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THE COMPLIANCE AND CHALLENGES OF IMPLIMENTING  
INTERNATIONAL FINANCIAL REPORTING STANDARD FOR  
SMALL AND MEDIUM ENTERPRISES (IFRS for SMEs) IN  
TANZANIA

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## LIST OF ABBREVIATION

ACCA	Association of Chartered and Certified Accountants
AICPA	American Institute of Certified Public Accountants
BOT	Bank of Tanzania
EAC	East African Community
EU	European Union
FRSM	Financial Reporting Standards for Micro entities.
GAAP	General Accepted Accounting Principals
GDP	Gross Domestic Product
IASB	International Accounting Standard Board
IFAC	International Federation of Accountants
IFC	International Finance Corporation
IFRS	International Financial Reporting Standard
IPSAS	International Public-Sector Accounting Standard
MNC	Multinational Company
MSME	Micro, Small and Medium Enterprises
NBAA	National Board of Accountants and Auditors
NBS	National Bureau of Statistic
NBSR	National Baseline Survey Report
OECD	Organisation of Economic Co-operation and Development
SBR	Statistical Business Register
SPSS	Statistical Package for the Social Science
TFAS	Tanzania Financial Accounting Standards
TRA	Tanzania Revenue Authority
URT	United Republic of Tanzania



## ABSTRACT

Small and Medium-sized Enterprises (SMEs) play a crucial role and forms a dominant part of the overall economy in most countries. In developed, emerging and developing countries of which Tanzania is not exceptional. Consequently, the financial reporting framework of this sector is of importance. The research work deals with assessing the level of compliance and challenges faced by SMEs in adopting and implementing International Financial Reporting Standard (IFRS) for SMEs in Tanzania. The adoption of the standard is perceived to result into comparability of SMEs financial information and easier access to capital. Despite the preserved benefits arising from complying with IFRS for SMEs, these entities are still reluctant to adopt the standard and they face challenges in implementing it. The study intends to uncover the reasons and subsequently to ascertain the cause of the problem. The research has been conducted in Dar es Salaam and Mbeya regions in Tanzania. A descriptive survey has been applied and a random sampling technique has been used to select SMEs operating in the two regions coming from different sectors including retail, manufacturing, health as well as consulting firms. Research instruments used were questionnaires. The study findings reveal that there is low compliance to IFRS for SMEs, the low compliance is mainly due to quite high costs of implementation and indeed, even ignorance about the existence of IFRS for SMEs. Moreover, lack of infrastructure and an absence of separation between ownership and management of business hinder most SMEs from maintaining accounting records. In addition, most of the SMEs employees lack basic accounting records knowledge. Also, it was observed that, at present, the IFRS for SMEs' requirements are still too complex, preventing micro entities from adopting the standard. Hence, the study recommends to the Tanzanian National Board of Accountants and Auditors (NBAA) a further review of the standard to be applied for both micro and small entities.

In general, the research suggests to policy makers and standard setter to put a stronger effort on encouraging the adoption of IFRS for SMEs through the organization of seminars or workshops in which micro and small enterprises should be actively involved. Consequently, SMEs may perceive the benefits connected with the adoption of IFRS for SMEs and formalizing their business operations.

**Key terms:** IFRS, SMEs, IFRS for SMEs and financial reporting



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## CHAPTER ONE

### INTRODUCTION AND PROBLEM SETTING

#### 1.0 Back ground of the problem

SMEs play a key role in transition and developing countries. These firms typically account for more than 90% of all firms outside the agricultural sector, they constitute a major source of employment and generate significant domestic and export earnings. As such, SME development emerges as a key instrument in poverty reduction efforts (OECD, 2004, p. 5)<sup>1</sup>. According to Peter Drucker (2009), small enterprises represent the main catalyst of economic development. The author continues to argue that, these SMEs contribute significantly to achieving the fundamental goals to any national economy, becoming the backbone of social-economic progress. Also, the International Accounting Standard Board (2010) estimated that, 95% of entities in the world fall under the scope of SMEs.

In European Union economy, SMES are the source of innovation, entrepreneurship skills and job creation (Ciubotariu, 2013, p 202). While in USA, SMEs are regarded as the backbone of the US economy and primary source of jobs for Americans.<sup>2</sup> Also, SMEs are seen by many government to be important in providing job opportunities, innovation and investment in many developing countries (Devi and Sumujh, 2015). Further, according to entrepreneurial toolkit reports (2010) in Kenya, the sector employs over 80% of the total population. While in Tanzania SMEs contribute significantly to the country's GDP where 90% of all the firms excluding agriculture are SMEs (BOT, 2015).

As SMEs has becomes the matter of interest for many researchers, Carpenter and Petersen (2002) claimed that, the main sources of finance for SMEs are owner's source, family and friends which most of the time is limited and does not allow growth for SMEs. However, to enhance its growth SMEs need access to external fund mainly from Banks and other credit institutions as well as venture capitalist for start-ups. Although, the capital requirement for establishment of SMEs is quite small compared to large entities, still

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<sup>1</sup> OCED 2<sup>nd</sup> conference of ministers responsible for Small and Medium-sized Enterprises(SME) Istanbul, Turkey 2004

<sup>2</sup> <https://ustr.gov/issue-areas/small-business>



worldwide the greatest challenge facing SMEs is access to finance (Maas and Harrington 2016; Harrington et al, 2009). Further, the OECD report (2004) added that, SMEs are characterised by Information asymmetry arising from SMEs' lack of accounting records, inadequate financial statements or business plans. Thus, making it difficult for creditors and investor to assess the creditworthiness of potential SME proposal.

Most of financial institutions especially banks use accounting information to assess the credit worthiness of a company when a loan is to be advanced (Kenneth and Grazyna, 2013). The lack of clear standard form of financial reporting for SMEs increases the cost of capital (interest) because it reduces the reliability of the SMEs financial figures. Various studies have shown that the major reasons for SMEs failure are due to poor financial management and reporting (Kenneth and Grazyna, 2013). Therefore, it's deemed important for SMEs to adopt a standard form of financial reporting for several reasons including comparability of reported financial information, the need for high quality information and easier access to finances.

Kenneth and Grazyna (2013) continues to argue that, most of SMEs prepare their financial information following their local GAAP and few using the IFRS, the result is lack of comparability across national boundaries. The inconsistent bring out difficulties for SMEs who wishes to involve themselves in International trade or list its shares on a capital market. Also, the adoption of full IFRS may be more difficult when the firm becomes larger. According to IASB (2010) the board claimed that a widely understood, consistent framework will allow for easier analysis and comprehension by SMEs capital providers.

For this reason, the International Accounting Standard Board (IASB) introduced an International Financial Reporting Standard (IFRS) designed for Small and Medium Sizes Enterprises (SMEs) on July 2009 (IASB, 2010). The introduction of IFRS for SMEs was influenced by lack of common reporting framework for SMEs and challenges faced by SMEs in adopting full IFRS in financial reporting (Nazri, 2010). In addition, the standard is a response to the international demand from both developing and emerging economies for a common set of standards of accounting for smaller and medium enterprises (Walton, 2011).



Further, Alexandrou *et al* (2010) reported that, the necessity of establishing a unique financial reporting schemes emerged mainly due to two main predicaments among large corporations and SMEs related with the users' needs and concerns. In other words, there are, differences between the users of financial statement of large scale (listed companies) and those of SMEs, regarding their needs and type of information they use.

Moreover, Kenneth and Grazyna (2013) argued that the main reasons for a separate accounting standards for SMEs is the undue cost burden of reporting using full IFRS which is heavier for smaller firm and cannot be vindicated based on SMEs user's needs. Also, an excessive disclosure requirement which are too complex and sophisticated for SMEs transaction. Likewise, the IASB (2009) argued that the full IFRS reporting framework is based on the needs of e large corporation listed in the stock market and are different from those of SMEs.

Given the need for the IFRS for SMEs, the standard ought to provide comparability for users of accounts while enhancing the overall confidence in the account of SMEs and reducing the significant cost involved on maintaining standards on a national basis. Also, the adoption will lead to improved SMEs financial reporting, increase investors' confidence and improve compliance to accounting regulations (Hope *et al*, 2006; Lungu *et al*, 2007; Mage, 2010).

In fact, irrespective of their size, SMEs in many jurisdictions are required to prepare financial reports that conform to set of accounting principles (Kenneth and Grazyina, 2013). In most cases, SMEs preparation of financial statement follows certain tax legislation, especially filling tax return (IFRS f,2011). For European Union, SMEs continue to comply with EU directives<sup>3</sup> because member states have not yet adopted the IFRS for SMEs. In UK, the country opted for tree tier approach, IFRS for SMEs would be modified to comply with UK and EU law and easy tax reporting (IFAC, 2009). For the South African case, the first country to adopt the IFRS for SMEs as its national standard, uses three tier approaches (IFRS, IFRS for SMEs and for Micro- GAAP) this is according to IFAC press

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<sup>3</sup> European Union Accounting requirement for SMEs Published on 30<sup>th</sup> June 2011. [https://ec.europa.eu/growth/smes/business-friendly-environment/accounting\\_en](https://ec.europa.eu/growth/smes/business-friendly-environment/accounting_en)



release in July (2009). In Tanzania, according to NBAA, all the companies/Partnership are required to prepare their financial statements in accordance with IFRS, except for companies that meet condition for SMEs such companies have the option of adopting IFRS for SMEs or Full IFRS. The adoption of IFRs for SMEs in Tanzania took place in 2009.

However, despite the advantages coming from the adoption and implementations of IFRS for SMEs, studies show that there is a low level of uptake of IFRS for SMEs reporting framework in many jurisdictions (Kenneth and Grazyina, 2013). Starting with Aamir and Farooq (2010), who examined the suitability and difficulties faced by SMEs in Sweden towards adoption of IFRS for SMEs. Their research findings exhibited that SMEs in Sweden are not inclined towards IFRs for SMEs and are not ready in any way to adopt these standards. They argue that, Swedish GAAP has been designed over years and all SMEs are very much familiar with the rules and principles applicable in Swedish GAAP. Therefore, according to their research SMEs in Sweden are mostly ignorant to the introduction of IFRS for SMEs, are not prepared in any way to adopt the standard and had no willingness to adopt IFRS for SMEs in their financial reporting.

Further, in study of Alexandrou *et al* (2010) which examined how small and medium sized entities in Greece, UK, Turkey, and Lithuania use or intent to adopt the IFRS for SMEs. The study findings from the viewpoint of preparers of the financial statements in the researched countries showed that the introduction of these “tailor made” international standards for SMEs will bring certain costs which are not surely overcome by foreseen benefits.

Furthermore, Alp and Ustundag (2009) cited potential knowledge shortfall as one among the challenge that SMEs in developing countries faces when adopting and implementing IFRS for SMEs. Supplementary, Irvine and Lucas (2006) pointed out that lack of accounting education and training as one of the challenges SMEs face in adopting the standard. They noted that practical implementation of IFRS requires adequate technical capacity among preparers and users of financial statements, auditors and regulatory authorities. More importantly, they emphasize that training materials on IFRS are often not readily available at affordable costs.



Also, study by Kenneth and Grazyina (2013) in Zimbabwe continued to confirm the challenges faced by SMEs in adopting IFRS for SMEs. Research findings showed that 80% of the SMEs did not maintain accounting records, while none had adopted IFRS for SMEs. What's more, the research found out that, few SMEs prepare the Statement of Comprehensive Income, Statement of Financial Position and Statement of Cash flows. Plus, most of the employees in SMEs lacked basic accounting financial knowledge. Further the study revealed that, little effort was being made to encourage the adoption of IFRS for SMEs by the policy makers within the retail trade sector. Also, the non-adoption of the IFRS for SMEs has been prompted by ignorance of their existence, lack of separation of ownership from management and lack of capacity to implement the IFRS's.

Further, Robert and Sian (2016) in their paper entitled "Micro-entity financial Report" perspective of prepares and users. The authors pointed out that, respondents were concerned that the level of literacy, lack of accounting education and absence of computerised accounting system may impair the ability of such entities to produce financial information in accordance with IFRS in developing countries.

Based on the findings from different studies, one can argue that even with the suggested benefit, the IFRS for SMEs are perceived to be a burden and too difficult for SMEs to adopt as it was stated by (Rudzan and Manda, 2016, p 214.). Nevertheless, most of those studies have been carried out in developed countries with very few from other countries especially developing countries (Kenneth and Grazyina, 2013, p 3). Besides, the available studies for developing countries have mainly focused on the adoption process and not on the challenges hindering the implementation of IFRS for SMEs. Additionally, many studies are based on the challenges of adopting full IFRSs. Therefore, it's essential to look on the challenges which hinders the effective implementation of IFRS for SMEs specifically in developing countries as it was suggested by different studies. (Kenneth and Grazyina 2013; Rudzan and Manda 2016; Nzunda 2015).

This study, attempt to bridge the gap and take a closer look on the compliance and challenges faced by SMEs, in the process of adopting and implementing IFRS for SMEs in Tanzania. The study is therefore motivated by the absence of studies focusing on challenges of implementing IFRS for SMEs in Tanzania



### **1.1 Statement of the problem.**

In Tanzania, since 2009 the National Board of Accountants and Auditors required all companies to prepare their financial statements in accordance with full IFRS, except for companies that meet condition for SMEs and non-public accountable entities. These have an option of adopting IFRS for SMEs; the entities include both private business entities as well as some of the government entities (NBAA, 2009).

The adaptations of IFRS for SMEs by SMEs is considered to lead to improved financial reporting, improved national comparability of business result and improve access to capital (Hope *et al*, 2006; Lungu *et al*, 2007; Mage, 2010). According to (Bunea-Bontas *et al*, 2011) the authors argued that, the implementation of IFRS for SMEs will enhance the confidence on the SMEs financial reports. Further, IASB (2009) stated that SMEs compliance to IFRS for SMEs will result into comparability of financial information of SMEs at either national or International level. Moreover, making it easier to implement planned cross border acquisition and initiate proposed partnership or corporation agreement with foreign entities. Additionally, it will also help SMEs to reach international markets and enhance the financial health of the SMEs.

Notwithstanding the benefit cited above, the compliance to IFRS for SMEs still faces considerable challenges. According to Rudzan and Manda (2016, p 214) the authors argued that there is a possibility of cost of adopting the IFRS for SMEs exceeding the anticipated benefit. A study by Poroy and Sipahi (2007) noted that the transition of IFRS for SMEs will be difficult because of the low corporate level of SMEs and different tax legislation. In addition, it has been observed that in many cases SMEs are required to prepare financial statement in compliance with certain tax legislation, mainly for filing tax return (IASB, 2011).

In Tanzania SMEs are the tax payers and major door for collecting taxes from consumers. That is why SMEs refrain from compliance to full IFRS to hide their performance which will in turn lower their tax burden (Nzunda, 2013, p 5). According to Olomi (2003) the author argued that, SME 's in Tanzania find it difficult to comply with the big number of





taxes, records keeping, timing of taxes reporting and payment, the tax bases and exemptions. In fact, there over 27 taxes and levies to be adhered by SME 's in Tanzania, which brings complexity in compliance, and forces the SME 's to hire expensive external accountants to prepare their tax returns. Consequently, it has increased the perceived cost of compliance. Further, Levy (1993), observed that in Tanzania, regulatory and tax constraint, appear largest for the smallest firms, declining accordingly as firms grow. Because enforcement is non-selective, the bureaucratic burden of negotiating with government officials is greatest for small firms. The high cost of compliance to regulations may discourage potential entrepreneurs from formally setting up their own businesses while driving some existing enterprises out of business and those working for them into unemployment.

Furthermore, according to Kitindi (2000) a substantial number of Tanzanian SMEs are characterised by lack of separation between ownership and management of business. As a result, to owner-manager situation which dominates all the affairs of the business and obstruct the motivation of SMEs to maintain the accounting information and complying with IFRS for SMEs. Lastly, given the informal nature of SMES in Tanzania compliance is proved to be huge problem. In addition, SMEs unlike large companies do not have the same information requirement concerning financial reporting of external users (IFAC,2006; Alexandrou *et al*, 2010). Also, IASB recognised that users of private financial statement may have a different focus from those interested in publicly listed companies. Thus, the main users of SMEs financial statements are the tax authorities and Lenders (Banks).

An investigation by Nzunda (2013) on compliance and non-compliance of Tanzania SMEs to IFRS, a survey made at Morogoro municipal. As well as, the study by Msuya and Maleko (2015) titled "non-compliance and challenges of implementing IFRS in saving and Credit corporate society (SACCOS) in Shinyanga". The two studies revealed that compliance to the IFRSs is very low. However, the studies focused mainly on the adoption of full IFRS in general. Besides, the studies covered a small and specific geographical area in Tanzania which cannot be regarded as full representation of the whole SMEs in the country. In





addition, there are no enough studies focusing specifically on challenges of implementing the IFRS for SMEs in Tanzania.

Therefore, this study intended to fulfil the existing gap by assessing the compliance and challenges facing SMEs in Tanzania during implementation of the IFRS for SMEs.

## **1. 2 Research objectives**

The objectives of this study are divided into two main parts: General objectives and specific objective as enumerated here under:

### **1. 2 .1 General objective**

To general objective of the study is to assess the compliance level and challenges being faced by SMEs in Tanzania in implementing the IFRS for SMEs.

### **1.2 .2 Specific objectives**

- i. To determine the degree of Tanzania SMEs to the adoption of IFRS for SMEs
- ii. To identify challenges which are stopping them from adopting the standard, if they have not adopted the standard
- iii. To identify the challenges being faced by the SMEs in Tanzania in implementing IFRS for SMEs, if they chose to adopt the standard

## **1.3 Research questions**

- i. To what degree have Tanzanian SMEs adopted IFRS for SMEs?
- ii. What challenges have stopped them from doing so, if they have not adopted the standard?
- iii. What are challenges facing SMES in Tanzania in implementation of IFRS for SMEs, if they chose to adopt it?

## **1.4 Significant of the study**

The study contributes to the understanding of International Financial Reporting Standard in Tanzanian context by standard setters both at national level (NBAA in Tanzania) and international level (IASB). It also, generates the knowledge on the main attribute that affect the compliance of SMEs to IFRS for SMEs standard in Tanzania. Also, the study



pointed out challenges that limit the effective implementation of the standard and help standard setters to find possible solution for SMEs and their financial reporting framework. In addition, through this study findings and investigation NBAA may use them to assess its decisions regarding the adoption IFRS for SMEs.

Further, the study is the source of knowledge to SMEs concerning the availability of a tailored standard for their reporting purposes (IFRS for SMEs) with less complexity and few disclosures in comparison with full IFRS. Also, the research enlightens SMEs with the benefits of adopting and effective implementation of IFRS for SMEs for example easier access of capital, compliance to tax rules and comparability of its financial performances. What's more, it helps SMEs learn the importance of having a standard format for reporting its financial result which is also a tool good for business management.

To government of Tanzania the findings of the study may be used to improve the policies and regulations including Tax laws, Companies Act, Accounting and Auditing Act on issues relating to SMEs. Moreover, the Tanzania Revenue Authority through this study will be in position to device the possible ways of determining SMEs gross profit, assess directors' fees and looking at tax provisions. Thus, ensuring that SMEs expenses are reasonable and check for a clean audit report without blemishing the operation environment of SMEs

Lastly, the research will be useful as a literature review because it lays a foundation for further research concerning SMEs and its compliance to IFRS and contribution to the economy. Supplementary, the finding may raise the discussion on the appropriateness of IFRS for SMEs as a reporting framework for both micro and small entities in Tanzania.

### **1.5 Scope of the study**

The research work focused on the compliance and challenges of implementing IFRS for SMEs by Tanzanian SMEs. The study was limited to two regions (Dar-es-salaam and Mbeya) because according to 2014/2015 statistical business register survey(SBR), Dar es salaam region has the largest number (29,060) followed by Mbeya region (11,103). These two case studies give a representative conclusion of the study research questions, since it is not possible to conduct this study in the whole country due to time factors, size and geographic location of our country which is too wide.



### **1.6 Limitation of the study**

The study was constrained with several limitations. For instance, there was inadequacy literatures connected to the topic for Tanzanian case which limited a researcher to gain deeper empirical evidence of the real situation in Tanzania context. Furthermore, as it was expected that the respondent rate would be low due to respondent being reluctant to provide information due to fear and lack of understanding. Also, during the study some of respondents disagreed to receive the questionnaire, this forced the researcher to take more time to explain to the respondents the implication of the study. In fact, some respondents stated that *"Your working for the government (tax collector) your investigating our business"* while other respondent where busy with their daily activities and others were not present at their working places. The two-situation forced the researcher to revisit respondents more than required, in some cases the researcher visited the same respondent up to four times to collect the questionnaire. Nonetheless, a continuous follow-up of respondents assured task accomplishment.

### **1.7 Organisation of the study**

This report is organized in five chapters. Chapter one introduced the study by giving the background to the study, statement of the problem, objectives of the study, research questions and significance of the study. Followed by, the Scope of the study and then limitation of the study which are explained at the end of this chapter. The remaining chapters of the study have been structured as follows: chapter two discusses the literature review, while the methodology adopted and applied in the study is provided in chapter three. The findings on objectives of this study have been given in chapter four, while the conclusions, recommendations arising from the findings and areas for further research are in chapter five.



## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.0 Introduction**

This chapter contains a theoretical, empirical literature reviews and the conceptual framework. The literature comes from different studies on adoption and implementation of IFRS for SMEs to capture ideas and argument which guided the development of the study. For a conceptual framework, the research model was constructed to show the relationship of variables which were included in the study. The chapter begins with definition of key terms, followed by an overview of SMEs and their role in the economy. Subsequently, the chapter speak about SMEs and financial reporting as well as advantages and disadvantages of complying with the standard (IFRS for SMEs). Finally, there is an empirical review and the conceptual framework.

#### **2.1 Definition of key terms**

##### **2.1.1 Definition of SMEs**

The definitions of what constitutes an SME vary quite widely from country to country and even within single countries, depending on the business sector concerned (SMEs definition in Malaysia, 2005). Thus, there is no universal determinant or criteria of an SME. Countries around the world have developed their own definitions of SMEs for a broad range of purposes including prescribing financial reporting obligations. Often those national or regional definitions include quantified criteria based on revenue, assets, employees or other factors (IASB, 2015). Also, frequently the term SMEs is used to mean to include very small and medium entities.

The Organisation for Economic Co-operations and Development (OECD) defines SMEs as entities which are non-subsidiaries, independent firms which employ less than a given number of employees. This number varies across countries; the most frequent upper limit designating SMEs is 250 employees as in European Union<sup>4</sup>. However, some countries set

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<sup>4</sup> SME (small and medium-sized enterprises) are defined as enterprises in the non-financial business economy that employ less than 250 persons. This definition is used for statistical reasons. In the European definition of SMEs two additional criteria are added: annual turnover should be less than 50 million €, and balance sheet total should be less than 43 million € according to Commission Recommendation



the limit at 200 employees while the United States consider SMEs to include firms with fewer than 500 employees.

According to (Kushnir *et al* 2010) in the survey for world bank in collaboration with the International Finance Corporation(IFC) concerning the MSMEs the study revealed that, out of the 132 economies covered during the survey, 46 economies define MSMEs as those enterprises having up to 250 employees. For 29 economies, variables other than total employment are used or an MSME definition is not available. Among such other variables are the number of employees differentiated by industry, annual turnover, and investment. In China SMEs have been defined using various criteria, such as number of people employed, volume of sales or output, and value of assets (Zheng, O'Neill & Morrison, 2009; Cunningham & Rowley, 2007).

The International Accounting Standard Board (IASB) defines SMEs as entities that do not have public accountability and publish general purpose financial statement for external users such as owners who are not involved in managing the business, existing and potential creditors and credit rating agencies. An entity has public accountability if its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (most banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks would meet this second criterion)(IFRS for SMEs 2015).

Moreover, in Tanzania SMEs refers to entities with less than 100 employees and the capital invested in machinery not exceeding 800 million Tanzania shilling. This is according to the Tanzania SMEs development Policy Act issued in 2003 and further amended 2012. With regards financial reporting the National Board of Accountants and Auditors in Tanzania (NBAA, 2009) defines SMEs as entities that are not publicly

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2003/361/EC. Within the SME sector, the following size classes are distinguished: 1. micro enterprises (employing less than 10 persons), 2. Small enterprises (employing at least 10 but less than 50 persons), 3. Medium-sized enterprises (employing at least 50 but less than 250 persons).



accountable or representing public interest, including government business entities with less than 100 employees and the capital investment in non-current assets of less than TShs.800, 000, 000.

**Table 1 Government of Tanzania categorization of business size**

<b>Business size</b>	<b>Number of employees</b>	<b>Capital Investment in Machinery (TSH)</b>
Micro enterprises	1 to 4	Up to 5 million
Small enterprises	5 to 49	Above 5 to 200 million
Medium enterprises	50 to 99	Above 200 to 800 million
Large enterprises	100+	Above 800 million

*Source: Tanzania SMEs policy of 2003.*

### **2.1.2 International Financial Reporting Standards (IFRS)**

International Financial Reporting Standards (IFRS) is a single set of accounting standards, developed and maintained by the International Accounting Standards Board (the Board) with the intention of those standards being capable of being applied on a globally consistent basis—by developed, emerging and developing economies—thus providing investors and other users of financial statements with the ability to compare the financial performance of publicly listed companies on a like-for-like basis with their international peers<sup>5</sup>.

The IFRS guide of 2016 defines International Financial Reporting Standards as a globally recognised set of standards for the preparation of financial statements by business entities. IFRS Standards prescribe: the items that should be recognised as assets, liabilities, income and expense; how to measure those items; how to present them in a set of financial statements; and related disclosures about those items. Currently, the IFRS Standards are mandated for use by more than 120 countries, including the European Union and by more than two-thirds of the G20. The G20 and other international

<sup>5</sup> International Accounting Standard Board (IASB). IFRS Foundation. <http://www.ifrs.org/>



organisations have consistently supported the work of the Board and its mission of global accounting standards<sup>6</sup>.

### 2.1.3 IFRS for SMEs

The International Financial Reporting Standard for Small and Medium-Sized Entities (IFRS for SMEs) is a set of high quality financial reporting principles that is tailored to the capabilities of smaller business and for the need of those who use small company financial statement. According to the guide of IFRS for SMEs issued by the IASB March 2016, the board stated that the *IFRS for SMEs* is a self-contained, globally recognised, standard, first issued in July 2009. Compared with full IFRS Standards and many sets of national generally accepted accounting principles (GAAP), the *IFRS for SMEs* is much easier to apply and shorter (fewer than 250 pages).

Further, Walton (2011) defines IFRS for SMEs as ground breaking standard issued in 2009 and sits apart from the body of IFRS. He continues to argue that it provides a stand-alone comprehensive basis of accounting for small and medium businesses and has been adopted in many countries for companies in a size tier below that in which IFRS are used.

Additionally, the *IFRS for SMEs* is available for any jurisdiction to adopt, whether it has adopted full IFRS Standards. Each jurisdiction must determine which entities are permitted or required to use the Standard. The Board's only restriction is that entities that have public accountability should not use it. In fact, most of the companies in the world over 95% are permitted to use IFRS for SMEs. As Europe has approximately 21 million private sector enterprises, United states has approximately 28 million, the United Kingdom has approximately 5.5 million of which 95% has fewer than 10 employees. In fact, Brazil has over 6 million companies that are required to use IFRS for SMEs.

According to the guide for IFRS for SMEs published on March 2016 reported that, 78 jurisdictions are now required or permitted to use of IFRS for SMEs including Argentina, South Africa, Egypt, Singapore, Hong Kong, Tanzania and the Philippines. Also, in 2015,

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<sup>6</sup> Walton. (2011). an executive guide to IFRS: Content, cost and benefit to business. Wiley





the International Accounting Standards Board (the Board) completed a comprehensive review of the *IFRS for SMEs*, and from this review issued limited amendments to the 2009 Standard that are effective from 1 January 2017.

## 2.2 The role of Small and Medium-sized entities in the Economy

There is no doubt that SMEs are the main force for generating the world economy (Alexandrou *et al*,2010). These SMEs play a central role in the world economy; they are a major source of entrepreneurial skills, innovation and employment<sup>7</sup>. Peter Drucker said that “small enterprises represent the main catalyst of economic development”.<sup>8</sup>According to Neagu (2016, p 335) the author argued that SMEs contribute in forming goods and services thus help in forming the GDP and increasing the national exports and investments. In addition, the study by katua (2014) states that SMEs holds the key to achievement of national economic objectives of employment generation and poverty reduction at low investment cost as well as the development of entrepreneurial capabilities including indigenous technology. Moreover, Beck and Levin (2005) claimed that SMEs enhance competition and entrepreneurship hence has external benefits on economy wide efficiency, innovation and aggregate productivity.

Furthermore, the OECD report (2004) revealed that SMEs play a key role in transition and developing countries. These firms typically account for more than 90% of all firms outside the agricultural sector, constitute a major source of employment and generate significant domestic and export earnings. As such, SME development emerges as a key instrument in poverty reduction. In fact, SMEs are creating more jobs than large companies, this is crucial in developing countries due to their higher level of unemployment. These SMEs tend to be more labour intensive, informal and at a micro level employing less than 10 people per SMEs. Also, a World Bank survey of 47,745 businesses across 99 countries revealed that SMEs account for 67% of the total permanent, fulltime employment (Ayyagari et al 2011).

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<sup>7</sup>EU Commission (2003). *The new SMEs definition user guide and model generation*. Enterprises and Industry Publications.

<sup>8</sup> Druker.P. F (2009). *Innovation and Entrepreneurship* York. Harper Collins





In European Union, SMEs are an important factor in the economy; they are the source of innovation, entrepreneurial skills and job creations (Ciubotariu, 2013, pp 202). Thus, in the enlarged European Union of 25 countries, some 23 million SMEs provide around 75 million jobs and represent 99% of all enterprises<sup>9</sup>. Again, for US the small and medium-sized enterprises firms with fewer than 500 employees, are the backbone of U.S. economy and employment. They make up 99% of all firms, they employ over 50% of private sector employees, and generate about 65 percent of net new private sector jobs.<sup>10</sup> Likewise, Robu and Savlovski (2011) stated that in Asian part it is acknowledged the fact that, some of the most highly -performance economies of the world (Taiwan and Hong Kong) strongly count on small enterprises. While around Japan 81% of all the employees are concentrated in the SMEs, where an enterprise hires on average 9 employees compared to 4 in the European Union. For India, the sector is estimated to employ about 69 million persons in over 26 million units throughout the country this is according to the report of “The Working Group on Micro, Small & Medium Enterprises” (MSMEs), Growth for 12th Five Year Plan (2012-2017).

Additionally, in developing countries SMEs contribute significantly to the GDP of the concerned countries were as 90% of the all firms outside agriculture are SMEs. In Morocco for example 93% of industrial firms are SMEs, accounting for 38% in production, 33% of investment and 30% of exports (Abor and Quartey, 2010). In South Africa, the number of employees in SMEs is higher, recently estimated at 60%, while this sector gives about 40% of the production. In East African countries such as Kenya SMEs sector employ over 80% of the Kenyan population and especially the youth<sup>11</sup>.

Regarding Tanzanian case, SMEs as well play a great role in solving the unemployment problem, in addition utilising and adding value to the available local resources. According

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<sup>9</sup> EU Commission (2003). *The new SMEs definition user guide and model generation*. Enterprises and Industry Publications

<sup>10</sup> Firoozmand, S., Halex, P., Juny E. and Suominen, K. *State of SMEs finance in the United States in 2015*. Trade up capital fund and Nexttrade Group. LLC: [http://www.tradeupfund.com/uploads/2/6/0/4/26048023/state\\_of\\_sme\\_finance\\_in\\_the\\_united\\_states\\_2015.pdf](http://www.tradeupfund.com/uploads/2/6/0/4/26048023/state_of_sme_finance_in_the_united_states_2015.pdf)

<sup>11</sup> Entrepreneurial toolkit (2010)



to the National Baseline Survey Report(NBSR) in 2012 for Micro, Small and Medium Enterprises in Tanzania, the sector employs almost 5.2 million people in Tanzania. Additionally, Nzunda (2013) reported that, estimates show that in Tanzania there are about 700,000 new entrants into the labour force every year. About 500,000 of these are school leavers with few marketable skills. The public sector employs only about 40,000 of the new entrants into the labour market, leaving about 660,000 to join the unemployed or the under employed reserve. Most of these people end up in the SME sector, and especially in the informal sector.

Collectively, many studies show that in all countries SMEs are the largest employers, greatest creators of wealth and are correlated with lower income distribution inequality.

### **2. 3 SMEs Financial Reporting and its Users.**

According to prior literatures the financial reporting by SMEs is to a certain extent limited and has a country- specific focus (Sian and Roberts, 2003). The author continues to argue that usually the financial information of these small entities tends to be prepared either internally by owner-managers themselves or bookkeepers or externally by a hired accountant.

More to this, several studies focusing on the internal preparation of financial information by small entities suggested that financial awareness amongst owner-managers of SMEs is quite low and that there is inadequate record-keeping (UNCTAD, 2002). Moreover, the IFAC (2006) findings stated that many SMEs usually prepares accounting records of some descriptions, either manually or computerised system. In a general point of view most literatures claimed that owners of SMEs have limited financial expertise and some depends on the external accountants to assist in the preparation of financial statements and provide them with guidance.

In most jurisdictions, the law requires all or many of these companies to prepare financial statements and often to have them audited (Kenneth and Grazyna, 2013). For example, In European Union alone over five million out of 21 million business entities have a statutory reporting obligation (Mackenzie et al, 2011). While in US most of small private businesses have no financial reporting requirements other than the completion of annual income tax



returns. Nonetheless, certain private companies may be required to produce audited financial statements to meet demand from lenders, bonding companies, regulators and other bodies (AICPA 2011). Where financial statements are demanded, preparation may be required in accordance with US GAAP or an alternative special purpose reporting framework.

In South Africa, according to the Republic of South Africa Close Corporations Act 69 of 1984 and the Companies Act 71 of 2008, close corporations and companies are required to prepare annual financial statements complying with applicable accounting standards (i.e. they must be audited or independently reviewed). With regard to Tanzania, according to the Tanzania Revenue Authority (TRA) the group of taxpayers whose annual turnover is above TSHS 20,000,000 are required to prepare audited accounts/financial statements in respect of their business.

However, unlike large companies SMEs do not have the same information requirement concerning financial reporting for its external users (Smrekar, 2010). In fact, different literatures have suggested that users of SMEs financial information are different from those of large companies. In accordance with the IASB (2010) conceptual framework (F. OB2) the primary users of general purpose of financial information are existing and potential investors, lenders and other creditors who uses the information in making decisions about providing resources to the entity. Conversely, on its guide for IFRS for SMEs IASB (2015) stated that users of general purpose financial statements of SMEs include owners not involved in the business, existing and potential creditors and credit rating agencies. Nevertheless, it seems that the SMEs reports compiled solely for owner-managers or taxation purpose as being outside the definition of general purpose financial statements (IFAC, 2006). This fact brings out different view on who is the primary users of SMEs financial information.

Going further, various studies have identified that the main users of the financial statements as banks, directors (or owner-managers and non-manager-owners) and tax



authorities (Page, 1984; Pratten, 1998; Collis *et al*, 2001; Sian and Roberts, 2003)<sup>12</sup>. Pratten (1998) identified that, the most important users, in order, as bankers, executive directors, other shareholders and the Inland Revenue authorities. In line with these findings the (IFAC,2006) reports claimed that, from different literatures the main purposes for SME financial statements are as follows: By banks who are to determine SMEs capacity to repay and to assess profitability, security and liquidity. Owners utilize financial reports for a variety of functions including, to ascertain remuneration awards and dividend pay-outs, to monitor performance, capital expenditure, budgeting, planning, for loans and financing, as a confirmatory tool and in some countries as a means of minimizing tax liabilities. Plus, Tax authorities who tend to be key recipients of SME accounts and prior studies shows that that major uses of SME financial statements by the tax authorities include: to determine gross profit, assess directors' fees, look at tax provisions, ensure that expenses are reasonable and check for a clean audit report.

Even though SMEs are the economic engine that fuels growth, jobs, and ultimately individual prosperity and security, in countries of all sizes in all parts of the world. Intensified regulations, together with increased and more complex standards, resulting in part from corporate and accounting scandals over the past decade, have placed increased burdens on SMEs.<sup>13</sup> Acknowledging the burdens placed upon smaller enterprises by financial reporting, many countries exempt smaller enterprises from statutory audit and subject them to differential reporting requirements(IFAC,2006).

According to ACCA (2013) findings, there has been a concerted push to reduce the perceived burden of regulation faced by small businesses. Because, such regulations impose costs that have a fixed element, or there are no economies of scale in complying

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<sup>12</sup> Collis et al. (2001) surveyed 198 companies in the UK with the objective of: first determining who the recipients of small company accounts were; second, ascertaining whether owner-managers read the annual reports of other businesses; and third to investigate the usefulness of their own annual reports. They find that the main non-statutory recipients of the annual reports are (in this order) bank managers, the directors and finally other major lenders.

<sup>13</sup> Speech on July 13, 2006 by Graham Ward, IFAC President, <http://www.ifac.org/MediaCenter>.



with them<sup>14</sup>. Further, it was argued that many of these costs are either fixed or do not vary directly with size, but instead are significantly more important for smaller entities. Additionally, there has also been a programme of reduction in the financial reporting requirements for small companies in the EU and in the specific requirements of nations such as the UK, Finland and South Africa. In fact, in 2012 the EU proposed new rules that would exempt micro-entities from most of the requirements of financial reporting (EU Parliament and Council Directive 2012/6/EU).

Given the mentioned reasons, the need for different reporting and relaxing requirement for SMEs it was inevitable. Consequently, the International Accountants and Standard Board introduced the IFRS for SMEs in 2009 to tackle the concern. Furthermore, according to (Alexandrou 2010) the necessity of establishing a unique financial reporting schemes emerged mainly due to many dilemmas among large corporations and SMEs related firstly with the users and later concerns. The author continued to claim that, with no doubt there are differences between users of financial statements of large scale (listed companies) and those of SMEs, regarding their needs and the type of information they use.

The IFRS for SMEs standard is to be used by all entities who have no public accountability. The IASB restrict the use of standard to non-publicly accountable entities. Thus, it defines as companies who do not have debt or equity securities listed in public market and do not hold asset in fiduciary capacity (Walton, 2011). The financial statements prepared according to the IFRS for SMEs must be “general purpose” financial statement that is issued for the benefit of external users who are not involved in the management and existing and potential creditors. The objective of the financial statement is to “provide information about the financial position, performance and cash flow of the entity that is useful for economic decision-making by the broad range of users who are not able to demand reports tailored to meet their particular information needs.” The second

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<sup>14</sup> IFAC, 2006; AICPA, 2005 stated that “the cost of producing financial accounting information, including the direct costs of preparing the information (either from within the business or by hiring an accountant), printing and publishing the information and possibly attesting or auditing the information”



objective is to “show the result of the stewardship of the management-the accountability of management for the resources entrusted to it”

Nevertheless, IFRS for SMEs<sup>15</sup> (2015) specify that Tax laws are specific to each jurisdiction, and the objectives of general purpose financial reports differ from the objectives of reporting taxable profit. Thus, financial statements prepared in conformity with the *IFRS for SMEs* are unlikely to comply fully with all the measurements required by each jurisdiction’s tax laws and regulations. For this reason, the IASB explicitly states that their standards, including the SME standards, are not intended to meet the needs of tax authorities. Therefore, a jurisdiction may be able to lessen the ‘dual reporting burden’ on SMEs by structuring tax reports as reconciliations from the profit or loss determined in accordance with the *IFRS for SMEs* and by other means.

This study was not able to review the whole standard due to financial, time and technical constraints rather the study point out the main changes and differences of IFRS for SMEs in comparison with the Full IFRS. A pocket guide prepared by Peter Walton in (2011) and Price Water House Coopers in (2009) provide a similar explanation of the main changes as follows

- i. IFRS for SMEs has simplified accounting for financial instruments even if IFRS 9 the replacement of IAS 39 has gone into two categories. In additional hedge accounting and de recognition rules are simplified
- ii. Goodwill is amortized over its useful life, with a 10-year maximum if its life was unknown. Whereas under full IFRS, goodwill is treated as having an in definitive life as is tested annually for impairment
- iii. Borrowing cost and development cost expenses are taken to profit and loss as incurred, whereas they must be capitalized under full IFRS
- iv. The standard omits altogether segment reporting, earning per share, interim financial reporting and special treatment of assets held for sale.
- v. Disclosure requirement are considerably reduced

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<sup>15</sup> According to the International Accounting Standard Board “*IFRS for SMEs* is a self-contained, globally recognised, standard, first issued in July 2009.”



- vi. The standard does not contain the full range of options that are available in full IFRS particularly it does not offer the fair value option (to use fair value through profit and loss for assets and liabilities). Nor does it offer the revaluation alternative for property, plant and equipment.
- vii. The financial performance is reported either as one statement of comprehensive income or as two statements - an income statement and a statement of comprehensive income that starts with profit or loss for the period.

## **2.4 The advantages and disadvantages for SMEs complying with IFRS for SMEs**

### **2.4.1 Advantages of complying with IFRS for SMEs**

Both current and potential investors, lenders and Tax authorities wants reliable and comparable financial information and only with respect to the general rules (Smrekar, 2010). According to IASB good financial information are characterised by different features including understand ability, relevance, materiality, reliability, comparability as well as timelines. These features allow users of the financial information to get relevant information and make sound decision. Complying with IFRS for SMEs standard allow the SMEs to provide its users with relevant information an increase their reliability in the market

The International Accounting Standard Board (IASB) pointed out the following advantages of complying and adopting the IFRS for SMEs (2009), these benefits are the reasons why the standard was introduced in the first place.

- Financial institutions make loans across borders and operate multinationals. In most jurisdictions, over half of all SMEs, including very small ones, have bank loans. Bankers rely on financial statements in making lending decisions and in establishing terms and interest rates.
- Vendors wants to evaluate the financial health of buyers in other countries before they sell goods or services on credit. At the same time, many SMEs have overseas suppliers and use a supplier's financial statements to assess the prospects of a viable long-term business relationship





- Credit rating agencies try to develop ratings uniformly across borders. Similarly, banks and other institutions that operate across borders often develop ratings in a manner like credit rating agencies. Reported financial figures are crucial to the rating process.
- Venture capital firms provide funding to SMEs across borders.
- Many SMEs have outside investors who are not involved in the day-to-day management of the entity. Global accounting standards for general purpose financial statements and the resulting comparability are especially important when those outside investors are in a different jurisdiction from the entity and when they have interests in other SMEs.

In addition, it is also argued that IFRS for SMEs enhance confidence on the SMEs report. Also, the adoption will lead to improved financial reporting, improved national comparability of business result and improve compliance (Hope *et al*, 2006, Lungu *et al*, 2007, Mage, 2010).

According to Walton (2011) the compliance to IFRS for SMEs reduces the burden of complying with full IFRS which was designed to target the need of stock market and its listed companies. The costs of complying with full IFRS are larger for SMEs than the benefit obtained from its compliance. The IFRS for SMEs is more user-friendly for both prepares and users of the SMEs financial information.

Further, the IFRS for SMEs was issued in response to strong international demands from both developed and emerging economies for common set of accounting standards for smaller companies after assessing the complexity of full IFRS and deficiencies of national standard such as lack of comparability (Walton, 2011). As it was claimed by Adekoya (2011) that, the Standard is predominantly welcome in some developing nations who also have difficulty in developing and interpreting their accounting standards as it will ensure that these inconsistencies will be resolved. Therefore, having IFRS for SMEs allows national regulatory bodies, such as NBAA to have a higher standard of financial disclosure and improved regulatory oversight and enforcement at lower cost. Than if they could develop their local standards, in this way they're going in the same direction with the rest of the world.





Additionally, different studies on adoption of IFRS for SMEs including (Aboagye and Agbeibor, 2012, Kaya and Kochi, 2015, Ataman *at all*, 2016, Rudzan and Manda, 2016) have argued the same on the benefit connected to compliance with IFRS for SMEs.

#### **2.4.2 Disadvantages of complying with IFRS for SMEs**

Despite many benefit coming from the compliance of IFRS for SMEs, SMEs are still faced with the disadvantages of opting to comply with the standards. Starting with the cost of adopting the standards, since 2009 many jurisdictions permits or required all SMEs to use the IFRS for SMEs in preparation and presentation of their financial information. Therefore, the cost of training the SMEs human resources to keep them up to date with the knowledge of the new standards and its changes are being incurred by the SMEs. According to (IFAC,2006) reported that financial reporting requirements can impose a significant burden upon smaller enterprises and in particular costs associated with compliance.

However, due to lack of qualified accountants with proper accounting knowledge who cannot be trained easily. Nzunda (2013) argued that, SMEs are forced to incur additional cost of hiring financial consultants to help them prepare the financial information following the standard, for the information which is apparently being only used by the few stakeholders' such as tax consultants.

Nonetheless, given the nature of SMEs in developing countries which are characterized by poor accounting infrastructure, lack of qualifies accounting personnel as well as focusing on the local market. The cost of complying with the IFRS for SMEs deemed to weight up the benefit coming by opting to comply with the standards.

#### **2.5 Tanzania Financial Reporting Framework**

The Tanzanian reporting framework goes back to years before 2004 when the country had its own local standard known as Tanzania Financial Reporting Standard (TFAS) which were issued by National Board of Accountants and Auditors (NBAA). The National Board



of Accountants and Auditors is an accountancy regulatory board established by the Auditors and accountants (Registration) Act No. 33 of 1972 as amended by the Auditors and Accountants (Registration) (amendment) Act No.2 of 1995. The board is charged with the responsibility of developing, regulating and promoting the accountancy profession in Tanzania. Moreover, the enabling Act, empowers the board to issue accounting and auditing standards and guidelines as appropriate and ensure the compliance of those standards and guidelines by its members.

On 1<sup>st</sup> July 2004, Tanzania migrated to International Financial Reporting Standard(IFRSs), International Public-Sector Accounting Standards (IPSASs)and International Standards on Auditing's (ISAs) and therefore, every entity in the country, whether small or large, was required to prepare its financial statements in accordance with the IFRSs or IPSASs (NBAA, 2009). With effect from this date there were no local standard and International reporting standard became mandatory. Further, following the issuance of IFRS for SMEs by the International Accounting Standard board (IASB) on 9<sup>th</sup> July 2009. NBAA replaced the full IFRS with IFRS for SMEs to entities without public accountability.

Given the fact that, Tanzania adopted the International Financial Reporting Standards as its accounting standard, its accounting system is deemed to be shareholder oriented (equity based) which is like the IAS requirement. However, with regard to SMEs this fact is still debatable since most of SMEs are still informal and their source of finance is argued to be own source, family or friends (NBSR, 2012) who do not require the financial reporting information for their lending decisions. While few of them depends on the bank loans.

In conclusion, up the date of this study, the Tanzanian reporting framework for SMEs is in accordance with full IFRS or IFRS for SMEs and the adoption of standard is permitted and not regarded by law. Following the objective of this study and previous literatures arguments, this reporting framework still faces a lot of challenges and thus it is open for discussion.



## 2.6 Empirical review

The empirical literature of this study is based on similar works done by other researchers on the subject matter under study. SMEs are one of the most important actors in adoption process of the IFRS for SMEs (Kilic *et al*, 2016). Different studies have been conducted on adoption of IFRS for SMEs, as the standard has become an issue of interest for many researchers.

A study conducted by kaya and Kochi (2015) on “*countries adoption for IFRS for SMEs an early empirical evidence*”. The study found that, out of the 128 sample countries 65 countries have not adopted the standard, while 63 countries have adopted it. The adopting countries are predominantly located in Latin America and Caribbean, followed by Sub-Saharan Africa, Europe and Central Asia, Middle East and North Africa. The study further reveals that, generally the countries have adopted the IFRS for SMEs on voluntary basis without making any modification to the standard. However, only six countries require the application of the IFRS for SMEs for example Chile, Serbia and Venezuela.

Moreover, the study found out that the group of non-adopting countries is dominated by the European Union (EU) Member States. As of 2013, no single EU Member State has adopted the standard. According to the study, incompatibilities between the EU Accounting Directive and the IFRS for SMEs limit EU Member States’ ability to adopt the IFRS for SMEs as issued by the IASB. For instance, the requirement to presume the useful life of goodwill to be ten years if an entity is unable to make a reliable estimate of the useful life (IFRS for SMEs section 19.23) is not compatible with the Accounting Directive. Accordingly, either EU Member States adopt the IFRS for SMEs with modifications or converge their national GAAP with IFRS for SMEs to comply with the requirements of the Accounting Directive.

Also, the study goes further and assessed the likely-hood of countries adopting the IFRS for SMEs at country levels. The results showed that, countries which are not capable of



developing their own local General Accepted Accounting Principles (GAAP) are more likely to adopt the IFRS for SMEs. There is also evidence that in jurisdictions where full IFRS have been applied to private firms, the likelihood of adoption of the IFRS for SMEs increases, suggesting that these jurisdictions have aimed to reduce the financial reporting burden on SMEs. Further, the results showed that less developed countries, measured by a governance index, are more likely to adopt the standard. More broadly, the results of the study suggest that developing economies can facilitate their ability to attract loans from international organizations like the World Bank or the International Monetary Fund by adopting the IFRS for SMEs.

Likewise, a study conducted by Alexandrou *et al* (2010) in Greece, Turkey, UK and Lithuania suggested that the new International reporting standard should not be obligatory for all SMEs given the different nature of SMEs. Further, the study concluded that IFRS for SMEs can be regarded as a big step on the development and existence of small and medium enterprises. Despite this, the authors argued that IFRS for SMEs is still quite complex in specific areas and its probable that prepares of the financial statement can face a lot of problems applying the standard. They are also sceptical concerning the cost incurred versa the benefit obtained from adoption of IFRS for SMEs.

Furthermore, the study by Kilic *et al* (2016) on the preparedness of the small- and medium-sized enterprises (SMEs) for the International Financial Reporting Standard (IFRS) for SMEs in Turkey; and the analysis of the effect of several firm characteristics on such preparedness. The study found that the preparedness of the SMEs for IFRS for SMEs is low in Turkey. Several firm characteristics including, size, independent auditing, and internationality have a significant impact on the preparedness of the SMEs.

Then again, the study conducted by Aboagye and Agbeibor (2012) in Ghana on the suitability of the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMES) where the study assessed the need for the IFRS for SMEs and the appropriateness of the standard as the accounting standard for small businesses. It was



found out that small businesses in Ghana have limited international structures and activities which do not result in a need for internationally comparable financial reporting information. Small businesses also do not receive requests to provide such information. In total, 19 of the 27 issues addressed by the Standard and assessed in the study were found to be irrelevant to small businesses in Ghana. Also, the study discovered that the Size, legal form and number of owners influence the suitability of the Standard for small businesses in Ghana.

Additionally, in South Africa Van Wyk and Rossouw (2009) conducted a study on IFRS for SMEs *“a giant leap for accounting, but too big for smaller entities in general”*. The study shows that the primary users of the financial statements of SMEs are the owners, South African Revenue Services (SARS) and bankers. The recognition, measurement and disclosure requirements of full IFRSs do not result in cost-effective and useful information being provided to the users of the financial statements of SMEs (non-listed companies, close corporations and other small entities, irrespective of their legal form), because these users do not need the extensive and complex information provided in general purpose financial statements. Consequently, an accounting standard is required to differentiate between general and limited purpose financial statements.

Moreover, the study conducted by Mage (2010) on the adoption of IFRS for SMEs in financial reporting among SMEs in Tourism industry in Kenya. The study result concluded that there was zero implementation of IFRS for SMEs in Kenya. In addition, Nzunda (2013) conducted a survey on the compliance and non-compliance of SMEs to IFRSs in Tanzania. The study results depicted that the proportional of SMEs complying with IFRS is 0%. The survey also brought forward some reasons for non-compliance firstly being the high cost of implementing IFRS arising from high cost of employing qualified individuals Secondly, there is ignorance on the availability of standard which is tailored specifically for SMEs.

The empirical evidence suggests that the SMEs in different part of the world are faced with several challenges, making it difficult to implement the IFRS for SMEs.



## 2.7 Conceptual Framework

To assess the compliance and challenges of implementing IFRS for SMEs in Tanzania a comprehensive conceptual framework is required. According to Smyth (2004) a conceptual framework should assist a researcher to organise his/her thinking and complete an investigation successful.

Since its inception, the International Accounting Standard Board (IASB) the focus was on financial reporting for listed companies. Walton (2011) claimed that, the idea of doing a separate standard for SMEs was also quite contentious for the board. The author continued to argue that, there was a demand for accounting rules for SMEs coming from number of sources; including developing countries who wanted a readymade set of accounting rules that were suitable for local businesses. Also, according to Kochi (2015) the European Commission thought that it would be useful to have accounting rules for small companies which are similar with IFRS

Furthermore, according to the IASB the full IFRS were too sophisticated for most of SMEs in different countries. In 2009 the board issued the standard IFRS for SMEs to cater for the demand. Given the nature of the SMEs and its economic environment the implementation of developed standard is still difficult specially to developing countries. The reasons being that, the IFRS for SMEs standard is deemed to be written more with the developed economy mind supported by sophisticated accounting and finance infrastructure as opposed to developing economy. However, up to 2016 more than 100 jurisdiction including Tanzania permits or requires the use of IFRS for SMEs (IASB, 2016).

This study will assess the compliance and challenges of implementing IFRS for SMEs in Tanzania. Compliance of SMEs in preparing their financial information (financial statements) following the IFRS for SMEs depends on the challenges which limits the successful implementation of the standards. These challenges act as a stimulus towards compliance. Different studies (Nzunda, 2013; Kenneth and Grazyna, 2013; Rudzan and Manda, 2016) argued that, SMEs are faced with different challenges which



hinder their compliance to IFRS for SMEs standard during its preparation of its financial statement. The challenges include the cost of compliance, employee's knowledge and skills, level of technology, legal enforcement, Users of financial information provided by SMEs and ability of business entity to hire professional accountants when preparing financial statements.

## 2.8 Research Model

The study research model is made up of two parts independent variable and dependent variable. The independent variables are the challenges faced by SMEs regarding the implementation of IFRS for SMEs. The SMEs which faces low level of challenges are in better compliance level and vice versa. Dependent variable is a compliance of SMEs to IFRS for SMEs which is the function of different challenges hindering the SMEs compliance to the standard. The interrelationship between and among variables is presented in the following diagram

**Figure 1 Factors affecting the compliance of SMEs to IFRS for SMEs**



*(Source: Researcher own conceptualization)*



## CHAPTER THREE

### RESEARCH METHODOLOGY

#### 3.0 Introduction

This chapter dealt with research methodology and procedures, which was employed in gathering data for this study. Kothari (2004, p. 8), defines research methodology to systematically solve the research problems. Further, the author explained that in it we study the various steps that are generally adopted by the researcher in studying his research problem along with the logic behind it. In other words, the research methodology sets out the procedures to be used to conduct the study with an aim of providing essential information that a reader needs to understand how the data were collected and the results achieved.

In setting out the research methodology for this study, considerations were on the design of the study, area of the study and sampling design. Also, include data collection methods and data analysis methods. The positive side of case study includes generalizability, it is less costly, and less time consuming.

#### 3.1 Research design

According to Mark (Saunders, 2009) research design is a general plan of how the research questions will be answered. A descriptive research will be applied and a case study will be used. Usually, to get deep into the required information for the problem at hand researchers are advised to use the case study design. Elms et al (1988) recommend a case study design because the design enables the researcher to get deep information for the problem at hand. So, to carry out deeper analysis of the research problem at hand the case study design was used.

#### 3.2 Area of the Study

The study will be conducted in Dar-es-salaam and Mbeya region in Tanzania. This area of study was purposefully selected based on 2014/2015 statistical business register survey the two regions have the largest number of business establishment. Where by Dar-es-salaam had 29,060 (18.8%) and Mbeya had 11,103 (7.2%) out of 154,618 establishment





covered during the survey. Most, establishments are micro business enterprises 77.3% followed by small business enterprises with 21.7 %. The Medium and large business enterprises were the least with less than 1 % of all establishments surveyed. For this reason, the result can be a representative of SMEs present in other regions in Tanzania. Also, it facilitated in gathering data due to time and financial constraints.

### **3.3 Study population**

The study will consider fifty (50) SMEs operating in Dar-es-salaam and Mbeya regions. These SMEs will be from different economic sectors including manufacturing, service providers (schools, min-super markets, hotel, health services, etc.), transporters' and distributors, security firms, merchandising and retail business, legal firms and consultants etc.

### **3.4 Sample and Sampling Procedures**

A sample is a small group of individuals that is observed and whose findings allow generalization about population (Kothari, 2004). It is very costly or almost impossible to conduct a research study on all subjects in a large population. For example, administering questionnaires to all SMEs Tanzania is impracticable. Hence, a sample in this study represented the whole population (Kothari 2004, p .60).

### **3.5 Sampling Methods**

A probabilistic sampling technique was adopted. In this case, a simple random sampling procedure was applied to obtain information from SMEs in the two regions. Twenty-five (25) SMEs was randomly selected from Dar-es-salaam and other twenty-five (25) from Mbeya region resulting into 50 SMEs.

### **3.6 Sample size**

The sample size for the study included 50 respondents. This number included owners of SMEs, SMEs employees (Accountants) and consultant's firms. The sample of the respondents is adequate for this case study.



### **3.7 Data type and sources.**

The types of data collected are both primary data and Secondary data.

**3.7.1 Primary data** are the data collected for the first time to be used in solving the specific problems under study, (Kothari, 2004, p 95). Primary data appeared to be very important as it provides the current and specified data for the current problem. Primary data were obtained directly from the respondent through questionnaires survey. Sources of information are owners of SMEs, SMEs accountants, accounting and auditing consulting firms.

**3.7.2 Secondary data** were obtained through reviewing various documents related to IFRS for SMEs. Sources of information in this case were from different articles and past researches related to IFRS for SMEs.

### **3.8 Methods of Data Collection**

The data gathering technique employed in this study were questionnaires for primary data and documentary review for secondary data.

#### **3.8.1 Questionnaire**

Emory (1980) defines a questionnaire as a set of questions that are used to get information on a specified problem under study. This is the main method of data collection, questionnaires which are prepared by considering the main research questions are delivered to respondents by hand and through personal emails after clarifying to them the purpose of the study and the importance of their contribution to the study. In the study, the questionnaires used included both open and closed ended questionnaires that allowed the respondents to indicate the appropriate answer regarding the challenges facing SMEs during the implementation of IFRS for SMEs in their business operations.

#### **3.8.2 Documentary review**

Researcher has gone through various documents and articles to find out information relevant to this study. This method enabled the researcher to get secondary data form



books, journals, reports and checklists where summaries and abstract was reviewed to get information.

### **3.9 Validity of data**

Validity is defined as the accuracy of the measurement. It is an assessment of the exactness of the measurement relative to what exist (Burns & Bush, 2001). In other words, is the extent to which a concept is accurately measured in a quantitative study. To ensure the validity of both the questionnaire covered all the contents of the variables that it is supposed to measure. Also, the questions were designed in a way that enable answers from respondents to be assigned numerical values, figures as well as intervals(tabulation).

In addition, the researcher increased the quality of the analysis by explaining the research purpose and objective clearly to the respondents before giving out the questionnaire. More to the point, the questionnaire is prepared in both English and Swahili language to avoid the ambiguity and language barriers.

### **3.10 Reliability**

In attaining the reliability of this research results, the random sampling and objective questionnaires were used during data collection. By so doing data collected and analysed are expected to give the intended results, which will mean the same to most of SMEs in Tanzania.

### **3.11 Data analysis Methods**

After data collection, the data gathered were coded, entered and checked before the analysis. This study employed both quantitative and qualitative information. The quantitative data were analysed by descriptive statistics using the Statistical Programme for the Social Science(SPSS). Descriptive statistical analysis is a method that involves statistical distribution such as frequency, table and chart, calculation of simple measures like average and percentages. While the qualitative data collected through open- ended questionnaire the researcher will interpret them by matching them with data patterns in the analysis, literature and empirical findings from other studies.



## CHAPTER FOUR

### RESEARCH FINDINGS AND DISCUSSION

#### 4.0 Introduction

This chapter presents and discusses the research findings obtained from the field based on research objective and research questions. The findings are presented in descriptive statistical table, graphs and words which conveys the respondent's views on compliance and challenges of implementing IFRS for SMEs in Tanzania as follows:

#### 4.1 Respondent rate

During the study fifty (50) questionnaires were administered to 50 respondents as it was mentioned in chapter three. Among all questionnaire distributed, 46 questionnaires which is about 92% were filled and successfully returned and only 4 (8%) the researcher was not able to collect them. The respondents rate is high because of a closer follow up of the researcher during data collection.

#### 4.2 Demographic characteristics of respondents

The demographic characteristics of respondents included sex, age, level of education and professional or occupation. This information was essential because they helped the researcher to understand the views of respondent.

**Table 2 : Respondents rate**

	Frequency	Percent
Male	29	63.0
Female	17	37.0
Total	46	100.0

*Source: Research findings 2017*

The result in the Table 2 above showed that, out of 46 respondents 63% were male and 17% were female. The participation of both male and female on the compliance and challenges of implementing IFRS for SMEs was vital to get non-bias view since both genders are engaged in SMEs sector. However, the male gender deemed to dominate the



sector. Considering what the composition depicts, to achieve a total compliance of IFRS for SMEs in Tanzania the participation of both genders is of importance.

Further, the analysis showed that 87% of respondents were found to range above 29 years to 50 years. In these category, most of respondent were the owners of the business implying that between age of 29 years and above is the age where most people can own businesses. The remaining 13% is composed of respondent ranging from 18 to 28 years and from which most of them are employees of studied SMEs. Table 3 below provide quantitative figures of the respondents age.

**Table 3: Respondents Age**

	Frequency	Percent
18-28	6	13.0
29-39	19	41.3
40-50	14	30.4
51 and above	7	15.2
Total	46	100.0

*Source: Research findings 2017*

**Table 4: Respondents level of education**

	Frequency	Percent
Primary education	15	32.6
Secondary education	12	26.1
Tertiary education	5	10.9
Higher education	14	30.4
Total	46	100.0

*Source: Research findings 2017*

As shown in Table 4 above, 32.6% of respondents has attained primary education, 26.1 % secondary education ,10.9 % tertiary education and 30.4% higher education. Education level of respondents played a vital role in assessing the compliance and challenges of implementing IFRs for SMEs in Tanzania. During data collection, for those with primary education it was difficult to obtain data from them as most of them were not ready to give information regarding their business entities. Respondents feared that the researcher is



a tax investigator, as a result some did not accept the questionnaire and others accepted but did not fill them. For respondents with secondary education and tertiary, they were ready to respond but most of them did not have any idea connected to financial reporting and international standard. Therefore, the researcher spent time explaining the concept before they agree to respond to the questions. Regarding respondents with higher education, the situation was not exceptional, majority of respondents belonged to other professionals and did not have any accounting back ground. Thus, respondents did not have knowledge or interest concerning the financial reporting standards.

**Table 5: Respondents professional or occupation**

	Frequency	Percent
An accountant	8	17.4
A Lawyer	1	2.2
A medical doctor	2	4.3
A teacher	2	4.3
A mechanics	3	6.5
Other (hair dresser, carpenter, electrician etc)	17	37.0
None	13	28.3
Total	46	100.0

*Source: Research findings 2017*

As table 5 portrayed that only 8 out of 46 respondents are accountant<sup>16</sup> equivalent to 17.4% and most of these accountants are graduates from Universities who have attained a diploma or degree in accounting but still none of them are professional accountants. Majority of respondents are from other professional about 50%, while the rest 28.3% have no professional. However, the respondent education and professionals was vital for the study because its affects directly the compliance to IFRS. Further, the findings in table 4 and 5 shows that 50% of those in charge with financial reporting in SMEs are people with low academic qualification and with no accounting back ground. Also, given that majority of respondents comes from different professional back ground other than

<sup>16</sup> The definition of accountants in this study refers to an individual who have attained a diploma or bachelor degree in accounting or qualified professional accountant (CPA (T)).



accounting, the finding seems to agree with the way argued by Hendrick (2008). The author argued that, many Small and medium sized enterprises are run by entrepreneurs who are highly skilled in some key aspect of their business, perhaps technology, marketing or sales but are less nous in financial matters.

**Table 6 Type of business of respondents**

Type of business	Frequency	Percent
Retail business	15	32.6
Manufacturing business	5	10.9
Service business (consulting, education, health, etc)	11	23.9
Food vending and hotel	4	8.7
Bar and restaurant	2	4.3
Accommodation	4	8.7
Transportation	5	10.9
Total	46	100.0

*Source: Research findings 2017*

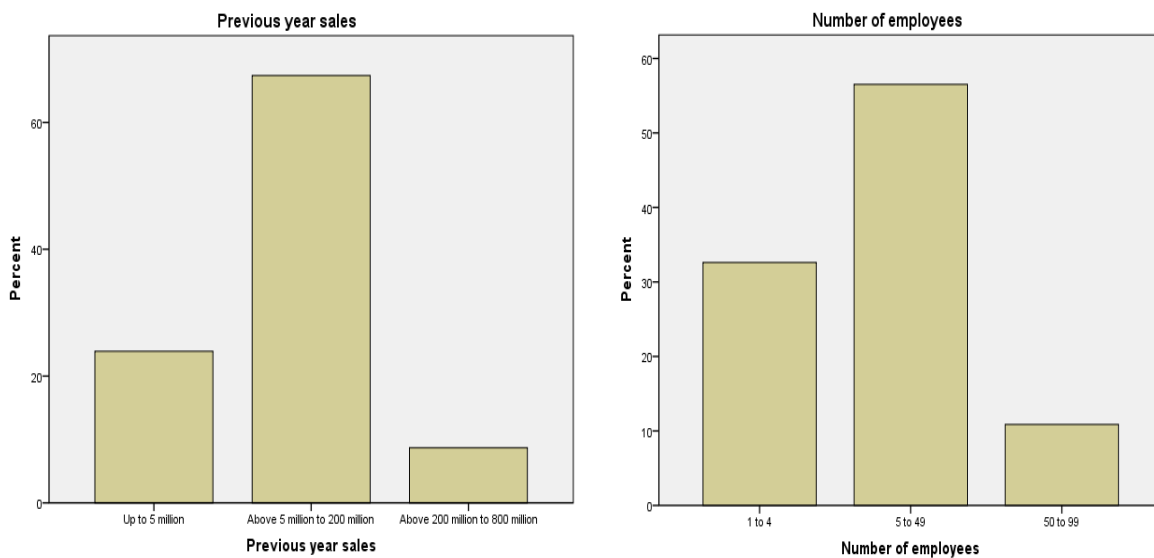
Table 6 above showed that largest part of respondents operates in retail business, about 32.6% of respondents belonged in the retail business, followed by service business by 23.9%, then manufacturing and transportation which was about 10.9% each and finally the manufacturing, food vending and hotel and bar and restaurant which was less than 10% each. It was essential to understand the type of the business of the respondent to determine if the entity qualifies to use IFRS for SMEs.

Further, most of our respondents belonged to small entities, followed by micro entities and only few medium enterprises. The business size was determined by their level of previous year sale and number of employees following the definition provided by Tanzania SMEs policy act of 2003 as amended in 2012. As it was reported in (Figure 2) below the micro entities accounted for 23.9% of total respondents and for which most of them are not required by law to prepare the financial information. While the small entities account for 67.4% according and medium enterprises was only 8.7% of the total respondents. The size of the business was vital in determining the financial reporting requirement of the entities. The result seems to agree to 2014/2015 statistical business register survey (SBR) which found out that most establishments in Tanzania are micro



business enterprises (77.3 percent) followed by small business enterprises with 21.7 percent. The Medium and large business enterprises were the least with less than 1 percent of all establishments surveyed.

**Figure 2 Respondents business size**



#### 4.3 Position of respondent in the business entity

In this case the position of the respondent in the entity played a great role in data collection, majority of respondent are owners of the business, about 56.5% which confirms that most of SMEs lack separation between management and ownership. Also, 21.7% where employees with other position in the entity and remaining 21.7% are the accountant in SMEs. During the study, owners were reluctant to give information about their businesses in fear of tax issues and competitions. Besides, most of these owners and the employees from other position in the business comes from different professional and some of them have no professionals at all. As a result, the respondents did not have any interest in the subject matter and have no knowledge about it. The situation required a researcher to spent more time than anticipated in explaining what the research was about and assuring them that the information is used solely for this study.

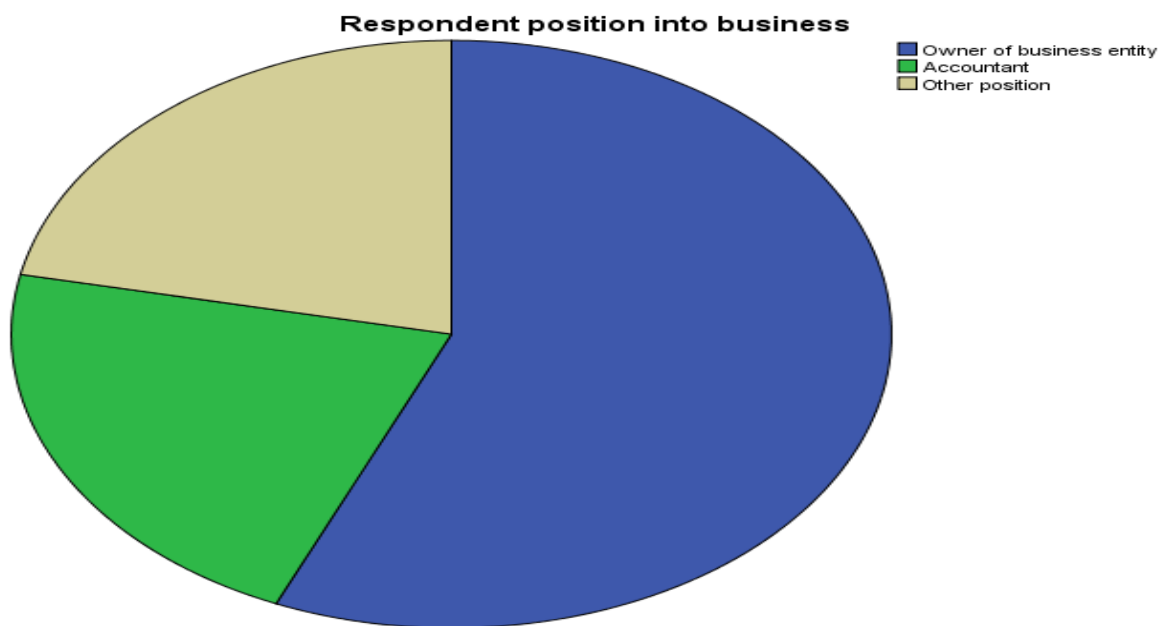
Moreover, linking the position of the respondents, their level of education and their professionals its vivid that, most of SMEs in few cases employ workers, rather the owners





or their family members are the ones who take part in controlling the business. Their ability and willingness to hire professional accountant who can prepare financial information is low, as a result the compliance to IFRS for SMEs is predicted to be low. Figure 3 below illustrate the position of respondents into the business.

**Figure 3 The position of respondents into the business**



*Source: Research findings 2017*

**Table 7 Do you preparation financial statement?**

	Frequency	Percent
NO	28	60.9
YES	18	39.1
Total	46	100.0

Majority of the surveyed SMEs as clearly indicated in table 7 do not prepare financial statement, while only 18 companies out of 46 have responded to prepare financial statement. However, for those who prepare financial statements 66.67% of respondents as stipulated on table 8 below hire the accounting and auditing firms to prepare their financial statements. Due to limited financial expertise, available in many SMEs, these entities turn to external accountant for assistance. The respondents argued that they hire external accountants to assist them in preparation of financial statement and tax



compliances. The findings seem to correspond to the findings of Keasy and Short (1990); Bohman and Boter (1984), the authors reported that small firms use professional accounting firms for preparation of annual reports and other accounting needs.

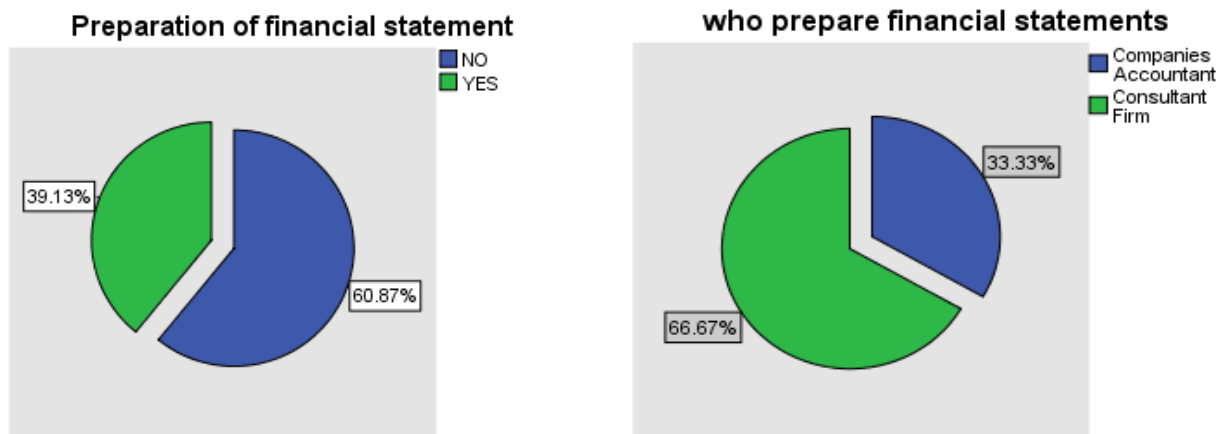
Moreover, given the nature of these SMEs, respondent asserted that they maintain the accounting records manually for example cash and receipt records, inventory records and some of them journals which help them in assessing their entity performances. The result relates to what was found out by Kenneth and Grazyna (2013) in Zimbabwe that SMEs maintain accounting records using manual accounting system. Also, Maseko and Manyani (2011) argued that SMEs do not keep complete accounting records due to the lack accounting knowledge and cost of hiring professionals which is too high. Figure 4 through a pie chart summarised the obtained findings on preparation of financial statement.

**Table 8 Who prepares the financial statement of the entity**

	Frequency	Percent
Companies Accountant	6	33.3
Consultant Firm	12	66.7
Total	18	100.0

Source: Research findings 17

**Figure 4 Preparation of financial statements**





#### 4.4 Primary users of the financial statements

Figure 2 below depicts the primary users of the financial statement. Majority of respondents revealed that the primary users of their financial information are tax authorities. In this case 50% of respondents pointed out that tax authorities are the primary users of financial information. Followed by Lenders 27.8% then shareholders 16.7% and lastly 5.6% of respondents claimed that their primary users are employees. The study findings do not divert from what was pointed out by different literatures as well as scholar's debates on who is the primary users of SMEs financial information. Starting with Van Wyk and Rossouw (2009), in their study in south Africa the authors found out that the primary users of financial information are owners, tax authorities and bankers. Also, other studies have also identified that the main users of financial statement are tax authorities, managers (owner-managers, non-manager-owners) and banks (Paolon *et al*, 2000; Sian and Robert, 2003; Alexandrou *et al*, 2010; Kenneth and Grazyna, 2013).

Regarding owner managers and non-manager - owner, as the users of SMEs financial statement, who in other words are shareholders the findings suggest that a smaller percentage of respondents confirms that their primary users belonged to this category. In addition, the findings concord to previous literatures, as it was argued that many SMEs are owner- managed and there is no separation of ownership and management the stewardship purpose of financial statements based on the accounting standards is not the same and perhaps does not have the same significance (IFAC, 2006). Thus, the most important source of information for owner-manager are bank statements and they do not use financial statement frequently. The reasons cited included that the financial statement was too complex and not easy to understand or that there was too long term that there were not relevant (Sian and Robert, 2003). Additionally, basing on the study analysis on the respondent's education (table 4) as well as respondents position on the business (figure 3), where it was revealed that most of the SMEs are owner -managed and with no



level of education and financial literacy in general the use and preparation of financial statements following an international standard deemed to be too complex.

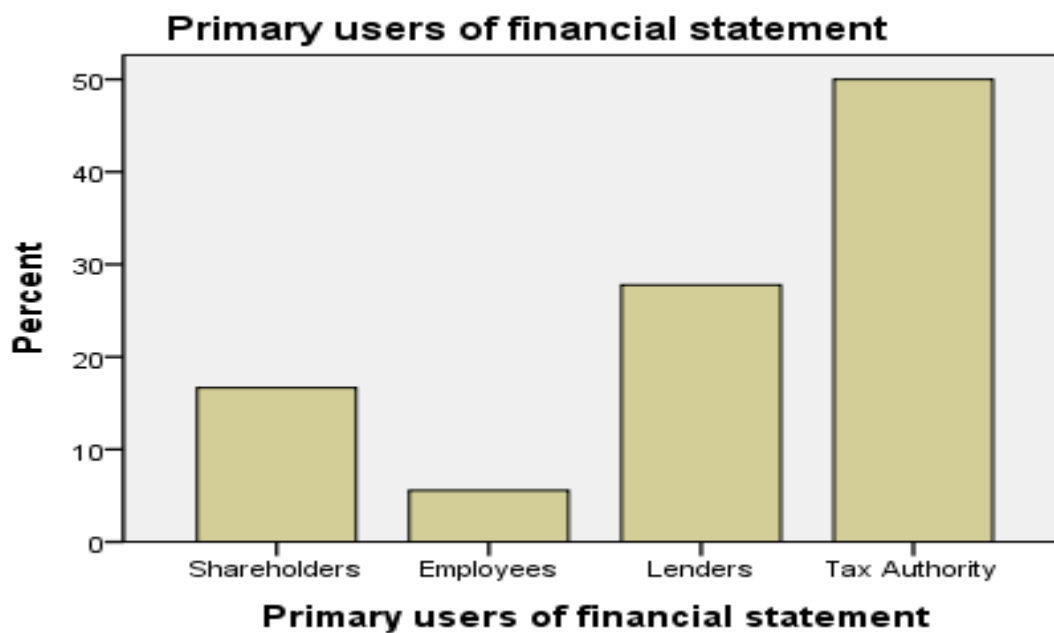
What's more, is one of the main aim of SMEs run by owner-manager and their families is to minimize tax liabilities (IFAC, 2006). According to Paoloni *et al* the authors found that, in both Italy and Spain the maintenance of accounting records to be less onerous than tax requirement and thus the production of accounts is heavily influenced by the tax laws. Also, different studies (Kenneth and Grazyna, 2013; Rudzan and Manda, 2016) confirms that the primary purpose of SMEs preparation of financial information is tax compliance, hence the main users of SMEs financial information is the tax authorities. Moreover, the IASB (2015) on its guide for IFRS for SMEs stated out that, the primary users of SMEs financial information are tax authorities and lenders. However, agreeing to the importance of tax authorities as the main user and driver of SMEs financial information, this line of reasoning indicate problems with the IFRS for SMEs. In addition, according to IFRS for SMEs guide (2016) the board argued that the accounting for taxes differ and depend on a certain country jurisdiction and thus a single standard such as IFRS for SMEs will not be able to satisfy all difference tax laws. For this reason, the IASB standards will not cover any taxation needs and the tax requirement will be determined by the specific nation. In this case, the IASB clearly stated that its standards including the SMEs standards are not intended to meet the need for tax authorities. Therefore, the application of standard will force for SMEs to incur more cost to prepare another financial statement to meet their tax legal requirement. Also, this argument still brings out conflicting opinions concerning the usefulness of IFRS for SMEs given that, different researchers as well as this study argued that the main users of the SMEs financial information is tax authorities.

Furthermore, by referring to prior literatures it was also noted that in most countries, the most important source of finance for small enterprises are banks (Chittenden *et al*, 1990) and financial statement play an essential role in lending decision (Sian and Robert, 2003). Therefore, the main use for SMEs financial statement by the banks are to determine capacity to repay and to assess profitability, security and liquidity (Barker and Noon, 1995). In addition, SMEs usually gain finance from other sources such as Government



agencies, NGOs or world organisation such as World Bank and IFM particularly in developing countries where they finance the development project of SMEs. These users usually require financial statements prepared according to the standards (Rudzan and Manda, 2016). However, the mentioned users, usually are not frequent users.

**Figure 5 Primary users of financial information**

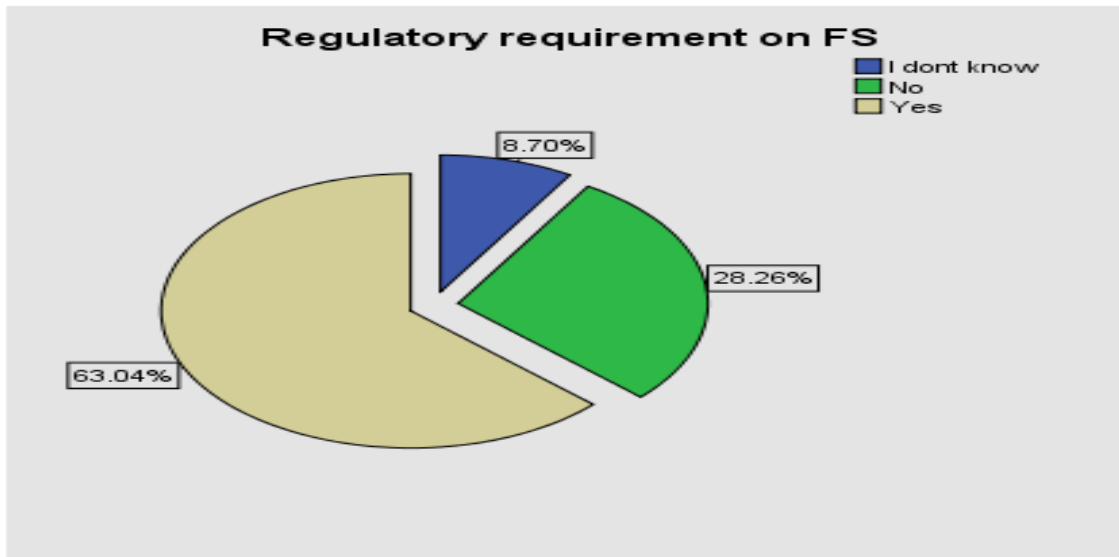


**Source:** Research findings 2017

In addition, majority of participants have reported to have the regulatory requirement for preparation of financial statement by the Tanzanian Revenue Authority (TRA). Where 63.04% of respondents confirmed to have regulatory requirement, 28.26% said no to the questions and 8.7% did not know whether they have the requirement or not. Nevertheless, despite the mandatory requirement the study found out that most of SMEs do not prepare financial statement. This can be viewed as a result of lack of capacity to compliance



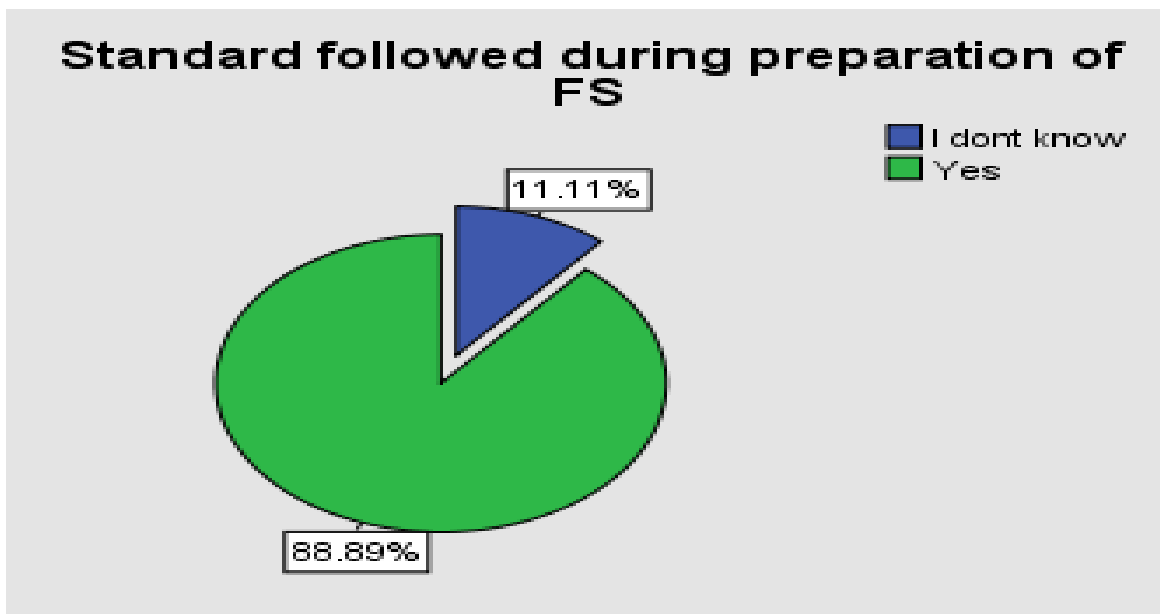
**Figure 6 Regulatory requirement on preparation of financial statement**



Source: Research findings 2017.

As far as the application of standard during preparation of the financial statement. The findings show a high percentage of respondents do apply the standard as it is depicted in figure 7 below.

**Figure 7 In preparation of financial statement do you follow any accounting standard**



Source: Research findings 2017.



Further, table 9 below provide the percentages of specific standards that have been applied by the respondents. Therefore, the analysis reveals that 66.9% of respondents applied the full IFRS, while only 11.1 % applied the IFRS for SMEs. Since a larger number of surveyed SMEs seems to apply the full IFRS despite its complexity, we can suggest the reason behind for low compliance with IFRS for SMEs is ignorance about the availability of the standard.

**Table 9 Type of Standard applied by SMEs**

	Frequency	Percentages
Full IFRS	14	66.9
IFRS for SMEs	2	11.1
None	2	11.1
Total	18	100.0

*Source: Research findings 2017*

#### 4.6 Awareness and adoption of IFRS for SMEs

**Table 10 Awareness on the availability of IFRS for SMEs**

	Frequency	Percent
No	36	78.3
Yes	10	21.7
Total	46	100.0

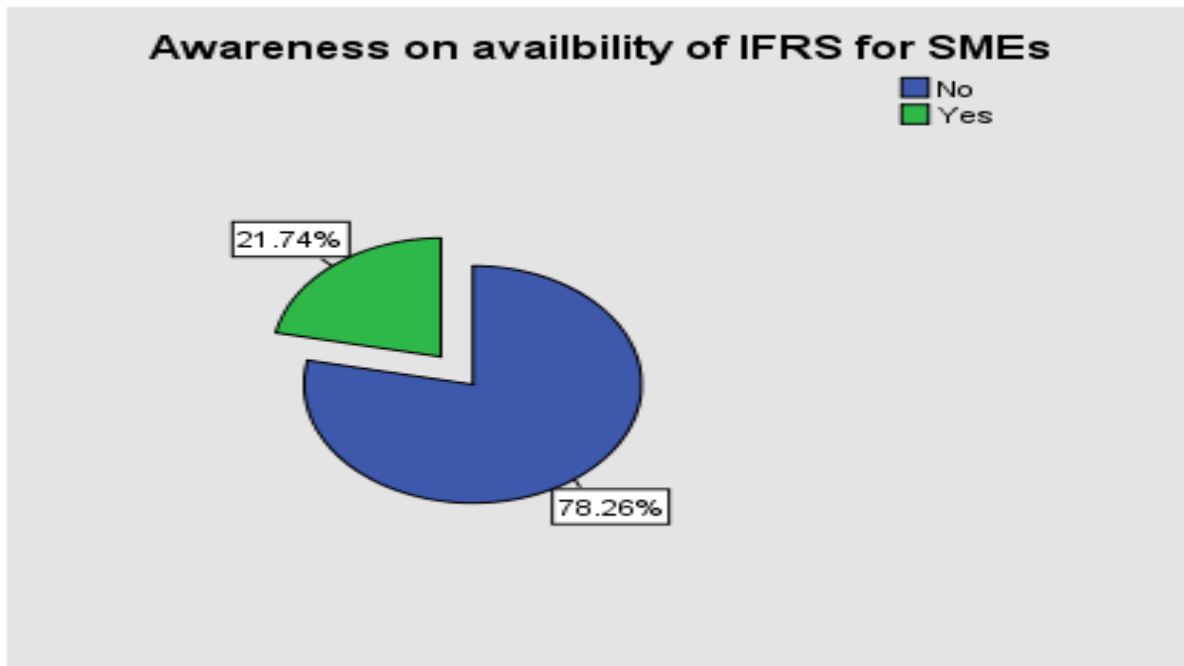
*Source: Research findings*

The awareness of SMEs concerning the introduction of the IFRS for SMEs from table 10 (above) as well as figure 8 (below) is found to be very low. In fact, over 75% of the respondents claimed to be not aware of the stated standard. This implies that SMEs in Tanzania are not aware of this standard. The result corresponds to what was found in the study conducted by Nzunda (2013) in Morogoro, Tanzania, where he pointed out that lack of compliance to IFRS for SMEs was a result of ignorance on the availability of standard tailored for SMEs. The findings can also be associated with the fact that most of the SMEs hire external accountants to prepare the financial statement, so they do not know anything about financial reporting since most of them have low education level and



some of them comes from different professional than accounting. Secondly, majority of them do not prepare financial statements at all and lastly there is low effort on awareness campaigns by regulators, concerning the availability of the standard and its benefits to SMEs

**Figure 8 Awareness on the availability of IFRS for SMEs**



*Source: Research findings 2017*

**Figure 9 Have you adopted the standard?**

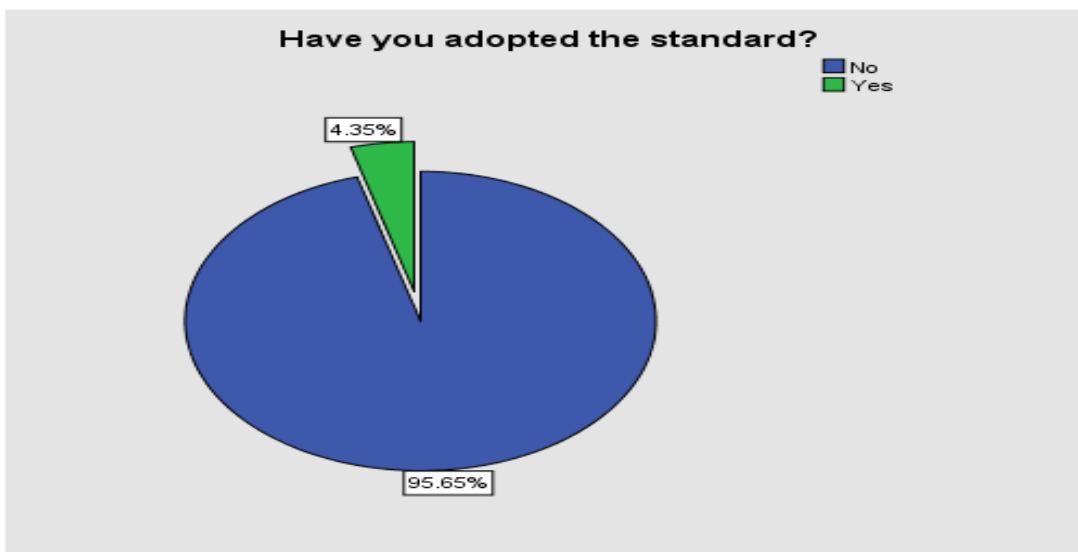


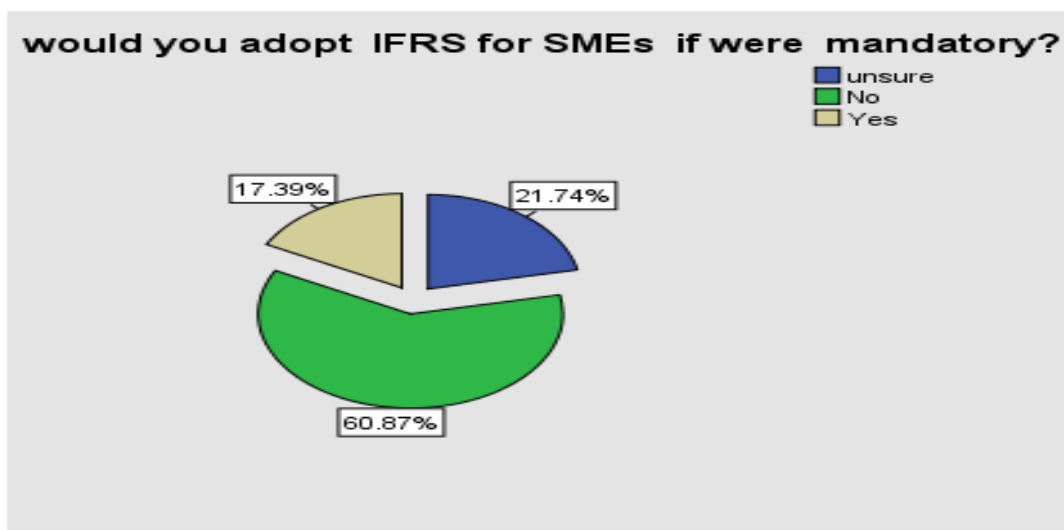




Figure 9 above illustrate the percentage of the adoption of IFRS for SMEs in Tanzania. Given that a small number of companies worldwide have adopted the use of IFRs for SMEs, Tanzania is not exceptional. Only 4.35% of the surveyed SMEs have adopted IFRS for SMEs since 2009. The result of the study indicates a negative response towards the standard by SMEs in Dar es salaam and Mbeya regions. In details, out of 46 surveyed SMEs only 2 SMEs have adopted the standard. Further, since the adoption of IFRS for SMEs in Tanzania is permitted and not required by law, the researcher suspected it to be among the reasons for low level of adoption. Going further to investigate the matter, the researcher asked respondents if they will adopt IFRS for SMEs in case they were mandatory.

As shown in figure 10 (below), majority of respondents revealed that they will not adopt the standard even if it were mandatory while others are unsure and only 17.3% said yes to the adoption in case its mandatory. From the analysis, we can conclude that compliance to regulation is a problem that need to be addressed for SMEs in Tanzania, also the results confirms the unwillingness of SMEs to the adoption of the IFRS for SMEs as there reporting standard.

**Figure 10 Would you adopt IFRS for SMEs if they were mandatory?**



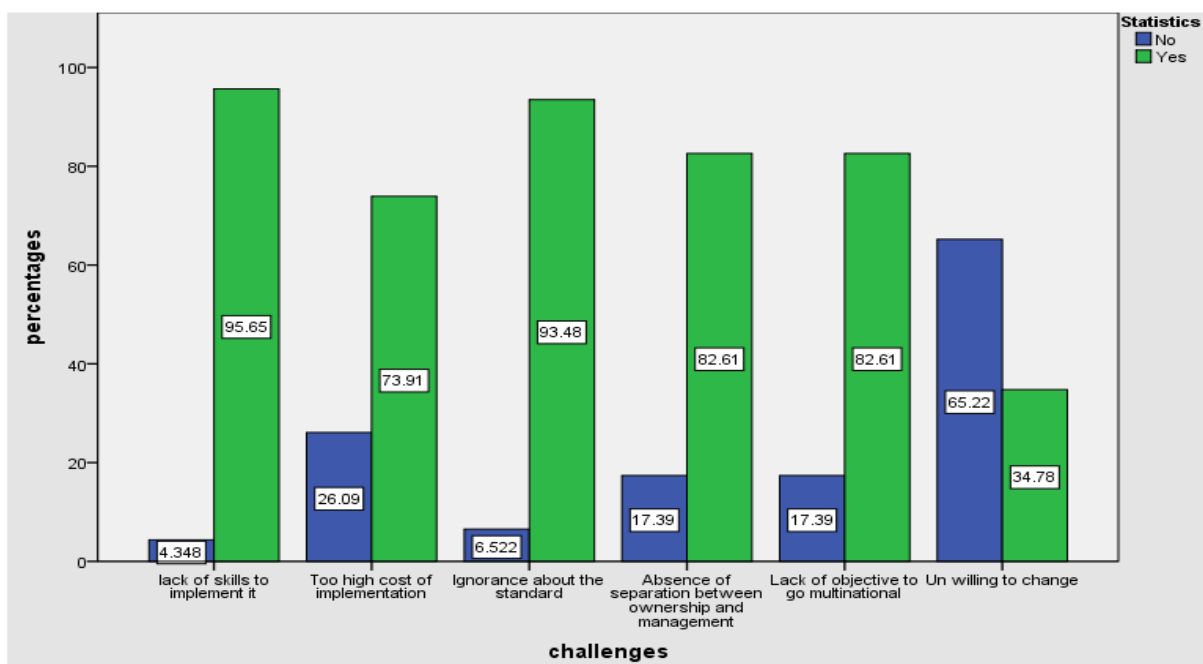
*Source: Research findings 2017*



Moreover, the low level of adoption of IFRS for SMEs in the two regions agrees with the perception that most SMEs would not be able to adopt the IFRS for SME due to lack of technical expertise, lack of awareness as different previous researchers has pointed out. According to this study, the respondent stated the following challenges as the reason for non-adoption of the standard.

#### 4.7 Challenges hindering the adoption and implementation of IFRS for SMEs

**Figure 11 Main challenges hindering the adoption and implementation of IFRS for SMEs**



*Source: Research findings 2017*

Figure 11 above shows that respondents faces different challenges that constrains them from adopting IFRS for SMEs. The study reveals that lack of technical skills to implement the standards and ignorance about the availability and the importance of the standard are the reasons which constrains SMEs from adopting the standard. Furthermore, the respondents argued that adoption of IFRS for SMEs require an entity to employ new resources into the business such as human resources and accounting systems. The required resources are too costly for SMEs to afford given the fact that most of them are micro entities. Therefore, the finding is in line with previous studies (IFAC, 2006; Alexandrou *et al*, 2010; Kenneth and Grazyna, 2013; Rudzan and Manda 2016) which



pointed out that the adoption and implementation of the IFRS for SMEs is said to result into high incurred cost<sup>17</sup>.

Another challenge is absence of separation between ownership and management, according to the findings majority of surveyed SME are managed by their owners which result into absence of accountability and the need for preparation of financial statement.<sup>18</sup> Further, it was also noted that, lack of an objective to become multinational company contribute to non-adoption of IFRS for SMEs. The study confirms that most of the SMEs in Tanzania are micro and small entities who operate locally, that there is no need for international comparisons. The result support what was being stated by Aboagye and Agbeibor (2012) in Ghana that Small businesses have limited international structure and activities which do not result in a need for internationally comparable financial reporting information.

Concerning to unwillingness to change the respondents stated that SMEs are willing and ready to accept the standard only if they are given the resources and skills to enhance them to adopt the standard.

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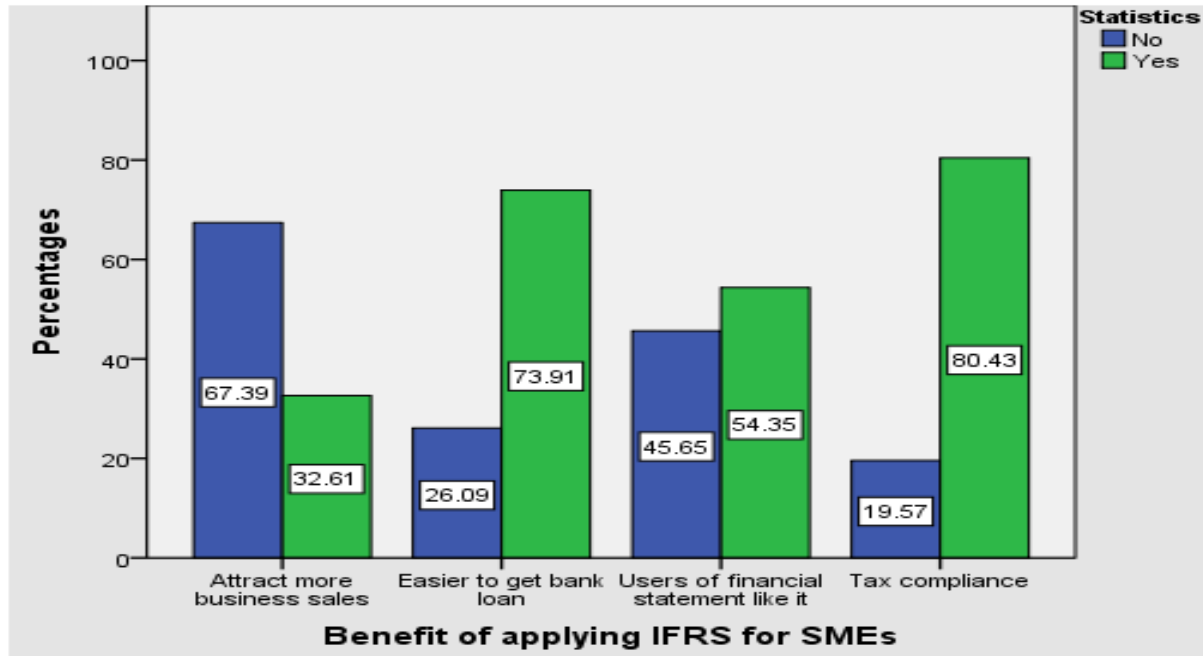
<sup>17</sup> IFAC (2006) "The cost of producing financial information, including the direct cost of preparing the information (either from within the business or by hiring an accountant), printing and publishing the information and possibly attesting or auditing the information.

<sup>18</sup> IFAC (2006) "Many small entities are owner-managed (family interest) and there is no separation of ownership and management. Therefore, the stewardship purpose of financial statement based on accounting standard is not the same and so perhaps does not have the same significance.



#### 4.8 Benefits of applying IFRS for SMEs

**Figure 12** What do you believe are the benefits of applying IFRS for SMEs by your entity



**Source:** Research findings 2017

Figure.12 above illustrate the perceived benefit of applying IFRS for SMEs as it was pointed out by respondents. A larger number of surveyed SMEs about 73.9% confirmed that application of IFRS for SMEs may assist them in easier access to bank loans. Currently, both current and potential investors, lenders and states wants reliable and comparable information that is in alignment with the standards. Given this fact, respondents argued the application of the standard is more preferably by users of financial statement and they like it.

In the case of Tax compliance, 80.43% of respondents agreed that the application of the standard will help them complies with tax laws and regulation, especially filling the tax returns as it is required by the Tanzania Revenue Authority. The results are in line with what was being claimed by IASB (2011) that in most cases, SMEs preparation of financial statement follows certain tax return, especially filling tax return. In addition, as it was claimed by respondents that (figure 5) that their primary users of financial information



are tax authorities, this fact confirms that the adoption of the IFRS for SMEs will help SMEs to compile to tax regulations.

Regarding the attraction of more business sales, only 32.61 % of respondents agreed that the adoption of the standard may increase sales especially manufacturing company's because they do business with large entities. The remaining 67.39% disagree and said that the volume of their businesses is small and deals with final consumer who are not interested in the financial position of the business. Moreover, 71.74% of respondents stated that, their management do not like the application of the standard. As it was observed through the findings that majority of SMEs are being managed by the owners who lack accounting technical skills and their ignorant about the standard.

In additional, to get a keen information on how SMEs perceive the IFRS for SMEs, the researcher asked the questions which allowed the surveyed SMEs to give an opinion on the following matters as presented in Table 10 and Figure 13 below

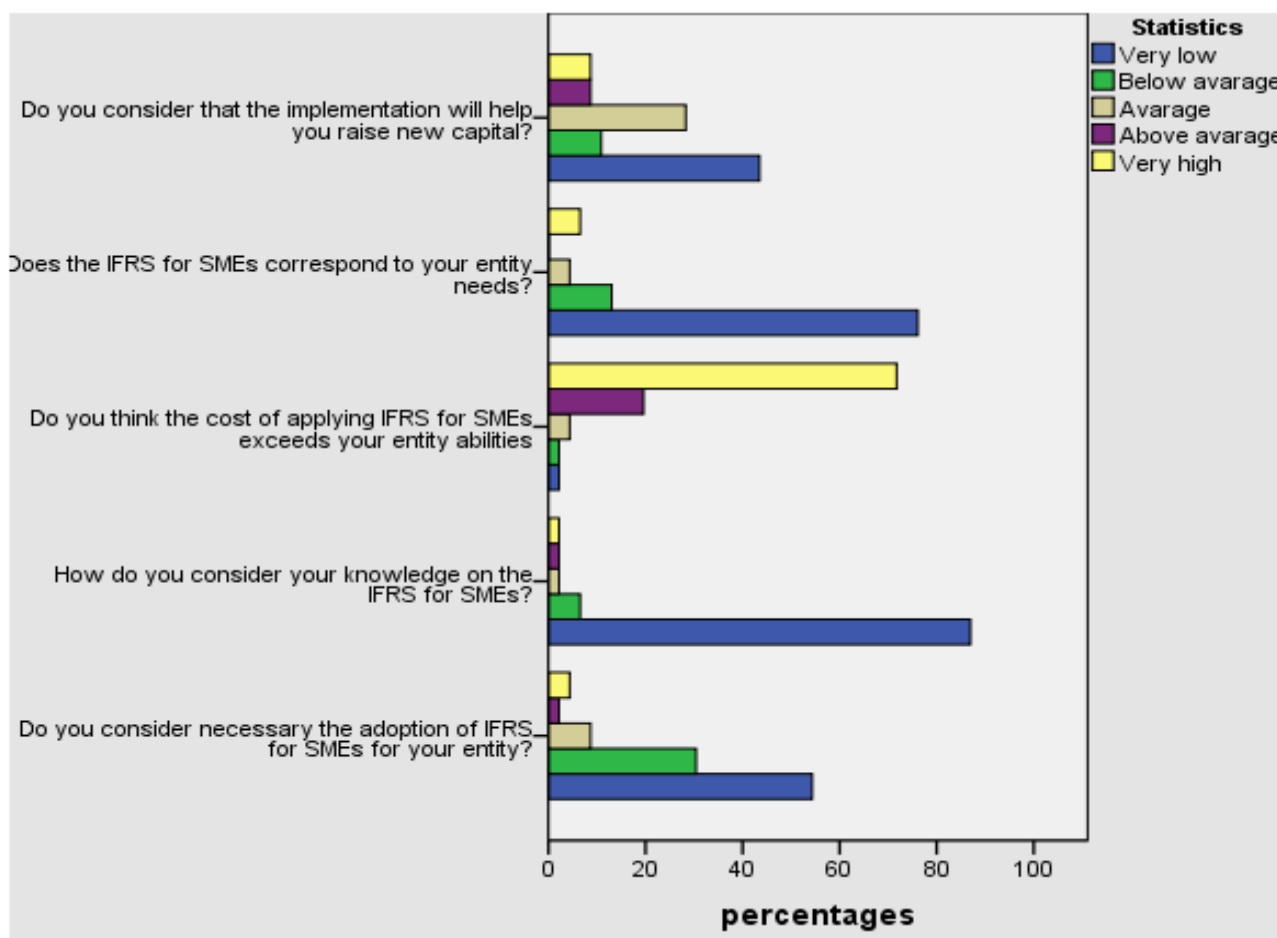
**Table 11 Respondents opinions on the importance of IFRS for SMEs**

	Do you consider necessary the adoption of IFRS for SMEs for your entity?	How do you consider your knowledge on the IFRS for SMEs?	Do you think the cost of applying IFRS for SMEs exceeds your entity abilities	Does the IFRS for SMEs correspond to your entity needs?	Do you consider that the implementation will help you raise new capital?
Very low	54.3%	87.0%	2.2%	76.1%	43.5%
Below average	30.4%	6.5%	2.2%	13.0%	10.9%
Average	8.7%	2.2%	4.3%	4.3%	28.3%
Above average	2.2%	2.2%	19.6%	.0%	8.7%
Very high	4.3%	2.2%	71.7%	6.5%	8.7%

*Source: Research findings 2017*



**Figure 13 Respondents opinion on the importance of IFRS for SMEs**



Source: Research finding 2017

As it is observed from the table 10 above, greater percentage of respondents thought that, the adoption of the standard is not necessary for their entities. These results can be associated with the lack of awareness and ignorance concerning the value that can be obtained from applying the standard. From the analysis, most of respondents were reported to come from different professional background other than accounting field as shown in (Table 5). Therefore, their knowledge on financial reporting standard is low, for that they cannot assess the real value coming from the application of the standard. Nevertheless, there still a small percentage that believes the adoption to be necessary.

Furthermore, majority of respondents stated that their knowledge on the IFRS for SMEs is very low. In fact, over 80% of respondents reported that they have no accounting knowledge as previously explained above due to their different professional backgrounds.



In fact, the accounting skills is essential for the adoption of the standard. These findings relate to what was found out by Alp and Ustundag (2009), the authors cited that potential knowledge shortfall is among of the challenges facing SMEs in developing countries during adoption and implementation of IFRS for SMEs

Moreover, to verify the phenomena as to whether the cost of applying IFRS for SMEs do exceed the entities abilities or not. Greater portion of the respondents' concord that, the cost of implementing the standard exceeds their entity abilities. In relation to this IFRS for SMEs seems to be a major step on the development and existence of SMEs. Given that SMEs are micro and small entities, they lack the capacity to hire professional accountants or outsourcing the work to accounting and auditing firms. This might stretch them to incur more cost and employ more resources in enabling them to carry out their business operations. In addition, the implementation of the standard requires SMEs to train their employees and keep them abreast to the IFRS for SMEs standards. With all these costs constrains their abilities of adopting this standard is low. The results are in line with what was founded by Evangelos and George (2011) they pointed out that there is tendency for SMEs to incur more cost versus the benefit obtained from adoption of IFRS for SMEs. Also, Irvine and Lucas (2006) emphasised that the training materials on IFRS for SMEs are often not readily available at affordable cost.

Regarding the argument of whether the IFRS for SMEs correspond to the entities need. In this case, a greater part of the surveyed SMEs about 76.1% of the respondents argues that the existing IFRS for SMEs does not correspond to their entities needs. This might imply that; the standard is too sophisticated for their entities and cannot create significant impact on their daily business operations. In fact, some respondents stated that "*I think the adoption of standard is only formalities and does not add any value to my business*". While lesser percentage of respondents concorded with the above question.

Even though, one of the greater challenge facing SMEs is easy access to finance. However, 43.5% of respondents find that applying the standard will be of no help for the entity to acquire new capital. 10.9% beliefs the ability of raising the new capital by applying the standard is below average while 28.3% thinks its average. About 8.7% of respondents



agreed that the application of the standard to raising new capital is above average and 8.7% stated that the adoption is necessary to raise new capital.

As it was reported by OECD (2004) that SMEs are characterised by information asymmetry arising from their lack of accounting records, inadequate financial statement or business plans. Which in turn is making it difficult for creditors and investors to assess the creditworthiness of potential proposals. The findings show that SMEs still suffers from the same problems and they do not understand that if they can prepare their financial statement according to recognised standard they might be able to secure loan form bank and other institution at a reasonable cost.





## CHAPTER FIVE

### SUMMARY, CONCLUSION, AND RECOMMENDATION

#### 5.0 Introduction

The chapter consists of summary, conclusion and recommendations acquired from the research findings of the study which was about the compliance and challenges of implementing IFRS for SMEs in Tanzania.

#### 5.1 Summary

The ultimate purpose of the study was to determine the degree of compliance and challenges of implementing IFRS for SMEs in Tanzania when viewed from a SMEs perspective. To reach the intended objective it became necessary to reach some essential goals. Firstly, was determining what constitute the IFRS for SMEs, SMEs and its importance in the global economy which was done during the literature review of this research. In connection to the mentioned effort it became necessary to reach an understanding about the compliance of IFRS for SMEs from different scholars through a deep empirical literature. On top of that, the model was developed to assist a researcher get a clear picture of variables that are affecting compliance and implementation of IFRS for SMEs.

Moreover, the questionnaire survey instrument was developed and it was distributed to SMEs by hand in two regions in Tanzania for data collection. The instrument contained about 20 questions, among other things the questionnaire required information connected to the sector and the size of the SMEs. Further, respondents were asked to provide their views on what they think are the challenges and benefit of complying with the IFRS for SMEs. Finally, all responded where asked to rate their opinion on different aspect starting with the necessity of IFRS for SMEs to their entities, knowledge on the standard, the perspective on the cost versus benefit of complying to IFRs for SMEs and if they consider the adoption of the standard will help them raise new capital.

Through the procedures mentioned above and the survey instrument developed in the study, data were collected and were analysed as presented in chapter four. The data and



the analysis addressed the research problem and answers the research questions presented in chapter one of this dissertation.

## **5.2 Conclusion on compliance with IFRS for SMEs**

The objective of the study was to assess the level of compliance and challenges which are facing SMEs during the implementation of IFRS for SMEs in Tanzania. The study revealed that a larger number of SMEs in Dar-es -salaam and Mbeya regions and by extension in other part of Tanzania have not adopted or comply with IFRS for SMEs. Thus, for the surveyed SMEs the compliance to IFRS for SMEs is low. Further, the study found out that among the surveyed SMEs most of them do not maintain the accounting records at all, while few of them just keep simple records such as sales receipts and journals. Also, the few who prepare the accounting information most of them do not follow the IFRS for SMEs.

Then again, the adoption of IFRS for SMEs in Tanzania is permitted and not required, therefore there is no legal requirement forcing SMEs to prepare their financial statement following the IFRS for SMEs. For this reasons SMEs opt their reporting framework according to their entity preferences. For instance, some SMEs are not following any standard, while few other are forced to go for Full IFRS as the only standard available. Consequently, the difference options result is inconsistencies and lack of comparability among the financial information of SMEs.

Moreover, the study concluded that the main users of SMEs business information on one hand are tax authorities who need the SMEs financial information for tax purposes only and on the other hand lenders who do not demand very sophisticated reports for them to extend loans to SMEs. These tend to be disincentives factor for SMEs to prepare financial statement according to IFRS for SMEs, because the application of the standard does not help them to comply to specific tax regulations.<sup>19</sup>

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<sup>19</sup> IASB (2015, p 7) "Tax laws are specific to each jurisdiction, and the objectives of general purpose financial reports differ from the objectives of reporting taxable profit. Thus, financial statements prepared in conformity with the IFRS for SMEs are unlikely to comply fully with all of the measurements required by a jurisdiction's tax laws and regulations"



Further, the study analysis confirms that, despite its global importance the IFRS for SMEs still faces challenges in developing countries like Tanzania. In this manner, the study found out that lack of awareness and ignorance about the existence of IFRS for SMEs being the main challenges. Additionally, other challenges were lack of accounting technical staff and lack of legal support to enforce IFRS compliance to SMEs. Further the absence of separation between ownership and management of business hindered most SMEs from maintaining accounting records since most of them have owners-manager relationship. Also, the low utility of SMEs accounting information as well as lack of the objective to become multinational international company affected the willingness of SMEs to adopt and comply with the standard.

Nevertheless, the study depicted that SMEs believe that they would derive several benefits if they adopt the IFRS for SMEs. These included building investor's confidences making easier for SMEs to acquire bank loan, ensuring comparability of financial statement, and proper compliance with tax regulation. However, most of the surveyed SMEs were ignorant about the existence of the IFRS for SMEs which has been tailored specifically to meet their needs. Thus, the results confirmed that little effort has been made by regulators to increase the awareness on IFRS for SMEs to SMEs in Tanzania.

In conclusion, the studied SMEs confirm that there is low adoption and compliance to IFRS for SMEs, the study has answered the intended research questions and reached its objectives of finding out the extent to which Tanzanian SMEs are complying and implementing IFRs for SMEs. Along these lines, the study has found out the challenges that constrains the adoption and implementation of the standard.

### **5.3 Recommendation**

After the literature review, the analysis and the findings the study suggested the following recommendations to the Tanzanian National Board of Accountants and auditors (NBAA).

First, the study recommends the review of IFRS for SMEs to assess the suitability of the standard to the SMEs in Tanzanian context. In this manner, the introduction of new national standard for financial reporting for suitable for small entities is advised. As



different literatures suggested that the IFRS for SMEs still complex and too sophisticated for SMEs in developing countries. Accordingly, this study findings are in the same page with previous researchers where the study found out that the compliance to IFRS for SMEs is very low and most of SMEs do not prepare financial information at all. Further, various studies (IFAC, 2006; Sian and Robert, 2013; Kenneth and Grazyna, 2013; Nzunda ,2013) suggested that the IFRS for SMEs comes from the developed countries perspective which is different from the developing countries perspective. In fact, it was observed that what is deemed to be small in developed countries might not be so in developing countries for example the size of what constitute SMEs.

Given that, Small entities tend to operate in a unique and uncertain environment. The SMEs in developing countries like Tanzania are characterised by poor accounting infrastructure, low level of education and most of them are informal and their business operation are locally based. In this sense, the standard deemed to be too sophisticated for them. So, the adoption of the standard is associated with all a lot of constrains such as the high cost and financial illiteracy. Also, since the standard cannot be used for taxation purposes SMEs are forced to produce additional information for taxation authorities. In this case it is difficult to argue in favour of IFRS for SMEs.

Furthermore, because the country(Tanzania) had already abandoned its standard since 2004 when they adopted the full IFRS, followed by adoption of IFRS for SMEs in 2009. This means SMEs have no other option than to comply to either full IFRS or IFRS for SMEs. However, from the analysis it is observed that larger percent of the entities are not aware of the standard and have not adopted yet, this bring us to questions on the need for IFRS for SMEs and realise that the change of reporting regime for the SMEs might matter.

Following to the issuance of an exposure draft on the new reporting standard for micro entities “Financial Reporting Standard for Micro Entities” which is opened for comments until 30<sup>th</sup> June 2017. And were, the standard is expected to be applied effective from 1<sup>st</sup> April 2008. These developments suggest that, the study findings on the complexity of IFRS for SMEs for Tanzanian SMEs is rational. However, the new standard will cover only micro entities leaving out the small and medium enterprises, this is somehow contradictory to the findings, since the surveyed SMEs covered during the study majority number where



small enterprises. In the end, from the findings suggest that the standard is complex for small entities also. In addition, the new standard requires that an entity that qualifies as a micro entity as defined in the standard can decide to apply IFRS for SMEs or full IFRS if it desires and micro entity may be incorporated or unincorporated. This additional tier of reporting options might lead to inconsistencies on the intended financial information, as entities have a freedom to choose any reporting standard among three. Also, it is cost full for both regulators (NBAA, BOT, TRA) because they must employ new resources to learn all the three standards. Therefore, the study suggests the new standard to be formulated to cover not only micro entities but also the small enterprises. Since the IFRS for SMEs is still too complex for both and comes from perspective of listed companies as well as developed countries. Also, the new standard should be developed in a way that, allow the micro and small entities to comply to tax laws and regulation, given that tax authorities are found to be the main users of the SMEs financial information such as to be used for assessing tax liability.

Moreover, the regulators (NBAA) should conduct awareness campaigns on IFRS for SMEs, as the study findings showed that, there little effort or no effort was being made to encourage the adoption of IFRS for SMEs in Tanzania. The study suggested that accounting regulators to conduct awareness workshop on the use of IFRS for SMEs. In this case SMEs should play an active role to encourage effective adoption of the standard. Also, the Government is advised to set fund to enable the NBAA to conduct more affordable awareness and reduce the so-called cost bottleneck for SMEs. Further a development of an incentive schemes such as grants to reward SMEs who comply with the standards as a way of motivating voluntary compliance. In addition, more training materials should be made available both on hard copies and on internet to provide guidance on how to implement the standard. The materials should be in Swahili language to avoid any language barriers

What's more, the study revealed that most of the SMEs employees lack the technical accounting knowledge which is essential for the adoption and compliance of IFRS for SMEs. It's vital for SMEs to send their employees for accounting courses to acquire



primary knowledge on the importance of the accounting information and how to prepare it. Moreover, the other option is for SMEs to outsource the financial reporting to accounting and consulting firms who have the skilled required and have an update knowledge on the standards

Further, to boost up compliance the country is advised to make the adoption and compliance with IFRS for SMEs a requirement by law. This means the whole process will no longer be voluntary, the Tax authorities (TRA), NBAA and relative authorities should provide statutory penalties or punitive for non –compliance with the standard. Also, the study suggests that the Government should make a standard as a requirement especially for small and medium entities leaving out the micro entities.

#### **5.4 SUGGESTION FOR FURTHER RESEARCH**

The researcher recommends further studied to be conducted on the adoption and compliance to IFRS for SMEs in Tanzania at a large scale so as to get a real picture of the situation in Tanzania. In particular, the researcher suggests the accounting regulator (NBAA) who have enough resources (financial, human and time) to conduct a research covering many SMEs and other entities who are eligible to apply the standard in order to get an actual number of entities who are applying the standard. The result might help the regulator to questions its decision regarding adoption of IFRS for SMEs or its strategies towards effective implementation of the standard. Moreover, further research is required to determine the actual needs of users of SMEs general purpose financial statements, from their perspective to assess the true value of applying the IFRS for SMEs.

As the authors (Lisa Evans et al, 2005) pointed out that, before examining the need for a specific set of rules for the preparation of SMEs financial statements we need to consider the main objective of the financial reporting. For this reason, initiation of in depth research is advised regarding the new propose standard (Financial Reporting Standard for Micro Entities), to determine if the standard will be able to meet the users' needs and at the same time solve problems portrayed by IFRS for SMEs(complexity). In this case, issues like the objective of SMEs financial reporting and users should be studied further. Since the exposure draft (S.3.1, p 18) states that, the users of the financial statements



include present and potential investors, employees, lenders, suppliers and other trade creditors, customers, government and their agencies and the general public. This brings out more questions given that previous researchers (Lisa Evans et al, 2005; IFAC, 2006; Alexandrou et al, 2010; Kenneth and Grazyna, 2013) pointed out that the primary users are lenders as well as tax authorities. In addition, the single standard which claims to satisfy all the needs of multiple users without prioritization in actual sense the application can be difficult without facing conflict of interests among users' needs and who should the reporting entity address first. Consequently, further studies on users of the new proposed standard is of importance.

Further, the definition of what constitutes an SME entity under reporting environment in Tanzania should be investigated because the current situation somehow is confusing. According to the NBAA (2009) the scope of applicability of IFRS for SMEs stated that, an entity is permitted to apply the IFRS for SMEs standard if the entity has no public accountability, having less than 100 employees and capital invested in non-current assets not less than 800 million Tanzanian shillings. While the new proposed standard (FRSM S.1.5, p 14) states that an entity is a micro entity if only it meets at least two of the following conditions; Annual turnover not more than 800 million Tanzanian shillings, total assets not more than 400 million Tanzanian shillings and average number of employees not more than 10 employees. This categorization should be investigated to make it clear for the entity to determine which accounting standard they are eligible to use.

Furthermore, tax burden to SMEs should be investigated and establishing the impact of it to SMEs growth. Given that, this finding as well as other studies (Paoloni *et al*; Nzunda, 2013; Rudzan and Manda, 2016) found out the main user of SMEs financial reporting is Tax authorities and most of the time SMEs prepare the financial information purposely to comply with the tax rules. The further study is recommended on the possibility to align the standard (new proposed standards) with the tax regulations since the compliance to preparation of financial statements is found to be driven by the motive to comply with tax laws and regulations.





Moreover, the researcher recommends further research on ways to improve the accounting and financial knowledge of SMEs. The findings of this study show that majority of SMEs have low level of education and thus they lack accounting and financial knowledge which is essential for the application of the standard. Also, the NBSR (2012) report for micro, small and medium entities reported that majority of surveyed MSMEs owners have attained primary education only. In additional different studies have also pointed out that the level of education especially in developing countries as among the challenge hindering the adoption of IFRS for SMEs (Aboagye and Agbeibor, 2012 ;Kenneth and Grazyna, 2013; Nzunda, 2013; Rudzan and Manda, 2016).Given that, the application of any accounting standard whether be an international standard ( IFRS for SMEs) or national standard (proposed FRSM) its application require the capacity to implement the standard which is knowledge . Therefore, studies focusing on the methods of improving the accounting knowledge of micro entities are suggested.





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<http://www.ifrs.org>

<http://www.ifrs.org/About-us/IASB/Pages/Home.aspx>

<http://www.nbaa.go.tz/>



## APPENDIX

### QUESTIONNAIRE

Dear respondents:

This questionnaire aims at collecting some information concerning the research titled THE COMPLIANCE AND CHALLENGES OF IMPLEMENTING INTERNATIONAL FINANCIAL REPORTING STANDARD (IFRS) FOR SMALL AND MEDIUM-SIZED ENTERPRISES (SMEs) IN TANZANIA. The student Graciana Evarist Mpoma from Ca'Foscary University of Venice (Italy) is conducting this study for the partial fulfilment of Master degree of science in Administration, Finance and Control. Kindly respond appropriately. All data will be kept confidential and the data collected will be used for academic purposes only and not otherwise.

#### QUESTIONS

##### PART A: RESPONDENT BACKGROUND

1. Date.....
2. Name of business entity.....
3. Respondent gender
  - a) Male
  - b) Female
4. In which category of age do you belong?
  - a) 18-28
  - b) 29-39
  - c) 40-50
  - d) 51 and above
5. What is the level of your education?
  - a) Primary education
  - b) Secondary education
  - c) Higher education
  - d) Tertiary education





6. If you have any higher education, what is your profession? Mention if any

- a) Accountant     b) A lawyer     c) A medical doctor
- d) A teacher     e) A mechanics
- f) Other (Hair dresser, Carpenter, Electrician, etc)
- g) None

7. What types of business are you dealing with?

- a) Retail business (buying and selling: Shops, Min – supermarket etc.)
- b) Manufacturing business (e. g. furniture, Welding construction etc.)
- c) Services, like consulting, education, health, mechanical, etc.
- d) Food vending and hotels.
- e) Selling drinks (Bars and Restaurants).
- f) Accommodation (Lodging and guest houses).
- g) Transportation (Buses and Lorries).

8. What is your position in the business entity?

- a) Owner of the business     b) Employee (Accountants)
- b) Employee (other position)

#### **PART B: BUSINESS INFORMATION**

1. What is the volume of your previous year sales?

- a) Up to 5 milL.     b) Above 5mill to 200mill
- c) Above 200mill to 800mill     d) Above 800 mill

2. What is the total number of employees in the company?

- a) 1 to 4     b) 5 to 49
- c) 50 to 99

3. Do you prepare financial statement?

- a) Yes     b) No

4. If yes in number (3), who prepares the financial statements for the company?

- a) Companies employees (Accountants)
- b) Consultancy firm



5. Who are the primary users of your financial statements?
- a) Shareholders       b) Employees   
 c) Lenders       d) Tax authorities
6. Is there any regulatory agency for example TRA, BOT, NBAA or Court of law checking your financial statements?
- a) Yes       b) No   
 c) I don't know
7. In preparation of financial statement do you follow any accounting standards?
- a) Yes       b) No
8. If yes in number (6), which kind of standard do you apply?
- a) Full IFRSs       b) IFRS for SMEs   
 c) None
9. Are you aware that there is a tailored accounting standard for SMEs (IFRS for SMEs) which was adopted by NBAA in your country in 2009?
- a) Yes       b) No
10. If yes in number (8) above, have you adopted the standards IFRS for SMEs?
- a) Yes       b) No
11. Would you adopt IFRS for SMEs if they were not mandatory?
- b) Yes       b) No   
 c) Unsure
12. What do you believe are the main challenges facing the implementation of IFRS for SMEs in your organization? Among the following:



No	Challenges	No	Yes
1	Lack of skills to implement it		
2	Too high cost of implementation		
3	Ignorance about the standard		
4	Absence of separation between ownership and management		
5	Lack of an objective to go multinational		
6	Un willing to change		

If there is any other reasons, please specify .....

.....

13. What do you believe are the benefit of applying IFRS for SMEs by your entity?

No	Benefit of applying IFRS for SMEs	Yes	No
1	Attract more business or sales		
2	Easier to get bank loan than non-application of the standard		
3	Users of financial statement like it		
4	Tax compliance		

14. For each of the following questions please tick the box that respond to your opinion about the importance of the matter.

Question	Very low	Below average	Average	Above average	Very high
Do you consider necessary the adoption of IFRS for SMEs by your entity?					
How do you consider your knowledge on the IFRS for SMEs?					



Do you consider the cost of applying IFRS for SMEs exceed your entity abilities?					
Does the existing IFRS for SMEs correspond to your entity needs?					
Do you consider that the implementation of IFRS for SMEs will help your entity raise new capital?					

**THANK YOU FOR YOUR RESPONSE**