) as revealed that Small entities need to be exempted from reports using IFRS for SMEs due to the cost element. However, the results indicate the need to define SMEs according to size and reduce the application requirements of IFRS for SMEs to ensure that even the smaller SMEs can apply this set of accounting standards to improve the quality of their financial reports.

5.4.0 Recommendations

In light of the above, this study recommends that regulators of the accounting practices in Uganda (ICPAU) should do the following,

- The government (ICPAU) should put in place policies that enforce all SMEs to use and adopt IFRS for SMEs in order to improve the quality of their financial reports
- The government (ICPAU) should reduce on the cost of adopting IFRS for SMEs
- The government (ICPAU) should come up with and or put in place policies that encourages all SMEs to use certified auditors, like the government (ICPAU) should request certified public accountants to give probono services to SMEs who are in poor financial state, this will reduce on the adoption cost while improving the quality of their financial reports.
- ICPAU should further categorize SMEs according to size and re-direct the application of IFRS according to different sizes instead of the current criteria used.

5.5.0 Areas for further studies

Much as the researchers have done a lot in this study, the current adoption level of IFRS for SMEs in Uganda is still a challenge. It's very important that more scholars invest time in this area so that more empirical studies add knowledge in this area to have improved quality reports. This will reduce on the rate at which SMEs are dying out before their second

birthday (Mwebesa, 2018) and this will enable Uganda to achieve her vision 2040. The following are suggested for further research:

A study with a larger geographical area could be carried out so that a more evocative response can be obtained to ensure appropriate and acceptable simplification.

A study could be conducted on the larger SMEs that do not qualify to use full IFRS for SMEs and are not using IFRS for SMEs

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APPENDICES

- Letter of introduction to research

- Acceptance letter

- Certificate of collection of thesis