UNIVERSITY OF CAPE COAST

IMPLEMENTING INTERNATIONAL FINANCIAL REPORTING STANDARD FOR SMALL AND MEDIUM ENTERPRISES IN GHANA: PROBLEMS AND PROSPECTS

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BY

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Dissertation submitted to the Department of Business Studies of the College of Distance Education, University of Cape Coast in partial fulfilment of the requirements for Award of Master of Business Administration Degree in Accounting

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DECLARATION

Candidate's Declaration

I hereby declare that this thesis is the result of my own original research and that no part of it has been presented for another degree in this University or elsewhere.

Candidate Signature……………………………. Date …………………….

Name: Michael Kwasi Fianu

Supervisor's Declaration

I hereby declare that the preparation and presentation of the dissertation was supervised in accordance with the guidelines on supervision of dissertation laid down by the University of Cape Coast.

Supervisor's Signature: …………………………..Date: …………………….

Name: Mr. Samuel Gameli Gadzo

ABSTRACT

SMEs have come to accept the importance of accounting information harmonization in order to remain in today's business environment. In 2009, the IASB developed and published the IFRS for SMEs in response to the need for a high quality internationally comparable and transparent financial information. In January 2012, the Institute of Chartered Accountants, Ghana directed the use of IFRS for SMEs in Ghana for reporting periods beginning 2013. However, there are widespread reports of non-compliance regarding the 2013 financial reports which resulted in the extension of the compliance period to 2015 by the Institute (ICAG, 2014). The result indicate that Eighty Five (85%) of the sampled entities prepare financial statements. However, most of these financial statements are prepared in compliance with the Ghana National Accounting Standards and others with the full IFRS. The implication of this finding is that, internationally, there is no demand on SMEs to prepare financial reports for international users hence no compliance regarding the directive by ICAG regarding 2015 period.It was recommended that there should be a continuous education, sensitisation, and communication to stakeholders of issues associated with IFRS for SMEs should commence in earnest. Also A rigorous IFRS/IFRS for SMEs capacity building programme should be embarked upon by all regulatory bodies, firms and training institutions in order to provide the needed manpower for the successful implementation of the IFRS for SMEs.

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DEDICATION

To my lovely family

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LIST OF ACRONYMS

IFRS	International Financial Reporting Standard
ICAG	Institute of Chartered Accountants Ghana
ACCA	Association Chartered Certified Accountants
EU	European Union
SMEs	Small and Medium-Sized Enterprises
GDP	Gross Domestic Product
NBSSI	National Board Small Scale Industries
GSS	Ghana Statistical Service
IFAC	International Federation of Accountants
IASB	International Accounting Standard Board
ISAR	International Standard of Accounting Reporting
SSNIT	Social Security and National Insurance Trust
IMF	International Monetary Fund
GAAP	General Accepted Accounting Principles
	EAAFRSC European Accounting Association's Financial Reporting Standard
NAS	Non-Audit Service
AGI	Association of Ghana Industries

CHAPTER ONE

INTRODUCTION

Small and Medium Scale Enterprises (SME's) have come to accept the importance of accounting information harmonization in order to remain in today's business environment. In 2009, the IASB developed and published the IFRS for SMEs in response to the need for a high quality internationally comparable and transparent financial information. Since the adoption of the IFRS for SMEs in Ghana in January, 2012, research is yet to empirically examine the level of compliance and the possible implementation issues confronting SMEs in Ghana. With about 90% of businesses registered in Ghana falling within the SME category, SMEs seem to remain a critical sector in Ghana's quest for economic development. The research therefore contributes to filling the gap by examining the implementation problems and benefits of IFRS for SMEs in Ghana. This research therefore provides a platform to identify some issues and provides guidelines to practitioners and policy makers.

Background to the Study

Small and Medium-sized Entities (SMEs) contribute quite significantly to the economic growth and development of Ghana. SMEs provide about 85% of manufacturing employment and contribute up to about 70% of National Gross Domestic Product (GDP) (Abor & Quartey, 2010). Even in developed countries, SMEs make a significant contribution to GDP and national employment (Culkin & Smith, 2000). According to Hallberg (2001), SMEs are the engines for economic development in several developed countries such as Japan and United States.

The role they play as a major source of innovation and growth has been emphasized in contemporary research (Bravnerhjelm, 2008).Prasad, Green and Murinde (2001) also contends that, growing SMEs will contribute to expanding the size of the directly productive sector in the economy; generating tax revenue for the government and facilitating poverty reduction through fiscal transfers and income from employment and firm ownership in terms of profits, dividends and wages.

In Ghana, SMEs represent a significant segment of the economy and account for a large proportion of economic activities. Data from the Registrar General Department in Ghana indicate that about 90% of businesses registered are either micro, small or medium enterprises (Mensah, 2004). Compared to larger companies, most SMEs are registered as sole proprietorship and private companies rather than corporate bodies. SMEs are seen to mostly exist in the service industry, trading, agri-business and manufacturing industry. SMEs are also seen in the form of restaurants, consulting services and mostly diverse in nature. Despite the economic contribution of SMEs, the failure rate is much higher than that of larger organisations. For instance, SMEs in South Africa fail at a rate of between 70% and 80% (Adeniran & Johnston, 2012).

Mostly, SMEs encounter limited financial and non-financial resources. One of the major problems is access to sources of external finance (Herrington et al., 2009). The majority of SMEs depend on funding from the owner, family and friends, which is often inadequate for survival and growth (Carpenter and Petersen, 2002). Research by Berry et al. (2002) documents the reliance of SMEs on bank debt as the most appropriate source of financing. These researchers, however, pointed out that, access to bank debt is a frequently cited challenge for SMEs as they lack a consistent track record of profitability that would demonstrate their capability to repay loans. Banks do prefer credible audited financial statements by independent auditors for reasonable assurance of the firms' creditability. (Howorth & Moro, 2006) indicates that, the bank's lending decision is often based on the evaluation of the SME's financial statements and/or the provision of collateral, and/or credit rating score.

Besides, the activities of SMEs on the international markets are limited by a great deal of obstacles in comparison to large enterprises. Different national financial reporting and tax systems can be considered as the most important obstacles (European Commission, 2003). The variability of the national financial reporting standards allowed companies to choose from numerous accounting methods in presenting their financial statements. This caused uncertainty about the reliability and usefulness of the information derived from these reports. It was also very difficult to compare the financial statements of companies situated in different countries.

Again, many developing countries strive to mobilize financial resources from domestic and international sources to attain their economic and social development goals. The availability of relevant information on potential investment targets has a bearing on efforts to mobilize investment for financing economic and social development. Such information plays an important role in making critical investment decisions and conducting risk assessment. It also contributes to improved investor confidence and decreased cost of capital. Economic resources have become more mobile across borders. Enterprises that provide potential investors with reliable and comparable financial statements are more likely to attract domestic and international investment.

In addition, the faster pace of globalization, the growing interdependence of international financial markets and the increased mobility of capital have added to the pressure and demand for the harmonization of accounting and financial reporting frameworks and related standards around the world (ACCA, 2010).Recognizing the significant influence that financial reporting has on investment decisions, developing countries are attaching greater importance to transparency in accounting and reporting. This is a welcome development considering the fact that the quality of financial reporting is essential to the needs of users who require useful accounting information for investment and other decision-making purposes. It is expected that, countries adopting IFRS for SMEs would have higher degree of transparency and comparability of financial reporting, decrease in asymmetric information and at the end would attract more investment and foster higher international trade.

According to the Intergovernmental Working Group of Experts on International Standards of Accounting Reporting, SMEs in most countries have been required to conduct their accounting and reporting on the basis of standards originally intended for larger companies (ISAR, 2001). In July 2009, the International Accounting Standards Board (IASB) developed and published a separate set of financial reporting standards - *International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs).* The standard was designed to apply to the financial reporting needs of all SMEs irrespective of size or geographical location.

In developing the IFRS for SMEs, one of the objectives was to develop, in the public interest, a single set of high quality, understandable and enforceable global accounting set of standards for the SME sector. The IFRS for SMEs represents a big step forward for SMEs in particular and for the financial communication in general.The IFRS for SMEs isdesigned to meet the financial reporting needs of entities that; Do not have public accountability responsibility and Publish general purpose financial statements for external users. The IASB recognized the cost and difficulty relatively to small private entities of preparing a fully compliant IFRS information.

The IASB argues that, a single set of global financial reporting standards appropriate for SMEs is needed because, the benefit of global accounting information will increase comparability, improved efficiency of capital allocation, consistency in audit quality and the facilitation of financial reporting education and training. The IASB also recognised that, users of private entity financial statements may have a different focus from those interested in publicly listed companies. This difference can be explained in the area of; financial statement users and their information needs; the accounting expertise available to the entity and the ability of SMEs to bear the cost of using the same standard as the larger publicly accountable entities (IASB, 2009).

The IFRS for SMEs attempts to meet needs, whilst trying to balance the costs and benefits to the preparers of the financial statements. The IFRS for SMEs is a stand-alone standard and does not require cross-referencing to IFRSs. In addition, it contains fewer disclosure requirements in a dramatically shorter document compared to full IFRSs and is therefore expected to appeal both the users and preparers of financial statements. IFRS for SMEs enables companies to adopt a cost-effective global standard which facilitates global comparison and interpretation of financial statements by users as well as providing the ability to adopt an international framework when preparing consolidated financial statements. The *IFRS for SMEs* is a self-contained standard of about 230 pages which is separate from full IFRSs and is therefore available for any jurisdiction to adopt whether or not it has adopted the full IFRSs. Epstein and Jermakowicz (2010) defined IFRSs as standards and interpretations issued by the IASB. The *IFRS for SMEs* is considered to be a significant development which may have strong impact on accounting and auditing practice in the future, but the attitude of national regulators and standard-setters is crucial in establishing the limits of this possible impact (Jermakowicz & Epstein, 2010).

The Institute of Chartered Accountants, Ghana (ICAG) adopted the International Financial Reporting Standards for Small and Medium Entities (IFRS for SMEs) in January 2012, to entirely replace the Ghana Accounting Standards (GAS), which was set up in 1993 by the ICAG. The new standards is believed, would enable Ghanaian small companies' financial statements to be understood in the global market. It would also ensure greater comparability of financial information of companies in Ghana with their peers in other parts of the world, as well as ensure investor confidence in financial reporting. SMEs in Ghana would have to comply with the International Financial Reporting Standard (IFRS for SMEs) by the end of 2013, if their financial statements are to be globally compatible.

The implementation of the standard is important in harmonizing Ghana's financial accounting sector, to assist various users of financial statements in making informed decisions, said Felix Nana Sackey, Deloitte Country Managing Partner. According to Sellhorn and Gornik-Tomaszewski, (2006) whiles countries with strong accountability traditions probably build their strategy regarding the IFRS for SMEs implementation on their national experience, it is argued that, some level of resistance to IFRS adoption and implementation might be experienced in countries not having such traditions. Irvine (2008) regarded the IFRS implementation as a legitimate act because it could affect a country's reputation as a modern, organized and well-regulated place to do business. However, according to Mark and Thomas (cited in Howorth &Moro, 2006), the movement towards convergence and implementation requires research to provide updated assessment of convergence and impediments to its progress. Rodrigues and Craig (2007), also advise that, countries should evaluate the costs and benefits before making decision to adopt standards which are relevant and useful for them. According to Karlson et al*.,* (2007) IFRS implementation at the firm level is a demanding process that is both time consuming and requires a lot of resources.It is therefore important that the implementation process is not underestimated by business entities (Rippe, 2001) and National Regulators.Against this background, the study seeks to contribute to the issue by providing evidence from Ghana on the extent to which accounting information prepared by SMEs complied with IFRS for SMEs and to investigate the likely implementation challenges, prospects and benefits thereof.

Statement of the Problem

The world has become a global economy and SMEs are also becoming increasingly global. This requires that, financial reports of SMEs are presented in such a way that, it reflects international standards. The introduction of the IFRS for SMEswas an important step on the road to global convergence of financial reporting by SMEs (Miller, 1994). For most developing countries like Ghana, to achieve economic growth, the progress of SME are inevitable. Results from studies in developed economy suggest that internationality, financing needs, firm size and auditor reputation are significant determinants explaining SMEs' choice to voluntarily adopt IFRS (Andre et al., 2012). The adoption of IFRS for SMEs is therefore a positive initiative which, however, can only become relevant and meaningful when it is effectively implemented. Presently, the success of implementing the IFRS for SMEs represent the challenge regarding the financial reports of the SMEs in Ghana.

In January 2012, the Institute of Chartered Accountants, Ghana directed the use of IFRS for SMEs in Ghana for reporting periods beginning 2013. However, there are widespread reports of non-compliance regarding the 2013 financial reports which resulted in the extension of the compliance period to 2015 by the Institute (ICAG, 2014).Since the adoption of the IFRS for SMEs in Ghana, research is yet to empirically examine the level of compliance in relation to 2015 financial year and the possible implementation issues confronting SMEs in Ghana. With about 90% of businesses registered in Ghana falling within the SME category (Mensah, 2004), SMEs remain a critical sector in Ghana's quest for economic development. This research therefore contributes to filling the gap by examining the implementation challenges and prospects of IFRS for SMEs in Ghana.

Purpose of the Study

The general objective of the study is to examine the possible implementation problems and prospects of the IFRS for SMEs in Ghana.

Objectives

The specific objectives of this research are to:

1. examine the extent to which SMEs in Ghana comply with the IFRS for SMEs.
2. assess the likely benefits to be derived from the implementation of the IFRS for SMEs in Ghana.
3. investigate the possible implementation issues of IFRS for SMEs in Ghana at the firm level.
4. investigate the formal mechanism used to monitor and enforce IFRS compliance by regulators in Ghana.

Research Questions

Considering the problems discussed and the objectives stated, the study is exemplified through answering the following questions:

1. To what extent do SMEs in Ghana comply with the IFRS for SMEs?
2. What are the likely benefits to be derived from a successful implementation of the IFRS for SMEs in Ghana?

3. What are the possible implementation issues/ problems regarding the IFRS for SMEs in Ghana?
4. What are the formal mechanisms used by regulatory bodies to monitor and enforce IFRS compliance in Ghana?

Significance of the Study

The significance of the findings of this research is viewed along three stands; Future Research, Practice and Policy; concerning the future research significance, the study contributes to literature on the implementation issues of *IFRS for SMEs* in Ghana. It also added to a body of knowledge by providing a basis for other researchers who might want to undertake a study into similar field. In the area of significance to practice, the study identified some of the possible implementation challenges and benefits of *IFRS for SMEs* in Ghana.

This will help firms and regulators to properly plan towards successful implementation of the standards. Concerning the significance to policy, though this research is to partially fulfil an academic requirement, the study is relevant in the Ghanaian context given the important role SMEs play in the economic development. The study provided some recommendations on the level of compliance as feedbacks that have policy implications for the government of Ghana, regulatory bodies and SMEs.

Delimitation

This research centres on the likely problems and prospects of implementing the IFRS for SMEs in Ghana. It excludes public interest entities. The study also excludes micro businesses since they are difficult to get into contact. The area covered by this research is the whole SME industry in Ghana. However data collection was limited to manufacturing and services companies in Accra and Tema. The study is restricted to these two cities in view of the fact that most businesses in Ghana are situated within the two cities. This is in line with some studies that were conducted using states (Blankson *et al.,* 2006). Data was drawn from a database held by the National Board for Small Scale Industries (NBSSI). These SMEs were operating in service and manufacturing.

Limitations

During the field work, the researcher is limited by the following; the sample size is limited to only manufacturing companies in Accra and Tema and the respondents are categorized into two groups of: audit-firms and client-firms. Also, some of the respondents did not return their questionnaires since it touch on their financial and operational performance; Also, some SMEs are not willing to provide their financial statements whiles the 2015 financial statement of most of them are not even ready as at the time of the research. Nevertheless, the above mentioned limitations with much emphasis did not affect the quality of information therein.

Organisation of the Study

The research is organized into five main chapters as follows. Chapter One provides a general overview of the entire study that is; the background of the study, the statement of the problem, the objectives of the study, the research questions, the significance of the study, the scope and limitations of the study and the organization of the study. Chapter Two review relevant literature and theories related to the implementation of the IFRS for SMEs in Ghana.

Chapter Three presents a discussion on how the necessary data needed for the study was gathered. It provides a detailed description on the research methodology and techniques for this study. It defines the research strategy, research design, data collection and analysis methods for the study, study population, sampling procedure and sample size, research instruments, research scope and research limitations. Chapter Four presents the data analysis and covers discussion of the research findings. Chapter five presents the summary of the important findings, conclusions and recommendations. The references and appendices follow this chapter.

CHAPTER TWO

LITERATURE REVIEW

Introduction

This chapter provides an insight into the existing literature and theories related to the study, regarding the problems and prospects of implementing IFRS for SMEs in Ghana. It begins with literature review on the concept of SMEs in Ghana. Other focused area includes; Theoretical Development of the standard, Conceptual framework, Institutional Theory and prior research findings on the study area.

Concept of SMEs in Ghana and Development of IFRS for SMS

Definition of SMEs

According to Ward (2005), there seems to be no universal definition for Small and Medium-sized Enterprises (SMEs). Attempt to define SMEs is an area of major concern in literature due to the huge variation in definition given to this area of business. This wide range of definitions and measures for

SMEs vary from country to country (Storey, 1994). The context of differentiation ranges from size of business, number of employees, annual turnover, ownership of business and value of fixed assets (Abor & Adjasi, 2007). In Africa, the number of employees is set around the 200 (Ayyagari *et al.,* 2005). According to the World Bank, a venture employing up to 300 people with US$15 million in annual revenue and US$15 million in assets is an SME.

Generally, in Ghana the SME group is defined as follows: (i) Micro Enterprises – Businesses that employ up to 5 employees with fixed assets (excluding real estate) not exceeding the value of $10,000; (ii) Small Enterprises – Businesses that employ between 6 and 29 employees with fixed assets of $100,000; and (iii) Medium enterprises – business entities that employ between 30 and 99 employees with fixed assets of up to $1 million (Mensah, 2005; Bell, 1990*).*According to the Ghana Statistical Service (GSS), firms with less than 10 employees are Small Scale Enterprises, whereas their counterparts with more than 10 employees are considered as Medium and Large-Sized Enterprises. This brings to the fore a level of distinction between the two.

Also, government agencies such as the National Board for Small Scale Industries (NBSSI) in Ghana apply both the 'fixed asset and number of employees' criteria. Similarly, the NBSSI, provided an operational definition of small business. According to this body, a small business is any business that employs up to 29 people. They are divided into micro, small and medium enterprises, with micro enterprises employing up to 5 employees with fixed assets (excluding land and building) not exceeding the value of $10,000. The small enterprises however employ between 6 and 29 employees or having fixed assets excluding land and building not exceeding $100,000 and the medium enterprises employing between 30 and 99 employees with fixed assets of up to $1m.

Characteristics of SMEs in Ghana

SMEs make up the largest portion of the employment base in Ghana and are the bedrock of the local private sector (Kufour, 2008). The sector is characterized by low levels of education and training. Mostly, the owner-managers of these SMEs are hampered by lack of managerial competencies (Gockel and Akoena, 2002). SMEs in manufacturing are viewed as costly and high risk entities by the key players in the financial sector and hence many of the commercial banks avoid lending to them. These owner entrepreneurs who could play a much larger role in job creation and development of a sustainable SME sector are therefore marginalized.

According to the definition provided by the National Board for Small Scale Industries, SMEs in Ghana tend to have few employees who also tend to be mostly relatives of the owner, hence, there is often lack of separation between ownership and control (Abdel-Khalik, 1993). Also since SMEs do not traditionally rely on public funds, there is lack of accountability and no regulations to comply with in relation to compliance (Abor & Adjasi, 2007). Another feature that makes smaller entities different from larger ones is that management often performs multiple management roles which makes the typical small business manager familiar with most aspects of the business (Lippitt & Oliver, 1983). From such a perspective, it could be argued that managers of smaller entities should be less dependent upon formal financial statements than their counterparts in large businesses.

Another major feature is the problems of access to sources of external finance (Maas and Herrington, 2006; Herrington *et al.,* 2009) and the majority of SMEs depend on funding from the owner, family and friends, which is often inadequate for survival and growth (Carpenter & Petersen, 2002).According to Mensah (2005) data from the Social Security & National Insurance Trust (SSNIT) indicated that, by size and classifications, the Ghanaian private sector is highly skewed, with 90% of companies employing less than 20 persons. They are dominated by one person, with the owner/manager taking all major decisions. Most entrepreneurs possess limited formal education, access to and use of new technologies. Research findings on SMEs have attested to the fact that characteristics of SMEs are quite similar amongst many countries the world over. Notable amongst these findings is that of the INAFI African trust research project carried out by (Mwaniki, 2006).

Development of IFRS for SMEs

In 2001, the IASB was authorized to develop internationally acceptable accounting standards for companies which are not the subjects of public interest – SMEs. The objective of the project was to develop an IFRS expressly designed to meet the financial reporting needs of entities that; Do not have public accountability and Publish general purpose financial statements for external users such as owners who are not involved in managing the business, existing and potential creditors, and credit rating agencies. (IASB, 2001).

In 2007, the Exposure Draft of IFRS for SMEs was issued. It was derived from full IFRSs with appropriate modifications based on the needs of users of SMEs financial statements and cost-benefit considerations. In the development of the IFRS for SMEs, the IASB conducted a number of field tests to assess the relevance of the accounting standard in different countries which included the restatement of a sample of SMEs financial statements in accordance with the IFRS for SMEs requirements.

The testing program was applied to 116 small entities (each of them with a total of up to 50 employees) in 20 countries. There were some main problems identified in the tests (for example the need touse fair value as the main method of evaluating the closing of each financial year due to market fluctuations; the need to simplify the information presented and the need to use full IFRSs to address certain situations much less developed in the IFRS for SMEs). The project was finished by publishing the final version of IFRS for SMEs on July the 9th 2009.

The IFRS for SMEs is a self-contained standard of about 230 pages tailored for the needs and capabilities of smaller businesses. The IFRS for SMEs is separate from full IFRSs and it is therefore available for any jurisdiction to adopt whether or not it has adopted the full IFRSs. It is also up to the particular jurisdiction to determine which entities should use the standard. It is built on an IFRS foundation. Many of the principles in full IFRSs for recognizing and measuring assets, liabilities, income and expenses have been simplified, topics not relevant to SMEs have been omitted, some accounting policies options in full IFRSs are not allowed because a more simplified method is available to SMEs and the number of required disclosures has been significantly reduced.

In comparison to full IFRS which is intended for listed companies the IFRS for SME is aimed at about 90% of companies all over Ghana. Despite this fact, the IASB approach focuses on “the typical SME” with about 50 employees. It is a quantified size test for defining SME but, rather, to help it decide the kind of transactions, events and conditions that should be explicitly addressed in the IFRS for SMEs. There could arise any problems, because the IFRS for SMEs could not be suitable for all kinds of entities in the SMEs spectrum, especially for very small entities (micro entities). This kind of entities usually prepares financial statements especially for taxation purposes. Also, Tax authorities are considered as key users of SMEs financial statements (Sian & Roberts, 2009).

Despite this fact, accounting standards are not intended to meet the reporting needs of tax authorities in different countries (IASB, 2009). Different tax jurisdictions worldwide are the main reason for it. Apart from tax authorities, other frequent users of small company financial reports include owner-managers and providers of finance (Saracina, 2005). The research of Deaconu, Nistor and Popa concerning financial statements users’ needs (2009) examined SME stakeholders’ needs and their inference upon SME financial reports. Their research contained public authorities, financial creditors, shareholders and managers as main user groups of SME financial statements. Schiebel’s (2008) concludes that the IASB failed to determine the information needs of external users of SMEs’ financial statements and the kind of information those external users require from SMEs.

Ghana Companies Code and the IFRS for SMEs

The Companies Code provides basic requirements for accounting and reporting applicable to all private and public companies in Ghana. The Companies Code provides the requirements for preparation and publication of financial statements, disclosures, and auditing, among other provisions. The Companies Code, Act 179 (1963), has not been significantly amended since its promulgation over 51 years ago. The formats for presentation of financial statements and requirements on disclosures prescribed in the Act need updating or removing. The Code does not deal with preparing financial statements in accordance with prescribed standards (such as IAS or Ghana National Accounting Standards). Moreover, some accounting requirements prescribed by the Code are incompatible with International Accounting Standards. It remains a basic law though suggestions have been made that, the requirements of the Code is now outdated having seen no amendment since 1963 such that currently, they do not conform to modern corporate governance practice (Rahman, Linde, & Yankey, 2004).

Theoretical Framework

Over the years, varied theories have influenced the change in Standards. Most of these theoretical discussions of demand for change focus on the interests of external stakeholders in the context of listed public companies, where financial statements are mandatory. This section attempts to review literature which considers theories explaining demand for change in

Accounting Standards in the SME environment. Few discussions have been made on the Institutional Theory as below.

Institutional theory (in SMEs environment)

The institutional framework explains the mechanisms through which organisations seek to align perception of their practices and characteristics with the social environment, and how such practices become institutionalised in a particular organisation (Deegan & Unerman, 2006). Developments of the institutional theory was envisaged in order to facilitate the understanding of change. DiMaggio and Powell (1983) identify three mechanisms through which institutional change occurs: coercive, mimetic and normative. Rodrigues and Craig (2007) also develops a framework to study accounting harmonization integrating the three forms of isomorphism (coercive, normative and mimetic). Potter (2005) builds on Miller (1994) a framework to study accounting as a social and institutional practice. The institutionalization of accounting is made by isomorphism, meaning the process by which an organization adopts an institutional practice.

The theory of isomorphism defines the "constraining process that forces one unit in a population to resemble other units that face the same set of environmental conditions" (Hawley cited in DiMaggio & Powell 1983). DiMaggio and Powell (1983) assert that "organizational characteristics are modified in the direction of increasing compatibility with environmental characteristics; the number of organizations in a population is a function of environmental carrying capacity; and the diversity of organizational forms is isomorphic to the environment diversity". This theory in practice implies that, the features of an organization (for example SMEs in Ghana) can be tuned to some extent for the sake of compatibility and uniformity to suit the surrounding environment of the organization in question (the global world).

Coercive isomorphism

Coercive isomorphism results from external pressure and certain practices that are adopted as a result of governments' or capital markets' pressures or the expectations of the larger society. This form of isomorphism stems from political influence and the problem of legitimacy. Coercive isomorphism might originate from all spheres of an organizational or political environment. Additionally, coercive isomorphism takes the shape of a formal or an informal pressure exerted on an organization by other superior organizations upon which they depend as well as the cultural environment within which an organization operates. In most instances, such pressures might be perceived by the organizations as force, persuasion or an invitation to adopt a particular policy. The main institutions that might have internally influenced the adoption of International Financial Reporting Standards in Ghana are: Institute of Chartered Accountants, Ghana on the other hand formulates all the accounting regulations in Ghana and also controls the accounting profession. These institutions influence the choice of reporting standards that are used in Ghana as a member of International Federation of Accountants (IFAC).

Mimetic isomorphism

Mimetic isomorphism is seen as adopting best practices in order to be more legitimate or successful. Mimetic isomorphism unlike coercive isomorphism stems from standard responses to uncertainty. The degree of uncertainty is a powerful force that encourages imitation. Reasonably, it can be argued that SMEs in developing countries (Ghana) would mimic or copy the activities, standards, and principles of successful developed countries when they are uncertain about the effects that their current principles might have on their organization in the future. Organizations emulate other similar organizations in their field who are more legitimate and successful.

The World Bank noted that "the Institute of Chartered Accountants of Ghana (ICAG) has not updated any national standards since they were originally adapted from international standards" (Estandardsforum, 2009). It was established that there were twenty eight (28) Ghana National Accounting Standards. However, it is worth pointing out that, the international equivalents of certain Ghana National Accounting Standards have been withdrawn while ten (10) active international standards have not been reflected in Ghana National Accounting Standards at the time of the World Ban's report in the year 2004. More importantly, International Accounting Standards forty one (41) which is significant to Agriculture was noted to have been exempted from the Ghana National Accounting Standards. Meanwhile, agriculture is known to be one of the major contributors to the Gross Domestic Product of Ghana. It is clear therefore that the accounting profession in Ghana was indeed lacking in-depth coherence. The standards used were outdated and did not meet the national need let alone international standards. Businesses in effect had partial knowledge of the standards employed. The aforementioned loopholes coupled with others of grave importance to the economy of Ghana created certain form of uncertainty in the accounting profession. To remedy this situation, a solution in the form of adopting the International Financial Reporting Standards (IFRS or IFRS for SMEs) became necessary.

Normative isomorphism

Normative isomorphism is given by the professionalization, in that the members of a profession define methods of work. Also, sometimes a gap occurs between the formal and informal practices, between the image presented and the reality, gap called decoupling (Irvine & Lucas, 2008). According to (Dillard *et al.,* 2004) Institutional theory has been extensively used in analysing IFRSs implementation and/or accounting change because it emphasizes the importance of institutions, beliefs, rules, routines, and culture. Normative isomorphism is attributable to professionalization. According to Larson and Collins, professionalization is defined to be the collective struggle of members and an occupation to define the conditions and methods of their work, to control the "production of producers" and to establish a cognitive base and legitimization for their occupational autonomy (Larson 1977; cited in DiMaggio and Powell 1983). This emphasizes that professional bodies are a group of individuals with common interest and aspirations. They therefore strive together to circulate these common objectives they possess, design criteria for application of membership, and set limits as to the quantity of members at each point in time.

Empirical Review

Evans et al*.,* (2005) studied the Discussion Paper Preliminary Views on Accounting Standards for Small and Medium-Sized Entities' (cited in IASB, 2007). Their findings suggest that within the EU, SMEs have considerable economic significance and are currently subject to differential reporting regimes. They argue that the users and these users' needs, differ from those of large, public interest enterprises. There are also significant differences between users groups of the smallest versus the larger SMEs.

Street and Bryant (2000) explore the association between compliance and/or disclosure level, and the manner in which the audit opinion addresses the type of accounting standards used by the companies. Also, Street and Gray (2002) argue that the type of accounting standards and noted exceptions used by the company, as stated in the auditor report, might be associated with the extent of compliance with IFRS-required disclosures and measurement presentation requirements. Based on prior literature, it could be expected to find an association between accounting criteria election and the level of compliance with IFRS-required disclosure reported in the auditor report.

Adoption of the IFRS for SMEs in the developing countries

Although the IFRS for SMEs was not intended for a specific user group, the majority of the respondents to the Exposure Draft on IFRS for SMEs were from Europe and other developed countries while only limited respondents from Africa and developing countries were involved (Shutte and Buys, 2011). Also, Schiebel (2007) concluded that the IASB did not conduct serious worldwide empirical analyses in deciding the contents of the IFRS for SMEs.What probably was overlooked by the proponents of internationalization of IFRS for SMEs is that, most developing countries share business characteristics that could limit their abilities to realize the expected benefits associated with the adoption.

Whiles the adoption of IFRS for SMEs seems reasonable for developed countries, developing countries might not be able to exercise the same expected economic benefits enjoyed by developed economies due to certain distinctiveness of their accounting and business infrastructure. For instance, lack of skills and knowledge of their accounting professions, companies, and investors; smaller and less developed capital markets; lower level of governance; and limited numbers of international business participants. According to the United Nations (2008) the concept of applying global reporting standards to SMEs in developing countries is believed to be more difficult than elsewhere.

Oberholster (1999) found that the unique challenges and the heterogeneous nature of developing countries are not necessarily accommodated when International Accounting Standards are adopted by these countries. According to Simpson (2008), the IASB did not take into account the uniqueness and challenges of SMEs in developing countries. Sacho and Oberholster (2008) added that developing countries do not have historically developed accounting standards and are not required by global market players to apply IFRS, which, according to them, might result in distorted and incongruous results. According to Correa-Cortes (2008), SMEs from developing countries find it more difficult to cope with typical SME challenges such as limited financial and human resources. Zeghal and Mhedhbi (2006) suggested that the decision to adopt IFRS by developing countries in particular, is influenced by; economic growth, educational levels, the degree of external economic openness, cultural considerations, existence of capital markets. It is therefore possible that the IASB did not incorporate the distinctive and unique SME attributes from developing countries, as opposed to SMEs from developed countries.

Accounting staff in small businesses of developing countries that in general do not possess sufficient developed skills to comprehend international accounting standards, would suffer from deficient knowledge and interpretation on especially newly enacted standards, that in turn would lead to unreliable financial reporting and auditing. Thus, even if IFRS for SMEs is adopted in a country; the commensurate benefits are far from reality due to insufficient and incomplete assurances of the quality of its financial reporting. In other words, the decision to converge with IFRS for SMEs does not necessarily lead to aforementioned economic benefits because convergent at standard-level is not necessarily followed by convergent at practical-level (Lasmin, 2010).

Chand et al. (2006) argued "a two-tier model" that encompasses the distinctive characteristics of developing and developed countries: *If distinctions between developed and emerging economies are not made, then SME IFRSs may have deplorable shortcomings, especially when applied in emerging economies.* It is necessary to remind that according to Deloitte (2009) the adoption of IFRS is required in those jurisdictions which do not have developed their own accounting system. There will be differences in the application of the IFRS for SMEs between countries given their previous accounting background as well (Deaconu, 2006).

A study done by the IASB for around 31,000 small companies in 68 developing countries and emerging markets found that private firms with greater financial transparency experience have significantly lower problems with gaining access to external finance (and obtain those funds at a lower cost) than other private firms. There is strong evidence that accounting quality positively affects investment efficiency (Mage, 2010).

Although adopting IFRS for SMEs might reduce the costs of standards setting process and standards implementation monitoring, the governments as accounting regulators and/or standards setters have to be well aware that, the notion of one accounting system fits all countries might not be the only answer. Considering the fact that, the composition of international and national stakeholders in individual country varies greatly, so does the need of adopting international standard. Especially, the potential benefits of adopting international standards might not be materialized because of weak interpretation and implementation.

In developing countries, the problems of governance are notorious, rules are often misinterpreted. What was written might not be appropriately implemented. The result is that the comparability of accounting standards may not lead to the comparability of actual financial reporting practices. Another issue is that countries might adopt IFRS for SMEs not because potential economic benefits associated with the adoption, but just because countries want to be perceived as socially acceptable and legitimate jurisdictions for doing international business (Judge, Li, & Pinsker, 2010; Lasmin, 2011).

Relating to implementation challenges

Implementation can be refer to the delivery of a specific program, which in this case involves a series of activities undertaken by an entity to achieve the goals and objectives articulated by standards (Burke *et al.,* 2012). According to Brodkin (1990), 'to implement' implies the process and the ability to convert the stated policy into the stated policy outcome. Effective implementation bridges this gap between what is known and what is done(Burke et al., 2012).

The complexity of the international accounting harmonisation process makes it a prolific topic area for accounting research. The phenomenon has been analysed from many different angles, including comparisons of international accounting practices, the influence of external factors (e.g. cultural, economic, financial, Technical and political) on accounting practices, obstacles to global convergence, the advantages and disadvantages of establishing international accounting standards, measurement of the extent of international accounting harmonisation, and the effects of IFRS (Baker and Barbu, 2007).

Heterogeneous nature of SMEs

One difficulty in implementing IFRS for SMEs is the heterogeneous nature of SMEs. Tiron and Mutiu (2008) concluded that the main difficulty came from the fact that the SME concept covers a large diversity of types of enterprises, no matter of the entities' dimension, category or nature, or the informational needs of their users.

Tax issues

In many countries, financial reporting is linked to taxation, which is inconsistent with IASB’s philosophy and raises issues for an accurate IFRSs application, especially for the IFRS for SMEs. The application of the IFRS for SMEs will imply breaking the traditional bond between financial statements and the income tax return (Jermakowicz & Epstein, 2010). Sian and Roberts (2009) found out that, tax authorities are the key users of SME financial statements. In their opinion, the contents and shape of the SMEs financial statements are influenced by the disclosure requirements of tax authorities, and not by accounting regulators.

Institutional issues

When IFRSs are introduced in a given jurisdiction, they form part of the pre-existing laws and regulations in the country pertaining to the governance of business entities. Often, laws and regulations overlap or become inconsistent with each other, especially when the roles and responsibilities of different institutions are not clearly defined and coordination mechanisms are not in place. Lack of coherence in the regulatory system becomes cause for serious misunderstandings and inefficiency in the implementation of standards. Most of the laws and regulations pertaining to financial reporting were enacted several decades before the introduction of IFRS / IFRS for SMEs. For example, the Companies Act of Ghana passed into law in 1963. These laws remain in place without amendments to recognize the introduction of IFRS in the respective countries. As a result, the IFRS lack the necessary legal backing. For example, some company laws require specific formats for financial statements. These requirements often contradict the ones in the international standards. Such a situation is expected to impede the smooth implementation of the IFRS for SMEs. Owolabi (2011) noted that the accounting and auditing practices in majority of African countries, suffer from institutional weaknesses in 'regulation, compliance and enforcement' of standards and rules and also that audit committees of some companies have been implicated in contributing to the corporate scandals by not performing their roles effectively (Bakre, 2007).

Technical issues

Practical implementation of IFRS for SMEs requires adequate technical capacity among preparers, auditors, users and regulatory authorities. Countries that implement the IFRS for SMEs faces a variety of capacity-related issues, depending on the approach they take. One of the principal difficulties encountered in the practical implementation process is the shortage of accountants and auditors who are technically competent in implementing IFRS for SMEs and ISAs. Usually, the time between when a decision is made to implement the standards and the actual implementation date is not sufficiently long to train a sufficient number of professionals who could competently apply international standards.

A related technical problem is the limited availability of training materials and experts on the standards at an affordable cost. Another technical challenge occurring after completing the initial implementation process is the difficulty in coping with the rapid frequency and volume of changes made by the IASB to existing IFRS and IFRS for SMEs, as well as keeping pace with new standards. Repeated amendments on standards place strain on available technical capacity, which in many cases was already insufficient. Auditors also face such technical challenges as, they need to assess the reliability of fair value measurements contained in the financial statements.

Environmental issues

Worldwide efforts to achieve accounting harmonisation run directly counter to environmental differences and countries' idiosyncrasies (Shultz & Lopez, 2001). Each accounting system is a product of its unique cultural, political and economic history, and is embedded in its own beliefs. The complicated nature of IFRS and IFRS for SMEs, the different rules governing the preparation of reports, and the tax-orientation of many national accounting systems are significant barriers to effective convergence of accounting standards (Callao *et al.*, 2007) of which care must be taken.

Relating to implementation benefits

The wide spread adoption of IFRS for SMEs has been promoted by the arguments that the benefits outweigh the costs. It however remains an empirical question if this is the case for all countries whether developed or developing. While opponents of the adoption of IFRS, for instance, Armstrong *et al.,* (2007) argue that one single set of accounting standards cannot reflect the differences in national business practices arising from differences in institutions and cultures, proponents argue that substantial benefits can be reaped from greater cross-country comparability of firms' financial reports. These arguments about the benefits of adopting IFRS for SMEs are not unanimous among academic researchers (Chua & Taylor, 2008).

Globally consistent and uniform financial systems provide cost-efficiencies to business and greater safeguards to the public. Barth (2007), for instance, argues that by adopting a common body of international standards, countries can expect to lower the cost of information processing and auditors of financial reports can be expected to become familiar with one common set of international accounting standards than with various local accounting standards.

The argument here is that countries choose to adopt international standards when they expect to increase the share of foreign capital and trade in their economy. In this sense, even countries with low levels of foreign capital and trade can choose to adopt international standards if they are expecting growth in those factors. Besides, the public is entitled to have confidence that, regardless of where a business activity occurs, the same high quality standards were applied. It is widely recognized that investors will be more willing to diversify their investments across borders if they are able to rely on financial information based on a similar set of standards. Thus, adherence to international standards can ultimately lead to greater economic expansion. Furthermore, it can serve to limit managerial discretion by improving outside investors' ability to monitor managers (Bushman & Smith, 2001).

In a study by PricewaterhouseCoopers (2006) concerning the development of the IFRS for SMEs, it was stated that the adoption of international standards would provide a lot of benefits to SMEs. The adoption will improve the comparability of financial information of SMEs at either national or international levels, will make easier to implement planned cross-border acquisitions and to initiate proposed partnerships or cooperation agreements with foreign entities. The argument is that, uniform accounting standards across countries improve firm comparability and this in turn improves capital flows. It can help SMEs to reach international markets. It can have a positive effect on the credit rating scores of enterprises, this can strengthen SMEs' relationships with credit institutions and enhance the financial health of the SMEs, as well.

Another resulting implication is that international standard adoption and implementation will also lead to improved transparency and higher quality financial reporting, effectively improving firm information environment (Daske et al., 2008). An improvement in firm information environment may benefit firms in that it reduces adverse selection costs and estimation risks, thus contributing to a lower cost of capital (Lambert, Leuz, & Verrecchia, 2007).

Other benefits to mention are the increased financing opportunities, the decreased cost of capital and the opportunities for the internationalization of SMEs. Also, another perceived benefit would be the separation between accounting and taxation. The introduction of the IFRS for SMEs could be a way to bring financial accounting and managerial accounting into convergence. This might be beneficial from the point of view of the stewardship objective of accounting. These benefits are generally associated with the application worldwide, but research suggest that another benefit (or effect) which seems to be particular to emerging economies is the change in the accounting culture, in the mentality of accountants and of the business environment. Professional bodies have noticed that, the application of this standards will lead to a change in the role of accountants in organizations. But this general perception of improvements in reporting and of the accounting profession should be also supported by the development of the economic environment. Others argued that “On the short term the costs will exceed the benefits but the implementation of the IFRS for SMEs is worth on the long term. But if the environment doesn’t change it will not work.

CHAPTER THREE

RESEARCH METHODS

Introduction

This chapter presents a discussion on how the fieldwork was organized and the techniques adopted to collect the relevant data needed for the study. The methodology of every research is very important in order to ensure the validity and reliability of result. It provides a detailed description on the research approach, research design, data collection and analysis methods for the study, study population, sampling procedure and sample size, research instruments, research scope and research limitations.

Research Approach

The aim of this research is to empirically examine the likely problems and prospects of IFRS for SMEs implementation in Ghana and also to assess the level of compliance since adoption. To achieve this, the study employs a mixed research approach, which entailed collecting and analyzing both qualitative and quantitative research data.

Research Design

In this study, the survey method was used to solicit data from SMEs in Ghana about the level of compliance with IFRS for SMEs. The nature of the study is what prompted the choice of the survey strategy. The strategy was adopted because the study seeks to empirically examine the extent to which manufacturing SMEs in Ghana comply with the IFRS for SMEs implementation regarding the 2015 financial reporting year. The researcher chose 2015 financial year for the study because, though Ghana adopted the IFRS for SMEs in 2012, SMEs are required to implement the standard beginning 2013 reporting year. However, there are widespread reports of non-compliance regarding the 2013 financial reports which resulting in the extension of the compliance period to 2015 by the institute (ICAG, 2014)

Survey research, according to Jones (1985) is “probably the most visible and pervasive form of research in the social and behavioral sciences”. Frankel and Wallen (2000) also refer to the survey research as having the potential to provide a lot of information obtained from a large sample of individuals. According to Babbie (2001), surveys are excellent vehicles for the measurement of attitudes and orientations prevalent within a large population.

Given the utility of the quantitative and qualitative approaches, the study introduced a cross-sectional survey design in examining the possible implementation benefits and challenges of IFRS for SMEs in Ghana. Cross-sectional design which is also referred to as social survey involves the collection of data on more than one case at a single point in time in connection with two or more variables which are then examined to ascertain patterns of association” (Bryman & Bell, 2007).

The reasons for the introduction of this choice is that, data was obtain from a cross-section of the population at one point of time. To achieve this, auditors from different audit firms providing audit and non-audit services to SMEs were contacted. Also, Owners/Managers of SMEs were selected for in-depth interview and answering of questionnaire. Regulatory bodies such as the ICAG responsible for accounting regulation in Ghana was also contacted. This study is descriptive, this is because the researcher revealed the extent to which SMEs in Ghana have complied with IFRS for SMEs regarding 2015 financial year, and further illuminate the various formal mechanisms being used by regulatory bodies to monitor and enforce IFRS compliance. The study also identified some problems, benefits and prospects of implementing IFRS for SMEs in Ghana.The aim of an explorative research is to gather as much information as possible and reveal the problem from different points of views (Patel & Davidson, 2003).

Population

Population is sometimes referred to as 'the universe' (Kwabia, 2006). Data collection from an entire population is almost impossible considering the number of people, places or things that might be involved. SMEs are scattered across the length and breadth of the country. The population for this study was all SMEs operating in Accra and Tema. The sample frame from which the population of SMEs is drawn was obtained from a database held by the National Board for Small Scale Industries (NBSSI). The population of this study also consist of all audit firms operating under the control of the Institute of Chartered Accountants, Ghana. The total registered SMEs in Accra and Tema were over 1000.

Sample and Sampling Procedure

To collect data on a smaller scale, researchers gather data from a portion or sample of the population (Latham, 2007). Sample is a subset of the whole population and a suitable selection of sample is important for the reliability of the research (Bryman & Bell, 2007). The sample consisted of 10 auditors from audit firms and 20 Owners/Managers from the different small firms. The study therefore used judgemental (purposive) sampling method to collect data from the respondents because the questionnaire and interviews which were administered and conducted were meant to solicit specific responses from SMEs in the manufacturing sector for the study.In the case of audit firms, the pre-defined group consists of the audit firms operating in Ghana, will be approached for the interviews.

Data Collection Instruments

Data collection is the process of gathering information from different sources. In order to answer the research question and also to meet the research objectives, the researcher needs relevant and authenticated information. Two main sources (primary data and secondary data sources) was used to collect data. The primary data was collected using questionnaire and semi-structure interview guide.

Primary data

In order to obtain first hand data, the researcher administered questionnaires and also conduct face to face interviews. Primary data was gathered to obtain insights into the perception of various groups of actors involved in financial reporting for SMEs such as owners, accountants, regulators and auditors. The primary data is important because of the scarcity of similar research in Ghana. The reason for conducting interviews is to obtain an initial understanding of the issues related to this possible implementation problems and prospects of the IFRS for SMEs.

The questionnaire is the main instrument used in survey research. Asante (2000) explains the meaning of a questionnaire as an important tool, which is useful for eliciting information on specific problems from knowledgeable informants. To minimize bias, it is important that particular attention is paid to the wording and sequence of the words in the questions (Kwabia, 2006). The validity of the questionnaires was assessed based on the expert opinions of dissertation supervisors, other lecturers and audit practitioners. The questionnaire was administered by personal drop-off and pick-up.

Semi-structured interview guide was also used. This is because it allows the researcher to structure flexible questions which depending upon the situation may be altered or more questions can be added as a result of the interviewees' response. Additionally, it provides the ease of producing a list of questions on particular topic and can be formulated together in an interview guide (Bryman & Bell, 2007). Face to face or one to one interview which involves a direct meeting between the interviewer and interviewee was used. It is preferred over other methods because it ensures full and accurate data. On the average, the length of interview last between 30- 45 minutes.

Secondary data

Secondary data on the other hand refers to previously published material about a specific subject area. Secondary data was first used because, what others have already researched (though their purpose might be different) needs not to be researched again (Ghauri & Gronhaug, 2005). In this study, data from other surveys, Annual reports, Audit reports and other organizational records were used. Other secondary sources includes the Companies Act, IFRS for SMEs. Also the data used in this study include accounts that are already audited and can be verified independently.

Annual reports for 2015 were compared with IFRS for SMEs to examine the extent of compliance. This is because answers regarding compliance with the standards were contained in the annual reports and the audit reports of the firms. Such answers were obtained by comparing the standard with disclosures in the financial reports. Personal interviews were used to resolve the problem that could arise when the company does not have an annual report. The researcher chose 2015 for the study because, though Ghana adopted IFRS for SMEs in 2012, SMEs are required to implement the standard in the 2013 reporting year. But, there are widespread reports of non-compliance regarding the 2013 financial reports which resulting in the extension of the compliance period to 2015 by the institute (ICAG, 2014).

Data Collection Procedures

After deciding on the target population, a list of SMEs was received from the National Board for Small Scale Industries (NBSSI). After contacts have been made to seek the consent of some of these SMEs to be part of this research, 95 SMEs were therefore arrived at. The various SMEs that agreed to be part were subsequently contacted and given a brief about what the study sort to achieve. After getting the required number for the study, the questionnaires were then dispatched. The respondents were then given a week to complete the questionnaires, as this gave them ample time in giving out the right responses.

Compliance checklist

In other to ascertain the level of compliance with IFRS for SMEs, the researcher developed a self-constructed compliance checklist. The checklist contains the disclosure requirements spelt out in the IFRS for SMEs published by the International Financial Accounting Board (IASB). To validate the checklist, it was given to an experienced auditor to check the comprehensiveness and the applicability to IFRS for SMEs disclosure requirements. The individual components of the disclosure requirement was given equal weight in the index. This is consistent with previous IFRS compliance studies (eg. Street & Bryant, 2000; Glaum & Street, 2003). Information items can be weighted based on their perceived importance; however, equal weight was used for the following reasons: First, several prior study have argued that the result of the equal weighting procedure tend to be similar to those of other weighting systems (Prencipe, 2004). Second, equal weight avoids subjective, judgmental ratings of items that can arise with unequal weighting (Owusu-Ansah & Yeoh, 2005). Finally, user preferences are unknown, and different users across countries are likely to assign different weight to similar items (Chong, Most & Brain, 1983).

Compliance index

The level of compliance with IFRS for SMEs will be measured using a disclosure index (DI). A properly constructed DI is seen as a reliable measurement device for compliance (Marston & Shrives, 1991) and is consistent with previous studies (eg. Glaum & Street, 2003). A checklist is also used by audit firms to check their clients' compliance with IFRS for SMEs. The index summarizes the disclosure requirements of IFRS for SMEs into a composite figure ranging from zero to five, which is used to determine the level of compliance of each manufacturing company.

The problem with the disclosure index methodology is that some of the information items in the index may not be applicable to all the companies. Following Owusu-Ansah & Yeoh (2005), a relative score is computed for each firm. The relative score is the ratio of what a firm disclosed in its annual report to what it is expected to disclose under IFRS in the year investigated. The score obtained by a company was interpreted as its DI, derived by using the following formula:

$$\text{DIjt } = \frac{\sum_{i=1}^{n_{jt}} x_{ijt}}{n_{ij}}$$

Where:

xijt = number of information items applicable to the sample company j, that it actually disclosed in year t,

njt = the number of information items applicable to sample company j, which are expected to be disclosed by company j in year t.

Data Processing and Analysis

The data was analysed and discussed using descriptive statistics (frequency, percentages, means and standard deviation) and narrative were used to present and analyse the rest of the data to enable the researcher achieve the rest of the objective.

With regard to the analysis stage, the use of Likert scales requires the use of a ranking procedure with 1 minimum and 5 maximum score. Accordingly, a mean ranking by respondents was calculated pertaining to the contents of the IFRS for SMEs. Based on the above mean ranking by respondents, the researcher arranged the contents of the IFRS for SMEs in a sequential hierarchy of importance. As a result, the appropriateness of the contents of the IFRS for SMEs was considered pertaining to the Ghanaian SME environment.

In analysing data obtained, a sample of annual reports of SMEs was surveyed using content analysis concentrating on themes collected from the narrative and disclosure sections of the annual reports. The use of themes collected from the narrative sections of companies' annual report is similar to that of the Ahadiat (2011) study which used the disclosure reports of listed companies in the UK and Australia. Data obtained from interviews was also be transcribed. The participants responded to the contents of the IFRS for SMEs using a five-point Likert scale (Refer to Appendix 2).

CHAPTER FOUR

RESULTS AND DISCUSSIONS

Introduction

The study seeks to empirically examine the extent to which SMEs in Ghana have complied with the IFRS for SMEs and to also investigate the possible implementation problems, benefits and prospects of the IFRS for SMEs in Ghana. This chapter presents the data analysis and discussion of the findings from data obtained through questionnaires and semi-structured interviews. The questionnaires were divided into two groups; the auditors and the clients (SMEs). The interviews has been conducted with some SME managers and the Institute of Chartered Accountants, Ghana.

The aim of the in-depth interviews was to enable the researcher unearth the possible implementation problems, benefits and prospect of IFRS for SMEs in Ghana. This then provided insight into the Accounting practice of SMEs and also generated the information required for constructing the questionnaire for quantitative stage of the research. The interview was structured to gather information in three parts, namely general information about Small and Medium-sized Entities (SMEs), their Accounting practice, and information on the perceived problems, benefits and prospects of implementing IFRS for SMEs in Ghana.

Background Information of Respondents

The background information of the respondents in SMEs were sought. These includes legal form of SMEs in Ghana, ownership structure, nature of

Business, source of funding and number of employees. The results was analysed and discussed using frequency and percentages and presented in Tables 1 to 5.

Table 1: *Legal Form of SMEs in Ghana*

Legal Form	Frequency	Percentage (%)	Cumulative (%)
Sole proprietorship	26	27	27
Partnership	4	4	31
Private Limited Company	54	57	88
Family	11	12	100
Others	0	0	100
Total	95	100	100

Source: Fieldwork, (2016)

As shown in Table 1, out of the 95 respondents, 57% have had their businesses registered as Private Limited Liability Companies. The rest are registered as Sole proprietorships, Partnerships and Family owned. As can be seen from Table 1, the bulk of the respondents SMEs are registered as Private Limited Liability Companies. They accounted for 54 out of 95 respondents, representing 57%. 26 respondents, representing 27% were Sole Proprietorship with 4 being Partnership. The remaining 12% of the respondents SMEs were registered as family owned businesses.

Table 2: *Ownership Structure*

Ownership Structure	Frequency	Percentage	Cumulative Percentage
Ghanaian	95	100%	100%
Foreign	-	0%	100%

Both	-	0%	100%
Total	95	100%	

Source: Fieldwork, (2016)

As can be seen from Table 2, the ownership structure of all the respondents SMEs are Ghanaian business with none having foreign affiliation. This implies that, SMEs do not receive any demand to prepare internationally comparable financial reports.

Table 3: *Nature / Kind of Business*

Nature / Kind of Business	Frequency	Percentage (%)	Cumulative Percentage (%)
Manufacturing	40	42%	42%
Service	55	58%	100%
Others	-	0%	100%
Total	95	100%	

Source: Source: Fieldwork, (2016)

It is witnessed from Table 3 that majority of SMEs are into services. In other words, while 58% percent of the sample is in the services sector, only 42% percent are in the manufacturing sector. This confirms the dominance of the service sector as far as SMEs in Ghana are concerned.

Table 4: *Source of Funding*

Source of Funding	Frequency	Percentage (%)	Cumulative (%)
Personal Savings	4	4%	4%
Retained Profit	3	3%	7%
Bank loan	24	25%	32%

Family	11	12%	44%

Table 4 (Continued)

Non-Bank financial institution	53	56%	100%
Foreign investors	-	0%	100%
Others	-	0%	100%
Total	95	100%	

Source: Fieldwork, (2016)

Among the various sources in Table 4, which is also presented in the graph, 56% out of the total respondents ranked their major sources of funding as from the Non-Bank Financial Institutions followed by 25% getting their financing from bank loans. The third ranked sources of funding for SMEs operation are from families and friends with 12% and the fourth being personal savings with 4%. Retained earnings was ranked the fifth with trade credit and foreign investment not resorted to as a source.

This goes to show that the SMEs operating in Ghana are skewed more towards the external source of funding, which is not also easy to access thereby inhibiting their growth. From the above the only internal source of funding is just from their personal savings none of the other internally generated options of funding are being exploited. These internal sources include operational and investment profits, sales of assets, extended payment terms, reduction in working capital and proper management of accounts receivable, which are less expensive and also reliable. It is also observed that SMEs do not seek fund from foreign investors. This implies that SMEs are not under any demand to prepare internationally comparable financial reports for foreign investors. It came to the fore through the survey that most of these SMEs depend mostly on external sources such as the banks, non-bank financial institution, families and friends and personal savings as the only internal source of financing for their businesses. These results confirmed the study of Boom et al., (1983) who concluded that SMEs are most financed by the sources of debt and equity, and Hisrich and Peters (1995) also concluded most SMEs are financed through internal and external and sources.

From Table 5, it was observed that out of 95 respondents, 48% of them had about 11-29 employees in the firm. This was followed by 26% of them who indicated that they had about 1-5 employees in the firm while 21% and 5% of the respondents also revealed they had about 6-10 and 30-99 employees in the firms respectively. It is observed that the sample is consistent with the literature's definition of Ghanaian SMEs. According to Mensah (2004), Ghanaian SMEs employ between 6 and 99 workers.

Table 5: *Number of Employees*

Number of Employees	Frequency	Percentage (%)	Cumulative Percentage (%)
One – Five	25	26%	26%
Six – Ten	20	21%	47%
Eleven– Twenty Nine	45	48%	95%
Thirty-Ninety Nine	5	5%	100%
Total	95	100%	

Source: Fieldwork, (2016)

In this regard, the sample is largely consistent with the literature's definition of SMEs in Ghana. Even though the respondents to the interviews and questionnaires consider that these quantitative criteria are useful, they raised several possible issues. There are entities that have a small number of employees and low amounts of assets but that generate a high turnover by working with intellectual capital. The conclusions issued from the interviews confirm that SMEs do not form a homogeneous group.

Main Results

Research Question 1:To what extent do SMEs in Ghana comply with the IFRS for SMEs?

The purpose of this research question was to determine whether SMEs comply with the IFRS for SMEs through their financial statement preparation. The results was analysed and discussed using frequency and percentages

Table 6: *Assessment of SMEs Financial Statement Preparation*

Financial Statements Preparation	Frequency	Percentage	Cumulative Percentage (%)
Yes	75	85%	85%
No	20	15%	100%
Total	95	100%	

Source: Fieldwork, (2016)

The result indicate that Eighty Five (85%) of the sampled entities prepare financial statements. However, most of these financial statements are prepared in compliance with the Ghana National Accounting Standards and others with the full IFRS. Financial statements are means through which those in charge of the business entity report to stakeholders information about the entity's financial position, financial performance, and cash flows by providing information about its assets, liabilities, equity, income and expenses, other changes in equity, and cash flows (Mirza & Halt, 2011)

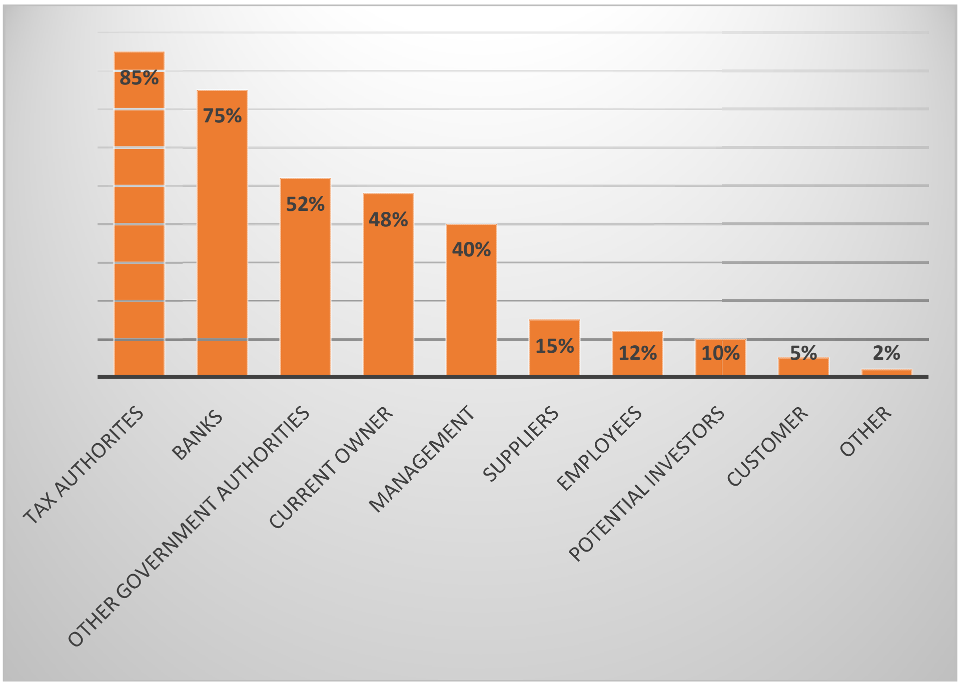

Figure 1: Users of SMEs' financial statements

Source: Fieldwork, (2016)

The result in Figure 1 shows that, the major users of SMEs financial statement in Ghana are tax authorities, banks, owners, management and other governmental institutions. The finding is in line with existing literature on the users of SMEs financial statements (Sian & Roberts, 2009). The implication of this finding is that, internationally, there is no demand on SMEs to prepare financial reports for international users.

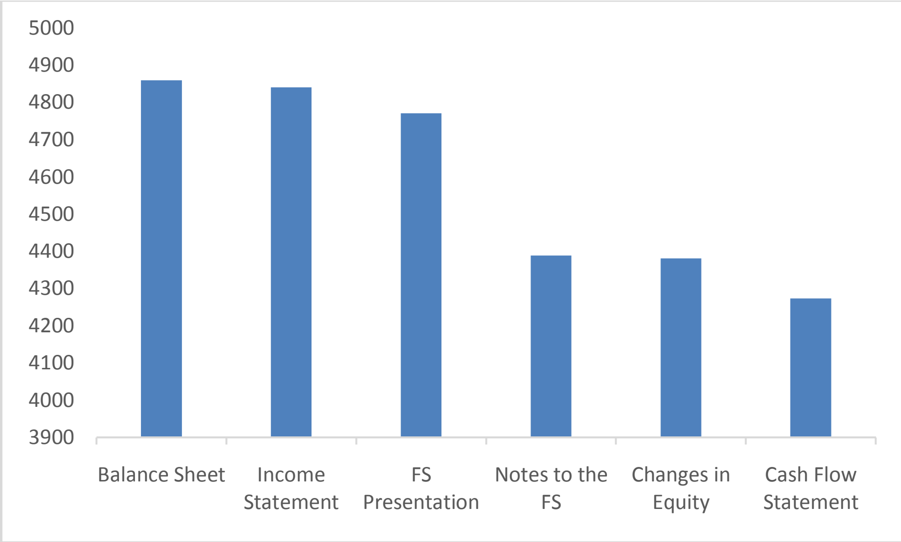

Figure 2:Components of financial statements

Source: Fieldwork, (2016)

The researcher noted that, the statement of changes in equity (4.382) and the statement of cash flows (4.274) as well as the notes to the financial statements (4.389) were not rated as important as the balance sheet/statement of financial position (4.860) and income statement/statement of comprehensive income (4.841). The statement of cash flows, statement of changes in equity and the notes to the financial statements were ranked slightly less important than the balance sheet and income statement. From the perspective of business combinations and related inter-group transactions, it is evident that SMEs do not often engage in these types of transactions.

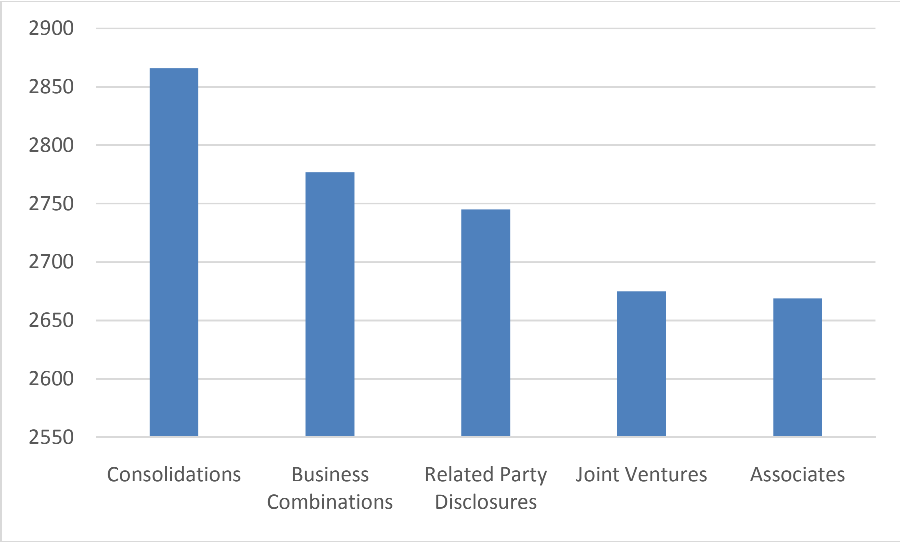

Figure 3: Components of IFRS for SMEs relating to business combinations and related transactions

Source: Survey data, 2016

The results indicate that Consolidated and Separate Financial Statements (2.866); Business Combinations and Goodwill (2.777); Related Party Disclosures (2.745); Investments in Joint Ventures (2.675); and Investments in Associates (2.669) are not typical SME transactions as the ranking for all the components was below the centre option (3.000). The results suggest that the Ghanaian SMEs included in the sample do not prepare consolidated financial statements, albeit on international level. This provided support for the statement by Van Mourik (2007) that SMEs do not have a global focus.

Moreover, the results revealed that Ghanaian SMEs do not invest directly in other businesses and that the activities of SMEs are therefore not diverse, but limited to a single product line or business purpose. Also, the fact that SMEs' shares are not publicly traded implies that international investors are also not investing in Ghanaian SMEs. Furthermore, the fact that foreign exchange translation was ranked low in terms of importance confirmed that

SMEs are mainly involved in economies that are geographically and culturally close.

Research Question 2:What are the likely benefits to be derived from a successful implementation of the IFRS for SMEs in Ghana?

The main benefit as perceived by the respondents would be related to the increased comparability and quality of financial reporting. Other benefits mentioned are the increased financing opportunities, the decreased cost of capital and the opportunities for the internationalization of SMEs. Also, another perceived benefit would be the separation between accounting and taxation. On the other hand, the successful implementation of the IFRS for SMEs could be a way to bring financial accounting and managerial accounting into convergence. This might be beneficial from the point of view of the stewardship objective of accounting.

These benefits are generally associated with the IFRS for SMEs application worldwide, but insights from interviews suggest another benefit (or effect) which seems to be particular to the Ghanaian economy: the change in the accounting culture, in the mentality of accountants and of the business environment. ICAG noticed that for the profession, the application of this standard will lead to a change in the role of accountants in organizations. But this general perception of improvements in reporting and of the accounting profession should be also supported by the development of the economic environment. Another expected effect of IFRS for SMEs implementation in Ghana would be the enhancement of investment opportunities, the development of a more reliable environment for investors and increased opportunities for doing business with foreign entities. Everybody would benefit from the implementation of the IFRS for SMEs.

Research Question 3:What are the possible implementation issues/ problems regarding the IFRS for SMEs in Ghana?

The benefits that small companies complying with IFRS for SMEs are expected to enjoy have been discussed. Conversely, response from an interview and questionnaire revealed the perceived problems, challenges and concerns associated with IFRS for SMEs implementation by small firm: The respondents were asked to stipulate the constraints to be faced by the companies in the adoption and implementation of the IFRS for SMEs. Majority of the respondents (70%) indicated that the training cost was too high. 25% also considered consultancy fees to be too high. Only 5% stipulated that initial implementation was confusing with the old system. For one thing, the first time cost of implementing a new accounting system and training of employees will be quite significant.

The most important implementation costs perceived by the respondents are related to the training of accountants, and to the possible multiplication of reporting systems. Other costs would be related to the upgrade of IT systems. Additionally, the cost of external experts and auditors would increase the cost of IFRS for SMEs implementation. According to the respondents, other concerns about the conversion to IFRS for SMEs are caused by the nature of IFRS / IFRS for SMEs. Because IFRS is more principles-based, there is a fear that the companies may apply the same rules differently thereby causing varying results. For example, while IFRS for SMEs provides flexibility it can also create a lack of comparability; “two different reporting entities may account for comparable transactions differently under IFRS for SMEs, depending upon the opinion of each entity and the professional judgment of their auditors" This the researcher believes can defeat one of the major purposes of IFRS for SMEs, which is to increase comparability in business across the globe.

Another issues or major concern for SMEs accounting is the relationship with taxation, and the users of the accounting information published. The interviewees generally considered that, in Ghana a traditional link between accounting and taxation exists, and that the tax authority is the main user of accounting information. Generally, besides the tax authority, other users of accounting information are the banks, business partners, and owners. SMEs are financed by banks and consequently bankers have to be considered an important category of users. The links to taxation and the importance of the tax authority as user of financial reporting information are in line with previous literature.

The participating entities in the study stated that some of the standards are very subjective resulting in different interpretation by different individuals. Some of the entities claim that, there are often misunderstanding between the preparers and auditors of the SMEs about the recognition and measurement of some items. Although IFRS / IFRS for SMEs are principle/judgment based and in some cases requires optional treatment of certain items; in many cases they are acknowledged to be complex standards. The participating entities stated that, the IFRS for SMEs demand a detailed and easy to comprehend application guidance tailored to meet the Ghanaian small companies need.

Ghana is yet to harmonize its entire regulatory requirement with the IFRS /IFRS for SMEs and these poses a challenge to the small businesses. For example, private firms are not mandated by the company's code to publish their financial reports. Even though as stated in the literature review, where the IFRS conflicts with the law, the law prevails. A problem may arise when two regulatory requirements are in conflict. A respondent cited the variances in local regulations as one major challenge to the compliance to IFRS / IFRS for SMEs in developing countries and in this case Ghana. To elaborate on that, there are different local regulations with respect to accounting and financial reporting in Ghana which impede on a uniform accounting standards.

Even though Ghana as a country has adopted IFRS for SMEs, some local regulations demands certain reports which is not in accordance to the IFRS for SMEs and hence poses some form of problems to these companies complying with these standards. Another challenge identified is that, the implementation of the IFRS for SMEs would also require the building of an internal control team that would see to it that internally the company complies with these standards before external auditors come to audit the company's books. The absent of these internal control teams are identified to be a problem.

Also, it was emphasized that some standards do not meet the accounting and financial requirements of the developing countries such as Ghana. As stated earlier, the International Financial Reporting Standards for SMEs are developed with the developed economies as a yardstick and for that matter it would not fit perfectly to the economies of developing countries. In any case there would be some gap between these standards and the real accounting and financial reporting needs of these developing countries. Non applicability of some standards, according to the audit firms is a major problem in the compliance to the IFRS for SMEs. Some of the standards do not correspond to the financial information needs of the country. However, to adopt these standards, they are modified to suit the local needs. Modifying specific standards to suit local needs in itself brings to bear the flops in the International Financial Reporting Standards.

Again, it was also discovered during the interview that, all the SMEs are yet to fully automate the IFRS for SMEs into their system. The overall effect is that, it is time consuming and often leads to delay in reporting period. Some of the entities felt that, automating its accounting system to make it well-suited to IFRS compliance is a costly venture if it must be pursue. However, the rest saw the cost associated with the automation as necessary to promote positive future outcomes since they believe IFRS for SMEs has come to stay.

Finally, other challenge identified by the researcher is the question of suitability of the IFRS for SMEs for adoption, particularly by the developing economies within South Sahara Africa. We find the one-size-fits-all-standard for SMEs, with a capital markets orientation, does not accommodate well the differing cultures, ways of doing business, regulatory frameworks, underlying philosophies, or needs of users of financial reports from SMEs. We conclude that adoption without modifications or exemptions would provide few benefits for SMEs in emerging economies; rather it would be burdensome to entrepreneurs and inappropriate for achieving national economic growth targets. Imposition of the IFRS for SMEs may inadvertently result in reduced entrepreneurship activity in response to onerous financial reporting requirements.

Research Question 4: What are the formal mechanisms used by regulatory bodies to monitor and enforce IFRS compliance in Ghana?

International standards have come to stay and are now virtually accepted as the common yardstick for international reporting. The acceptance and use of IFRS /IFRS for SMEs has become a global phenomenon. Massive international flow of investment capital and capital instruments across geographical boundaries has added a new drive to the adoption and implementation of IFRS /IFRS for SMEs. Part of the reason to this is that investors prefer audited accounts to be prepared not only on timely basis but also to conform to global standards. According to the manager, technical and research,

The Institute of Chartered Accountants (Ghana) recognizes the importance of adopting IFRS for SMEs. Among the benefits stated include: Financial statements of Ghanaian small companies - SMEs will be easily understood in the global marketplace; The credibility of financial statements prepared locally will be enhanced; The adoption and implementation of IFRS for SMEs will facilitate consolidation of financial statements, in the case of multinational companies; In order to avoid the hustle of preparing two separate financial statements by subsidiaries so as to meet the local and international requirements, the adoption on IFRS for SMEs is mentioned by a respondent to be an ideal solution to meeting both local and international financial reporting needs; That following upon the increase confidence local financial reporting, foreign investor would feel more comfortable to invest in the Ghanaian economy. SMEs in Ghana complying with the International Financial Reporting Standards would go a long way in helping to attract foreign investments into the country; Meeting international requirements of financial reporting is another benefit of the adoption of IFRS / IFRS for SMEs in Ghana according to a respondent; That, ICAG is a member of IFAC and for that matter must comply with it rules.

Following from the above, in 2012 the Council of the ICAG resolved to migrate from using the Ghana National Accounting Standards and the full IFRS as the financial reporting framework for small businesses to the IFRS for SMEs. As accounting standard setters in Ghana, it is within the jurisdiction of ICAG to monitor and enforce compliance with IFRS for SMEs by all companies mandated to comply with the standard. However, as indicated by the Technical and Research Manager, *the institute depends on the report of auditors to determine their compliance. Also "monitoring and enforcement of IFRS compliance by companies is left in the hands of regulatory bodies"*. For instance, it is expected that regulators such as National Income Commission would assist monitoring and enforcing compliance by their members, and this has been the case to this day.

The ICAG, nevertheless, provides among others: Creating a help desk at the secretariat to offer advice on implementation difficulties; Organizing workshops, seminars and breakfast meetings to educate chief executive officers on IFRS / IFRS for SMEs; and conducting implementation surveys, sharing views with companies and issuing guidelines on good accounting practices.

Way forward

Convergence plans in order to eliminate the dual system (national/international standards) is advocated by some (Larson and Street, 2004) as a solution for the problems faced by regulators in the context of the international harmonization. Education is necessary if we want things to evolve. A culture for education of the accounting profession should be developed. The convergence with the IFRS for SMEs might be considered as an opportunity for developing the business environment and the accounting profession in these countries. This is in line with the advocated need to devote resources to the development of the education and profession in developing countries in order to improve the accounting system (Chand, 2005).

Key decision makers including the presidency, cabinet, parliamentary select committee on finance need to support such an agenda. There should be the involvement of key stakeholder to ensure proper collaboration of all towards the successful implementation of the IFRS for SMES in Ghana.The Institute of Chartered Accountant, Ghana (ICAG) is the main body mandated to ensure the applicability of IFRS for SMEs in Ghana. The ICAG needs to be supported by all in discharging such challenging task. The experience and challenges encountered during the adoption of IFRS will be of immense benefit to ensure the successful and smooth adoption of the standards.

Bodies such as the NBSSI should be up to its feet in the campaign aimed at ensuring that Government agencies are applying the rules on submission and compliance as required. Some small business entities have low capacity in financial management and training. There is a need to recruit qualified accountant and intensify training of personnel. This should include sponsoring finance officers or accountants in the small business sector in professional accounting qualification such as the Institute of Chartered Accountants (Ghana), the Association of Certified Chartered Accountant (ACCA) or any recognise accountancy body.

There should be a well-structured training program for all the small business sector organisations on the key issues and requirements that needs to be addressed before and after the adoption and implementation of the standard. In analysing recommendations offered by respondents on the implementation of the IFRS for SMEs, it was realized that majority (60%) advocated for the training of staff to get abreast with the IFRS for SMEs system. There is a need to develop an accounting manual which will integrate the basic requirement and treatment of some key transactions in line with the IFRS for SMEs. Countries such as Switzerland, New Zealand, and South Africa have already made it and taping experience and lessons from these countries will be of help to Ghana to fast track the adoption and implementation process of IFRS for SMEs.

Another important point is the relation with taxation. Freedman, 2004 argue that, there should be simplification and harmonization of the tax system before adoption of/convergence with the IFRS for SMEs might be a good moment. In order to be perceived as cost-benefit acceptable, the decision regarding the adoption and implementation of the standard should be accompanied by simplifications in the tax regime and a rethinking of the relation between accounting and taxation. 10% also indicated that there should be re-aligning of system to be IFRS for SMEs compliance.

Chapter Summary

Generally, the study finds out that, for SMEs in Ghana, the relevant international activities are exports, imports and competition with foreign businesses. These activities though are anticipated to boost SMEs performance, do not result in a need for IFRS for SMEs. These notwithstanding, SMEs can use IFRS for SMEs to prepare internationally comparable financial report which will enhance investor's confidence. The analysis suggested that Ghanaian SMEs do not engage in investments in subsidiaries, associates or joint ventures. These implies that SMEs do not invest directly in other businesses and product lines. The fact that SMEs' shares are not publicly traded implies that international investors are also not investing in Ghanaian SMEs.

Furthermore, foreign exchange translation confirmed that SMEs are mainly involved in economies that are geographically and culturally close. The study also find out that majority of the issues addressed in the IFRS for SMEs are of little or no relevance to the SMEs environment of Ghana. Conclusively, investment in the business infrastructure is a priority. Further, in-depth research should be undertaken in each jurisdiction to identify peculiarity before adoption of the IFRS for SMEs, and the challenges that are likely to be faced in implementing the standard.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Introduction

This chapter presents the summary of findings, conclusions drawn from the study and recommendations made based on the findings of the study regarding financial reporting in the SME environment of Ghana. The purpose of the study was to empirically examine the possible implementation problems and prospects of IFRS for SMEs in Ghana and to also assess the level compliance among SMEs regarding the IFRS for SMEs implementation in Ghana for the 2015 financial reporting year.

Summary

SMEs play an important role in the global economy as they represent a significant segment of the economy and account for a large proportion of economic activities. Their accounting issues should be taken into serious consideration. This led to the issuance of the IFRS for SMEs by the IASB in 2009. It has been noted that, SMEs can hardly remain relevant in today's business environment unless they comply with international standards in financial reporting and auditing.

The study found out that the activities that lead SMEs to prepare an internationally comparable financial reports includes; exports, imports, competition with foreign business and the need to access capital markets for finance. This activities or transactions do not result in the need for international accounting rules.

Key Findings

The interview conducted with the research and technical manager of ICAG, identify sensitization for the implementation of the IFRS for SMEs was very poor and this shows that knowledge about IFRS for SMEs is generally low and that companies are not adequately prepared to implement IFRS for SMEs in 2015. It was also found that, though the alleged overall compliance level with IFRS for SMEs disclosure requirement for 2013 was not satisfactory which resulted in the extension of the compliance period to 2015 by the institution (ICAG, 2014) but still not satisfactory, there was a gap between claiming to comply with IFRS for SMEs and the level of compliance.

Some SMEs according to the technical and research manager of ICAG were complying with the IFRS for SMEs prior to its adoption in Ghana in 2012. This was influenced by the fact that they had parent companies abroad and therefore had to submit to the parent company at the end of each reporting period, a financial statement which was IFRS for SMEs compliance for consolidation purposes. Even with the above, it was found out that, all the

SMEs had one problem or the other with IFRS for SMEs compliance. The problems range from the subjectivity nature of the interpretation that individuals give to the standard, the number of regulatory requirement they had to comply with in addition to the IFRS for SMEs.It was also found that, other regulatory bodies such as the ICAG rely on the affirmation of compliance by auditors of the respective SMEs to determine whether a particular firm complies or not.

This study has provided evidence of the potential benefits and challenges of the adoption and implementation of IFRS for SMEs in Ghana. The results show that the introduction of IFRS for SMEs in Ghana will result in a number of important benefits for a wide range of stakeholders. The ease of using one consistent reporting standard in subsidiaries from different countries will accrue to companies while investors will develop, amongst others, more confidence in the information presented in financial statements which they can understand and use; For policy makers (management), the adoption and implementation of IFRS for SMEs will create better access to the global capital markets and a higher standard of financial disclosure for national regulatory bodies.

Other benefits of IFRS for SMEs implementation includes lower cost of capital, improved decision making by owners and management and improved access to international financial market. The benefits of IFRS for SMEs adoption and implementation according to respondents will be largely driven by a number of potential success factors; The existing method used in the preparation and presentation of financial statements in Ghana is not adequate and does not safeguard the interest of the policy holders and the public; Several differences exist between Ghana National Accounting Standards and International Standards.

IFRS for SMEs will be beneficial by increasing the quality of information if well implemented; the adoption of IFRS for SMEs will promote greater comparability between companies and may improve the ability of some SMEs to access capital market; IFRS for SMEs will make financial statements of non-public interest entities more useful to the users. The benefits and potential success factors notwithstanding, there are a number of challenges to be faced in the process of implementation of the new standard. This among others includes;

Increased tax related work load, since tax policy applicable to one country may not be the same in another country. This call for qualified staff who have knowledge and understanding on operations of IFRS and tax issues; Cost of upgrading IFRS for SMEs kill for accounting personnel (including training and consultancy cost) and increased cost of information processing; Implementation of the new IFRS for SMEs is a complex process for small business because of lack of reference materials like literature is another challenge; There are lack of expertise both within the SMEs companies and the auditing firms. There appears to be a potential knowledge shortfall with respect to the International Standards; lastly, culture and attitude of businesses towards the use of IFRS for SMEs as the companies regard the IFRS accounting principles as overly complex.

Conclusions

It is concluded that, the adoption and implementation of IFRS for SMEs in Ghana and Africa in general will help in the harmonisation of financial operation and uniformity in the reporting of small business accounting information and disclosure; The study provided evidence that there are conceptual problems in the current regulations of emerging economies, that these regulations are influenced by taxation and have a rule oriented approach.

There is therefore an urgent need for review of the regulations; The SMEs are not considered as a homogeneous group and while the majority of interviewees agree on the use of quantitative criteria to classify the SMEs, many of them employ other criteria than those officially used; Besides the strong links to taxation, the accounting profession and accounting is underdeveloped in these countries and users do not trust to a high extent the use of information produced by accounting. Also, the users do not exert pressures to obtain more qualitative accounting information.

Under these circumstances, the change in the accounting systemis considered as a mean to educate and change the accounting profession and the business environment.Small businesses need to catch up with the trend in the global financial reporting environment and there is no time to wait, however caution should be taken not take the rush the implementation else we sink immediately after take-off. Proper planning is therefore required and involvement of all stakeholders is a must to ensure that the nation is adequately resourced to achieve this goal.

Recommendations

The findings indicated that the introduction of the IFRS for SMEs will be beneficial to the various Small companies operating in the country in diverse ways and should therefore be encouraged. This can only be done by finding remedies to the identified constraints and challenges impeding its implementation. Against the backdrop of the objectives of this paper, the following recommendations are hereby suggested:

1. Continuous education, sensitisation, and communication to stakeholders of issues associated with IFRS for SMEs should commence in earnest.
2. A rigorous IFRS/IFRS for SMEs capacity building programme should be embarked upon by all regulatory bodies, firms and training institutions in order to provide the needed manpower for the successful implementation of the IFRS for SMEs.
3. The ministry for trade and industry, in consultation with the council of ICAG and AGI, should set up an IFRS for SMEs compliance task force whose basic responsibility would be to ensure that all non-public interest entities comply with the IFRS for SMEs. The membership of such a task force could be drawn from ICAG, accounting firms, AGI, the academia as well as members from all regulators in financial reporting. Such a task force can help improve monitoring and enforcement of IFRS and IFRS for SMEs.
4. Also, educational institution in the country are advised to offer programs of accounting and auditing that will produce graduates who will be familiar with International Standards. Learning the requirement of IFRS should be factored into the syllabus of all the educational level for those doing accountancy courses. This will improve students understanding of IFRS/ IFRS for SMEs and how to apply them in future. Since this students are the people chained out to the industries.

5. Develop IFRS for SMEs templates for stakeholder to enhance their understandability of the new standard and requirements

It is believe that, the successful implementation of the following recommendation will ensure a smooth implementation of the IFRS for SMEs if the 2015 deadline is to be achieved. This would ensure proper accounting practices as good accounting practices have several implications for entrepreneurs and SME managers. Good accounting and control systems could assist in evaluating the performance of the organisation and its managers. SMEs with proper books of accounts are often capable of attracting external financing easily than those with no good records. SMEs that maintain good accounting and management information tend to be viewed favourably by finance providers.

Suggestions for Further Research

This dissertation investigates the implementation problems, benefits and prospects of IFRS for SMEs in the small business environment of Ghana. Both during the study of previous literature and during the collection of primary data from the selected sample, the researcher was struck by many suggestion which could be feasible for further research in reference to the implementation of the IFRS for SMEs in Ghana and the perceived problems and prospects. As the scope of this study was limited to the manufacturing and services sector of SMEs and auditors in Ghana only, therefore future study on IFRS for SMEs:

Should be conducted and replicated in the entire SMEs sector of Ghana in order to test and verify the results of this study; Research should be conducted on the role of audit firms in ensuring full compliance with the IFRS for SMEs in Ghana;. Research should also look at compliance with IFRS for SMEs and information quality. A survey of users of accounting information; The political issues, such as the position of the national regulators, the relationship with taxation, the strategies of professional bodies, also deserve proper academic attention.

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APPENDICES

Appendix A

UNIVERSITY OF CAPE COAST

COLLEGE OF DISTANCE EDUCATION

MASTER OF BUSINESS ADMINISTRATION

(MBA ACCOUNTING)

Interview Guide for ICAG

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1. What are the objectives of ICAG in promoting the adoption and implementation of IFRS for SMEs in Ghana? Why and How?

2. What are some of the activities that, the ICAG has carried out in the past to support the effective implementation of the IFRS for SMEs in Ghana?

3. Since the adoption of IFRS for SMEs in Ghana, has there been any study by ICAG to establish the level of compliance? If yes what is the level of compliance?

4. Does the ICAG check whether all SMEs comply with IFRS for SMEs?

5. If yes, please describe the departments approach to checking compliance

6. Were there implementation challenges encountered or anticipated by the ICAG prior to or after the implementation? What are some of such challenges?

7. What role does the ICAG play in enforcing compliance with the IFRS for SMEs? Does the ICAG have enough statutory powers to enforce?

8. Has there been much sensitization for the implementation of the IFRS for SMEs in Ghana.

9. Has there been sufficient training and education for accounting personnel toward the implementation of IFRS for SMEs in Ghana?

10. In your opinion, do you think there was the need for replacing the accounting standards prevailing prior to IFRS for SMEs?

11. What necessitated the adoption of IFRS for SMEs in Ghana?

12. Do you believe the adoption of IFRS for SMEs will promote greater comparability between companies and also improve the ability of some SMEs to access global capital markets as stated by previous studies?

13. Is the issue of understandability of the IFRS for SMEs affecting its implementation in Ghana?

14. How can the challenges (perceived or actual) of IFRS for SMEs implementation be overcome?

15. What in your opinion are the major challenges facing SMEs in the implementation of the IFRS for SMEs?

16. How can these challenges be overcome?

17. What role are Ghanaian audit firms supposed to play to ensure that SMEs comply with IFRS for SMEs?

18. Does the ICAG impose any sanction on auditors who sign financial reports that do not comply with the IFRS for SMEs?

19. Does the rules and sanctions apply to foreign audit firms as well?

20. What are some of the expected benefits to be derived from the implementation of the standard in Ghana?

21. Finally, what are your concluding opinions regarding the implementation of IFRS for SMEs in Ghana?

Appendix B

UNIVERSITY OF CAPE COAST

COLLEGE OF DISTANCE EDUCATION

MASTER OF BUSINESS ADMINISTRATION

(MBA ACCOUNTING)

QUESTIONNAIRE TO AUDITORS

This questionnaire is meant to assess the level of compliance to IFRS for SMEs in Ghana and the possible implementation problems and prospects. The exercise is for academic purpose only and all information would be kept confidentially. Kindly, complete this questionnaire with appropriate responses and where necessary explain briefly.

Section A: <u>Background Information:</u>

1. Name of the audit firm………………………………………………………..

2. Which of the following best describes your firm?

Ghanaian /National [ ]

Multinational [ ]

Subsidiary/ Associate [ ]

Others Specify

………………………………………………………………………..

3. Are any of your partners a member of ICAG**?**

Yes [ ]

No [ ]

4. Did you have SME clients whom you provide audit and non-audit service?

Yes [ ]

No [ ]

5. Did your SME clients follow the IFRS for SMEs in the preparation of the 2013 financial statements and reports?

Yes [ ]

No [ ]

6. If yes, what is your audit report, assuming all other things being equal?

Qualified [ ]

Unqualified [ ]

7. Have your client ever complained of the IFRS for SMEs to you and why they cannot implement or comply with it?

Yes [ ]

No [ ]

8. What are some of the challenges your clients encounter in complying with the IFRS for SMEs?

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9. In your opinion, what can auditors do to ensure successful implementation and compliance with IFRS for SMEs in Ghana?

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10. In your opinion, does the implementation of IFRS for SMESs bring more benefit than cost?

Yes [ ]

No [ ]

11. If yes, in your estimation, what are some of the benefits of implementing the IFRS for SMEs in Ghana?

....
.

12. Questionnaire regarding the importance of the contents of IFRS for SMEs

Please indicate the level of importance of the following sections pertaining to SME environment of Ghana:

Of utmost importance = 5

Very important = 4

Important = 3

Limited importance = 2

Not important = 1

<u>Component of IFRS for SMEs</u>	
Financial Statement Presentation	
Balance Sheet/Statement of Financial Position	
Income Statement/Statement of Comprehensive Income	
Statement of Changes in Equity	
Cash Flow Statement	
Notes to the Financial statements	
Consolidated and Separate Financial Statements	
Accountings Policies, Estimates and Errors	
Financial Assets and Liabilities	
Inventories	
Investments in Associates	
Investments in Joint Ventures	
Investment Property	
Property, Plant and Equipment	
Intangible Assets other than Goodwill	
Business Combinations and Goodwill	
Leases	

Provisions and Contingencies	
Liabilities and Equity	
Revenue	
Government Grants	
Borrowing Costs	
Share-based Payments	
Impairment of Assets	
Employee Benefits	
Income Taxes	
Hyperinflationary Economics	
Foreign Currency Translation	
Events after the End of the Reporting Period	
Related Party Disclosures	
Specialised Activities: Agriculture	
Specialised Activities: Extracting Activities	
Specialised Activities: Service Concessions	

Thank you for your time and assistance. Kindly add copies your client company's 2013 financial report to the questionnaire if available.

Appendix C

UNIVERSITY OF CAPE COAST

COLLEGE OF DISTANCE EDUCATION

MASTER OF BUSINESS ADMINISTRATION

(MBA ACCOUNTING)

QUESTIONNAIRE TO SMEs

This questionnaire is meant to assess the level of compliance to *International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs)* in Ghana and the possible implementation problems benefits and prospects. The exercise is for academic purpose only and all information would be kept confidentially. Kindly, complete this questionnaire with appropriate responses and where necessary explain briefly.

Section A: <u>Business Profile:</u>

1. Name of the business organization…………………………………………………………..

2. Location of business ………………………………………………………………………….

3. Which of the following best describes the Ownership Structure of your organization?

Ghanaian /National [ ]

Foreign [ ]

Subsidiary [ ]

4. Number of years in existence in operation.

a. Below 5 years [ ]
b. 6-10 years [ ]
c. 11-15 year [ ]
d. 11-20 years [ ]
e. 21years and above [ ]

5. Legal Status of organization:

a. Sole proprietorship [ ]

b. Partnership [ ]

c. Private limited Company [ ]

d. Family [ ]

e. Others (specify)

…………………………………………………………………….

6. Nature / Kind of business

a. Retail [ ]

b. Wholesale [ ]

c. Service [ ]

d. Manufacturing [ ]

e. Other please specify

…………………………………………………………………

6. Source of business funding

a. Personal Saving [ ]

b. Bank loan [ ]

c. Family [ ]

d. Others please specify [ ]

7. How many employees does your business have?

a. 1 to 5 [ ]

b. 6 to 10 [ ]

c. 11 - 29 [ ]

d. 30 – 99 [ ]

e. 100 and above [ ]

f. None [ ]

8. Average yearly sales revenue of your business

a. GHC35, 000 to less than GHC 100,000 [ ]

b. GHC100, 000 to less than GHC 1,000,000 [ ]

c. GHC1, 000,000 to less than GHC 2,500,000 [ ]

d. GHC2, 500,000 to less than GHC 3,500,000 [ ]

e. GHC3, 500,000 to less than GHC 10,000,000 [ ]

f. More than GHC 10, 000,000 [ ]

9. Value of your total business assets.

a. Less than GHC10,000

b. GHC10, 000 to less than GHC100, 000

c. GHC100, 000 to less than GHC1, 000, 000

d. GHC1, 000, 000 to less than GHC5, 000, 000

e. GHC5, 000, 000 to less than GHC20, 000, 000

f. More than GHC20,000, 000

Section B: <u>Assessment of Accounting Practice</u>

10. Does your organization prepares financial statement?

Yes [ ]

No [ ]

11. If yes, which of the following accounting standards does your organization follow in the preparation of financial Statement and reports prior to 2013?

a. Ghana National Accounting Standard [ ]

b. Full IFRS [ ]

c. Does not use any accounting standard [ ]

d. Others please

specify…………………………………………………………….

12. Which of the following accounting standards did your organization follow in the preparation of financial Statement and reports for the 2013 financial year?

a. Ghana National Accounting Standard [ ]

b. Full IFRS [ ]

c. Does not use any accounting standard [ ]

d. Others please specify…………………………………………………………….

13. Which of the following constitute your financial statements? (Please tick all that apply)

a. Statement of Financial Position

b. Statement of Comprehensive Income

c. Cash flow Statement

d. Statement of changes in Equity

e. Notes to the Financial Statements

f. Others specify……………………………………………………………………

14. Who prepares your company's financial statements?

a. Company's Accountant

b. Hired Accountant

c. Auditor

d. Owner

e. General Manager

f. Others, please specify

15. How is the financial statements of your company prepared?

a. Computerized Accounting System

b. Manual Accounting System

c. Others, please specify…………………………………………………………...

16. Does your organization audit its financial Statement?

Yes [ ]

No [ ]

17. If yes, which of the following are your auditors for the 2013 financial year?

a. The big 4 [ ]

b. A Ghanaian auditing firm [ ]

c. Others please specify………………………………………………………….

18. For what purpose is your company required to prepare or submit financial statement? (Please tick all that apply)

a. Banks [ ]

b. Tax authorities [ ]

c. Regulatory Authorities [ ]

d. Foreign Investors [ ]

e. Local Investors [ ]

e. Others, please specify…………………………………………………………..

<u>Section C: Knowledge on the Implementation of IFRS for SMEs</u>

19. How well do you know about IFRS for SMEs?

a. Not very well

b. Not well

c. Not at all

d. Quite well

e. Very well

20. Has your organization attended any special course on IFRS for SMEs?

Yes [ ]

No [ ]

Section D: <u>Possible Problems of implementing IFRS for SMEs</u>

21. What are some of the perceived/actual challenges in the implementation of the standard in your organization?

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……………………………………………………………………………………
…………………………………………………

22. Do you think more time is needed for the implementation of the standards?

Yes [ ]

No [ ]

23. If yes, what time line will your organization require to ensure full implementation?

……………………………………………………………………………………
…………………………………………………………………………………….

24. In your opinion, what can auditors do to ensure successful implementation and compliance with IFRS for SMEs in Ghana?

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Section E: <u>Possible Benefits of implementing IFRS for SMEs</u>

25. Does the IFRS for SMESs make capital markets effective?

Yes [ ]

No [ ]

26. Do you think the IFRS for SMEs will bring about better access to global market?

Yes [ ]

No [ ]

27. Do you think IFRS for SMEs promote cross-border investment for SMEs?

Yes [ ]

No [ ]

28. Does IFRS for SMEs brings about lower cost of audit fees?

Yes [ ]

No [ ]

Thank you for your time and assistance. Kindly add your company's 2013 financial report to the questionnaire if available.

Appendix D

Component of IFRS for SMEs

Component of IFRS for SMEs	*mean*	*mode*	*median*	*variance*	*standard deviation*	*coefficient of variation*	*kurtosis*	*skew-ness*	*min*	*max*	*count*
Financial Statement Presentation	4.97	5	5	0.032	0.180	3.62%	31.000	-5.568	4	5	31
Balance Sheet	4.97	5	5	0.032	0.180	3.62%	31.000	-5.568	4	5	31
Income Statement	4.97	5	5	0.032	0.180	3.62%	31.000	-5.568	4	5	31
Statement of Changes in Equity	4.81	5	5	0.161	0.402	8.36%	0.702	-1.631	4	5	31
Cash Flow Statement	4.84	5	5	0.206	0.454	9.39%	9.031	-2.991	3	5	31
Notes to the Financial statements	4.90	5	5	0.090	0.301	6.13%	6.654	-2.868	4	5	31
Consolidated and Separate Financial Statements	2.32	3	2	0.492	0.702	30.21%	-0.751	-0.550	1	3	31
Accountings Policies, Estimates and Errors	3.42	3	3	0.518	0.720	21.05%	0.063	0.301	2	5	31
Financial Assets and Liabilities	4.81	5	5	0.161	0.402	8.36%	0.702	-1.631	4	5	31
Inventories	4.52	5	5	0.325	0.570	12.62%	-0.569	-0.644	3	5	31
Investments in Associates	2.55	3	3	0.323	0.568	22.29%	-0.358	-0.784	1	3	31
Investments in Joint Ventures	2.29	2	2	0.213	0.461	20.15%	-1.134	0.972	2	3	31
Investment Property	4.13	4	4	0.516	0.718	17.40%	-0.954	-0.198	3	5	31
Property, Plant and Equipment	4.71	5	5	0.213	0.461	9.80%	-1.134	-0.972	4	5	31
Intangible Assets other than Goodwill	2.84	3	3	0.406	0.638	22.46%	-0.431	0.142	2	4	31
Business Combinations and Goodwill	2.52	3	3	0.458	0.677	26.90%	0.002	-0.407	1	4	31
Leases	4.74	5	5	0.198	0.445	9.38%	-0.697	-1.163	4	5	31
Provisions and Contingencies	3.45	3	3	0.589	0.768	22.24%	-0.077	0.409	2	5	31
Equity	4.45	4	4	0.256	0.506	11.36%	-2.098	0.204	4	5	31
Revenue	4.55	5	5	0.323	0.568	12.49%	-0.358	-0.784	3	5	31
Government Grants	2.39	2	2	0.445	0.667	27.95%	0.009	0.083	1	4	31
Borrowing Costs	3.32	3	3	0.692	0.832	25.05%	-0.473	0.053	2	5	31
Share-based Payments	1.45	1	1	0.323	0.568	39.13%	-0.358	0.784	1	3	31
Impairment of Non-financial Assets	2.52	3	3	0.525	0.724	28.79%	-0.078	-0.060	1	4	31
Employee Benefits	3.94	4	4	0.396	0.629	15.98%	-0.261	0.044	3	5	31
Income Taxes	4.84	5	5	0.140	0.374	7.73%	1.868	-1.937	4	5	31
Hyperinflationary Economics	1.71	2	2	0.213	0.461	26.99%	-1.134	-0.972	1	2	31
Foreign Currency Translation	1.71	2	2	0.413	0.643	37.58%	-0.585	0.342	1	3	31
Events after the End of the Reporting Period	2.61	3	3	0.445	0.667	25.53%	0.009	-0.083	1	4	31
Related Party Disclosures	3.03	3	3	0.566	0.752	24.80%	-1.164	-0.054	2	4	31
Specialised Activities: Agriculture	3.32	2	3	1.559	1.249	37.58%	-1.368	-0.006	1	5	31
Specialised Activities: Extracting Activities	2.10	2	2	0.890	0.944	45.00%	1.799	1.070	1	5	31
Specialised Activities: Service Consessions	2.13	2	2	0.716	0.846	39.75%	-0.156	0.448	1	4	31