Original Research Article

Transiting to International Financial Reporting Standards for Small and Medium Sized Enterprises in Ethiopia: Benefits and Costs

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ABSTRACT

Taking cognizance of the crucial role of SMEs in the economic development of Ethiopia, they are increasingly attracting both governmental and non-governmental attention. This study examined transiting to International financial reporting standard for Small and Medium sized Enterprises (IFRS for SMEs) in Ethiopia. This broad concept includes the results: benefits and costs of transiting to adoption and compliance with IFRS for SMEs. Towards the achievements of this objective the researcher used mixed research approach. Semi-structured interview and questionnaires were used as an important tool for gathering the necessary data from tour operators as target group. From 320 SMEs given population size, the researcher selects 32 SMEs as sample size by using systematic sampling technique.

It was found in this study adoption and compliance with IFRS for SMEs in Ethiopia results for more easily comparable accounting figure, more value relevant accounting figure, figures of higher quality and more additional information disclosure. Furthermore, this study indicates the principal benefit of adoption and compliance with IFRS for SMEs is: improves the monitoring of firms by owner/manager and creditors. And this decreases information asymmetry between insiders and outsiders and firms' interest rate on borrowed fund.

Furthermore, the study finding shows that first time IFRS for SMEs is costly for adopting and compliance in Ethiopia. This is because the information required by IFRS for SME is not available in it's entirely, (information with regard to IFRS for SMEs were available at the international level, but it further requires to be re-organized and re-processed according to an Ethiopian business context with the supervision of Auditing and Accounting Board of Ethiopian), lack of knowledge which requires them to be engaged in a capacity building program, fees charged by consultants in the adoption process and auditors in the post adoption.

Key words: IASB, IFRS, IFRS for SMEs

1. INTRODUCTION

The application of IFRSs (International Financial Reporting Standards) / IASs (International Accounting Standards) in SMEs (Small and Medium sized Entities) has caused instability in their environment due to a variety of reasons. The high cost, the absence of knowledge and the impact that it have on users' needs are considered to be some of the most important factors that SMEs consider. But globalization prevails and uniformity in the accounting system enables comparability of financial information. In addition, IASB (International Accounting Standards Board) supports that users, investors and the enterprise itself will be benefited due to the ability that they used to analyze the financial information of other companies. Besides, they can compare the results and make investment decision that will provide an increase in companies' financial position.

This study provides answers for the following research question:

Would a new financial reporting standard specifically tailored to the special needs of SME result benefit to SME's in Ethiopia?

Are SMEs ready to adopt IFRSs?

Are SMEs having the appropriate level of knowledge so as to fully transit to the new demands?

The main purpose of this thesis is to observe the Readiness, appropriateness as well as hindrance faced by small and medium-sized companies in the adoption and compliance towards IFRS to SMEs in Ethiopia.

In this study the researcher used mixed research approach, the rationale for using this method is to combine the numerical values from quantitative research and the detailed of qualitative research to offset the weaknesses inherent within one method with the strength of the other method. From the existing service sector, particularly Out of 320 populations in the tour operating SME business, 32 samples was selected for the study by using systematic sampling method.

1.1. Background of the study

Comment [DT1]: Under same heading introduction

Small and medium sized enterprises are an important ingredient for stable and equitable growth in any national economy. Ethiopia takes the development and expansion of SME's as the main way to solve many of the social problems. [1]. [2] argues that SMEs are particularly important in supporting economic growth and livelihoods in developing countries.

Taking cognizance of the crucial role of SMEs in the economic development of Ethiopia, SMEs are increasingly attracting both governmental and non-governmental attention. Policy makers, investors, financial institutions, regulatory bodies and other stakeholders are progressively becoming interested in the financial performance of SMEs. The above attention has placed a demand on SMEs to show more accountability for the stewardship of resources allocated to SMEs; that is, a call for standardized financial reporting by SMEs [2].

The benefits that may accrue to a firm which prepares comprehensive, transparent and comparable financial statements are gains in competitive advantages in raising funds at lower interest rates, securing new suppliers or customers or arriving at an acquisition or cooperative agreement. On the other hand, applying comprehensive financial reporting standards comes with a cost. Businesses need to employ and train more qualified personnel and implement new processes and controls. In relation to SMEs, it is currently being argued that compliance with the full standards as that of large public companies will be onerous, complex and costly [3].

From the forgoing, the concept of differential reporting surfaces. Differential reporting is a digression from the usual practice of using a widely recognized Generally Accepted

Accounting Principles (GAAP) for all reporting entities, irrespective of their nature and size. "Differential accounting" is a system that would require big companies to meet one set of standards while little companies meet another in reporting their financial statement [4].

Steven Brice, Deputy Chairman of London Society of Chartered Accountants(LSCA) Technical Committee, in response to the Discussion Paper on Accounting Standards for Small and Medium-sized Entities, remarked:"We disagree that full IFRS would form a suitable set of accounting standards for SMEs. The average SME does not engage in such complex transactions or in such a range of transactions. Measurement bases may be more complex and costly than the users need or the benefits justify. The disclosures demanded are often in excess of those needed by the users of SME financial reports. The length and complexity of full IFRS means that they are harder and more costly to understand and use for SMEs and therefore as a system of accounting standards they are not suitable for SMEs." [3].

The introduction of International Financial Reporting Standards (IFRS) for small and medium-sized enterprises, a global initiative to unify and streamline financial reporting for small businesses, will facilitate the further growth of the SME sector globally [4]. [5], reports that causes of failure of SMEs have received little attention compared to those of growth and expansion. SMEs need money to invest, and the micro finance institutions aimed at smaller companies are failing to fill the gap left by banks reluctance to lend due to incomparability and differential financial reporting. If capital providers (owners and lenders) do not understand or have confidence in the financial information they receive, an SME's access to capital funds, and ability to evaluate the cost of capital will suffer. The IFRS for SMEs, issued by the IASB in July 2009, responds to these concerns.

Although there are several SMEs spread around Ethiopia in different sectors, this study was limited to a selected number of entities in Addis Ababa particularly those engaged in service industry (tourism) specifically in tour operating.

The main reasons for the researcher to undertake this study particularly on tourism industry is that Tourism is a large global industry that is expanding rapidly in developing countries. It comprises 11% of world GNP if related activities 'tourism and general travel' are included. Tourism is also growing faster than global output, so its share of the global economy is increasing. Critically, from a development perspective, the market share of tourism in developing countries is also increasing significantly. As a result, the first long-term vision of the government of Ethiopia is to make Ethiopia, one of the top ten tourist destinations in Africa by the year 2020, with an emphasis on maximizing the poverty-reducing impacts of tourism. Depending on the measures used, this means at least quadrupling the current rates of tourist visitation to the country. The second part of the Government's vision for tourism is that it maximizes poverty-reducing impacts. To this end, IFRS to SMEs plays a significant role in the tourism industry to go global and attract investors to take part in Ethiopia.

It is on this basis that this study has investigated the extent of transiting and utilization of IFRS for SMEs, the benefits and potential pitfalls facing SMEs in implementing it. The contribution of the professional bodies and other concerned bodies towards the realization of IFRS for SMEs has been analyzed.

1.2. Statement of the problem

Comment [DT2]: Under introduction

Despite the importance of financial reporting, management accounting and control practices, it is unfortunate to find that these practices are often inadequate and lacking among SMEs. Except for yearly taxation returns and some form of profit and loss statements, other statements such as balance sheet, cash flow statement, fund statement, production report, variance report, are infrequently used. These rather limited usage of financial and management accounting reports. This could be attributed to SMEs' inability to employ professional managers with functional specialization especially in the financial area due to their limited financial resources. Without adequate, effective and timely financial reports and analysis, the SMEs are losing out on the benefits from those practices such as improved monitoring of financial health and progress, improved ability to anticipate fortunes or failures, better assessments of financial risks and greater ease in financial planning and control. Most importantly, in the context of SMEs requiring extra capital to grow and regular financial reports can provide indications on their ability to produce steady cash flows and to service debt. It has been established that the use of appropriate financial reporting and management accounting practices could be one of the determinants of company survival particularly SMEs (as cited by [1] from [6].

The afro stated problems are also true in developing nation including Ethiopia. These all things are assumed to be resulted from absence of uniform financial reporting standards. There are no or very few studies conducted in Ethiopia to this literature.

SMEs and publically listed company in most countries including Ethiopia are subject to the differential financial reporting regulations. In Ethiopia, there are no requirements for SMEs to report a general purpose financial statement before the issuance of proclamation number 847/2012. As a result, SME reports financial information differently. Datuk Johan, a proponent of single financial reporting regime, argues that there is the need to produce a single set of high quality of global Financial Reporting standards aiming at eliminating the incomparability factor while increasing the transparency of financial statements and heightening disclosure [3].

As a result, after the issuance of proclamation number 847/2012 article 5 and 54(1), the Accounting and Auditing Board of Ethiopia three phase road map of transiting and implementing IFRS in Ethiopia. Accordingly, business operators categorized under SME are required to transit and provide a financial report starting from the fiscal year of 2020 as per IFRS for SMEs.

Thus, this study tries to answer the following research questions:

Taking into consideration the above argument, would a new financial reporting standard specifically tailored to the special needs of SME results benefit in the Ethiopian?

Are SMEs ready to transit and adopt IFRSs for SMEs?

Are SMEs having the appropriate level of knowledge so as to correspond to the new demands?

1.3. Literature review

1.3.1. Definitions of a small- and medium-sized entity

Evidence from literature reveals that there is no universally agreed definition of an SME across all academic disciplines. This is so because no single definition can capture all the dimensions of a small and medium-sized entity, nor can be expected to reflect the differences between entities in different industrial sectors or countries at different levels of development. Most definitions are however based on size and they use fundamental bases such as number of employees, financial position or annual turnover ([7]; [8]; [9]. However, none of these bases are pegged at the same level across disciplines and national boundaries [10].

In virtually every jurisdiction, from the largest economies to the smallest, over 99% of companies have fewer than 50 employees [11] quoted in [12]. In Ethiopia, [13] defines a small enterprise as a business that employs 6 - 30 people and total asset of birr 100,001 – 1,500,000 for manufacturing, construction and mining sector and total asset of birr 50,001 - 500,000 for service sector while operating as a registered entity.

[14], defines an SME as an entity that does not have public accountability and thus publishes general purpose financial statements for external users.

SMEs are entities which do not have the onerous requirement of filing their financial statements with any regulatory body for the purpose of issuing financial instruments. These entities do not hold assets in any fiduciary capacity for a group of outside investors (banks, insurance entities, security brokers, funds, etc) but the owners, who usually are also managers. However, [15] went further to differentiate a micro entity from an SME. They defined micro-entities as the smallest entities within the SME spectrum and that these entities have less than 10 employees (including those that do not have any employees).

It can be seen from the foregoing definitions that there is no one universally agreed definition of an SME. However, for the purpose of this research, an SME is considered as an entity that employs less than 100 people, having total asset of less than birr 1,000,000 in the service sector only and holding assets only for the owner managers excluding micro enterprise.

The majority of the entities that participated in this study can well be described as micro-entities, according to [15] as they employ less than 10 employees including the owner. However, the researcher disregard this definition and not include micro enterprises as per Ethiopia's federal micro and small enterprises development agency definition given as " micro enterprises are those that have less than 5 employees and total asset of less than birr 50,000 in the service sector."

1.3.2. <u>Accounting Practices and Financial Reporting of SMEs</u>

As quoted by [1] from the study of [16], these study was conducted in Australia and investigates the types of financial reports produced by SMEs, the frequency of their preparation and their perceived usefulness for management purposes. The findings indicate that financial reports for SMEs are prepared predominantly by external accountants at annual intervals, and they normally comprise just the balance sheet and the profit and loss statement. The content and presentation of financial reports appear to be greatly influenced by taxation and corporate statutory reporting requirements.

Other Studies were conducted in various countries to examine the usefulness of accounting reports within the context of SMEs, for examples [17] & [18] in Australia, [6] and [19] in the UK; and [20] on SME Manufacturing Zimbabweans companies. These studies found evidence that financial reports are not considered particularly useful for decision making purposes by SMEs owner-managers. These studies also found that there is limited usage of financial and management accounting reports by SMEs.

In addition, it has been argued that accounting reports produced by SME's are usually limited to a few types of simple reports comprising mainly profit and loss account and balance sheet. The studies using a postal questionnaire to small private limited companies in the UK, found that 82 per cent of the companies use monthly or quarterly management accounts, 87 per cent of the companies prepare profit and loss statement and 78 per cent prepare balance sheet [18].

On the other hand, SMEs consider the most frequently used sources of information are the periodic management accounts, cash flow information and bank statements, to a lesser extent budgets, the state of order book and the additional annual accounts [18].

In most jurisdictions, the law requires all or many of the SMEs to prepare financial statements and, often, to have them audited. Normally, the financial statements are filed with the government, posted on a website or are made available on request. In Ethiopia, according to [21], article 48(1) All persons who are engaged in a business or trade as defined in Article 2(5), are required to keep proper books of accounts and primarily for tax purpose.

A study by [22] concludes that regulations are the main drivers why SMEs prepare financial statements. Holmes and Nicholls (1998) conclude that the volume of accounting practices in SMEs is dependent on a number of operating environmental factors that include size of the business, business age and industrial grouping. They further argue that most owners and managers of SMEs engage public accountants to prepare required information and that owners and managers search for additional information, but only to a limited extent. [23], conclude that the development of a sound accounting information system (AIS) in SMEs depends on the owners' level of accounting knowledge.

[24], report that small firms use professional accounting firms for preparation of annual reports and for other accounting needs. [25] argue that the professional accountants should develop their services to also include graphic presentations and comments and interpretation of the amounts in financial statements. [26] & [27], however argue that the high cost of hiring professional accountants leaves SME owner-managers with no option but to relegate accounting information management. [28] proposes the use of accounting software by owner-managers in SMEs to improve accounting practices but laments that developers of accounting software are yet to produce the medium-sized software for SMEs.

[16] argues that financial reporting practices in SMEs seem to fall short of what is dictated by various external financial reporting imperatives that exist for them, further arguing that owner-managers appear particularly reluctant to produce financial reports which might become accessible to outside parties either directly or through the offices of regulatory authorities.

1.3.3. <u>Characteristics and Operations of SMEs</u>

According to [29], small businesses in general do have many characteristics that set them apart from larger ventures. These include personalized management, small market share, loyal but limited customer base, family-ownership and difficulty in obtaining finance.

In terms of financial reporting, research focusing on internal preparation seems to suggest that financial awareness amongst owner-managers of the smallest entities is quite low and that there is inadequate record-keeping [30]. Inadequate financial record keeping, and the consequent failure to make good use of available financial information, is characteristic of microenterprises and many small businesses in developing economies [31]

[32], argue that there are three central respects in which small firms are different to large firms – uncertainty, innovation and evolution. Their claim is well supported by literature.

There is seen to be greater external uncertainty of the environment in which the small firm operates, together with the greater internal consistency of its motivations and actions [33]. Small firms are also more likely to introduce fundamentally new innovations than larger firms, a feature often attributed to small firms having less commitment to existing practices and products [34]. Furthermore, there is a much greater likelihood of evolution and change in the smaller firm [33].

In Ethiopia, SMEs are predominantly owner-managed and sole proprietorship is the norm. They provide the greatest avenue for the less educated entrepreneurs at the lower MSE's end. It is also interesting to note that small scale enterprises make better use of scarce resources than large scale enterprises.

Research in Ghana and many other countries have shown that capital productivity is often higher in SMEs than is the case with LSEs [35]. The reason for this is not difficult to see, SMEs are labor intensive with very small amount of capital invested. Thus, they tend to witness high capital productivity which is an economically sound investment. Thus, it has been argued that promoting the SME sector in developing countries will create more employment opportunities, lead to a more equitable distribution of income and will ensure increased productivity with better technology [36].

1.3.4. <u>International Harmonization of the Financial Reporting</u>

Financial statements prepared according to globally accepted standards are easier to analyze and understand for foreign stakeholders than those based on the FAS. Investors, of financial resources and knowledge, can compare the financial situation of the company with other equivalent companies worldwide. Therefore, the harmonization of the financial reporting and IFRS has an effect on the SME. Research addressing the harmonization of international accounting standards is extensive. Generally, in the international accounting literature the voluntary adoption of high-quality accounting standards -IFRS included- is found to have a positive impact on accounting quality [37].

Companies operating in today's business world face rapid worldwide economic integration and increased cross border capital flows. Entrepreneurs seek for the least expensive financing for the company's operations. To be able to convince the foreign investors of the business and its ability to create cash flow and profit, the investors must understand the financial information provided by the company. According to [38] companies may even face a competitive disadvantage from an inefficient financial reporting model. Especially, firms competing in global markets face growing pressure to apply globally accepted financial reporting standards. International reporting standards may work as a useful tool in creating valuable accounting information for financing needs.

Due to the foregoing, the European Union (EU) members were the first ones to move toward the harmonization of accounting standards. The EU issued many directives to harmonize financial accounting practices in the late 1970s and 1980s. The goal was to reduce diversity and facilitate cross-listings and cross-border investments. A quantum leap in the development of the accounting harmonization in Europe took place in the 1990s with the improvement of the International Accounting Standards (as IFRS were formerly named), the adoption of single currency and other harmonization events. Therefore, in the late 1990s the voluntary adoption of the IFRS accelerated, although the IFRS were not mandatory for listed companies before 2005 [37].

The harmonization of the financial reporting enables a comparison of financial statements and financial situation of companies operating in different countries. For the first time, transparency and comparability exists for multinational companies and their stakeholders enabling the expansion of the global business [39]. The foregoing enables international investors to read financial statements and compare investment opportunities globally. Creditors may use the information to make better lending decision [40].

1.3.5. International Financial Reporting Standard (IFRS)

The driver behind the global IFRS adoption has been the goal at achieving the following [39].

I. "Consistent global financial reporting.

II. Comparable financial information between organizations operating in multiple countries.

III. Facilitation of group decision making for multinational organizations through common and consistent accounting standards."

To receive the above mentioned universally acceptable set of accounting standards, accounting professionals from nine countries (9) founded and formed the International Accounting Standards Committee (IASC) 1973. The International Accounting Standards Board (IASB) was founded in 2001 and its purpose is to continue the work of the IASC. According to [38] the IASB is more independent, better-funded and better-staffed than the IASC was.

The IASB is an independent standard setting body of the IASC based in London, UK, and it sets the International Financial Reporting Standards (IFRS). A professionally and geographically diverse body of Trustees oversees the activities of the IASB and appoints the board. The external advisory council (SAC) as well as the interpretations committee (IFRIC) supports the IASB. These two bodies guide the IASB where divergence in practice occurs.

[41] Studied how the convergence in 17 European countries was directly affected by the EU's decision. Their study reveals that concerns about tax linkages and complicated standards lead to non-listed companies to use other than the IFRS basis of accounting for their annual financial statements.

According to the [42], over 100 countries have either required or permitted the use of the IFRS since 2001. In these countries, the benefits of globally accepted financial reporting standards seem to have topped the costs [40]. Still, it is worth mentioning that some of these countries require companies to report their financial statements according to the IFRS because of the lacking supporting accounting standard setting in the country and the efficiencies gained by outsourcing the function. This is the case for many of the developing countries. The European Union wanted to reduce the information costs and therefore decided to move to common accounting standards. In other countries, the global dimension supported the decision [42].

The study by [43] conclude that firms adopt international standards (e.g. IAS) in order to expand their sales to foreign markets, to attain more customers and to reduce political costs when expanding activities into foreign markets. These companies see the benefits of applying the IFRS exceeding the costs of implementation and in-usage. In some European countries the linkage between financial reporting and tax accounting has influenced the willingness of non-listed companies to converge the national GAAP based financial statements with the IFRS based financial statements [41]. The same researcher would assume that in Finland the general attitude of non-listed companies toward financial reporting is affected by the same way. The Finnish FAS are based on common economic interests with special interest in aspects of executing the taxation. The connection between the IFRS and the taxation is rather loose.

Evidently, benefits of IFRS implementations have been found in the literature. Still, [41] discovered that several European countries had concerns for the IFRS applicability to SMEs. In 2007 the IASB aimed to amend the situation and introduced an Exposure Draft: "IFRS for Small and Medium-sized Entities" [44]. Already in 2004 the IASB had issued a discussion paper "Preliminary Views on Accounting Standards for Small and Medium-sized Entities" and since that the process of the SME IFRS has developed.

1.3.6. IFRS for SMEs

Globalization, especially the economic globalization is now a day's an unquestionable reality and has great demand for the cultural situation, socioeconomic and human condition of the entities. The SMEs have been of central importance both in the process of globalization and in strengthening worldwide economy, thus the accounting information presented by SMEs is also very important. We must know about the associated and concerned aspects of SMEs which are its users, its comparability and the harmonization of information. For this purpose we are not ignorant of the role of those who act in this show (i.e. developers of standards). In this context, International Financial Reporting Standard for Small And Medium-sized entities was issued in July 2009. IFRS for SMEs may represent a considerable step towards global convergence of financial reporting practices by SMEs. It will help to improve the quality and comparability of SME financial statements all over the world and would be helpful for SMEs in gaining access to finance [45].

It was in 2001, when IASB formally started to develop accounting standards for the suitability of SMEs while keeping the emerging economies in focus. A discussion paper was designed for this purpose in 2004 with the title of Preliminary Views on Accounting Standards for Small and Medium-sized Entities and for this discussion paper comments were invited from around the world. Emphasis and proposal were directed to the core elements of accounting standards which are recognition, measurement, presentation and disclosure of financial information in financial reports. The first exposure draft of IFRS for SMEs was published by IASB in February 2007 with the aim to provide uncomplicated and easy to understand set of accounting principles for unlisted companies based on full IFRS. Based on this exposure draft field tests were conducted by IASB on a sample of 116 small firms from 20 different countries. On the basis of comments and reviews on exposure draft, and from the results of field tests the job for IASB was eased up in further enhancing and simplifying the accounting standards for SMEs, and finally launching the official and final version of IFRS for SMEs on 9th July, 2009 [42].

IASB along with IFRS for SMEs also released an implementation guide for the understanding of its users. This implementation guide explains the standards much more in detail along with examples in terms of financial statements and disclosure checklist. IASB developed IFRS for SMEs by taking into consideration the cost-benefit analyses of these standards to the applying firms. Criteria like recognition, measurement and accounting treatments have been eased up in comparison to the criteria available in full-IFRS. Topics concerning disclosure issues have been relaxed in IFRS for SMEs and irrelevant topics have been omitted [46].

IASB did not held itself back from making these standards even more compatible and easy for the end users; and is working on the launch of its training material for IFRS for SMEs. A total of 35 modules will be developed in the training module, and out of which 17 modules have been released to the public. These modules will are subject to be reviewed by different multi-levels peers [47]

1.3.7. IFRS for SMEs and National/Local Accounting Standards

IASB, in their publication of IFRS for SMEs define the SMEs as those entities which are not publicly accountable and thus publish financial reports with general purpose for the external users. External users in this context refer to the non-managerial owners, existing and prospective creditors and credit-rating agencies. IFRS for SMEs is a broad, complete and comprehensive set of standards and includes almost all important assistances and regulations provided by the full IFRS. For example, it explains those features and qualities that are necessitated for IFRS-complying financial reporting (reliability, understandability, etc.), the components of financial statements (incomes, expenses, assets, liabilities, etc.), the required smallest heading in the required full set of financial statements, the authorization for proportional reporting etc [48].

The mystery related to IFRS for SMEs are the problems associated with the technicality of transition from locally adopted GAAP to IFRS for SMEs. As SMEs are unlisted companies, new ways of inventing financial instruments for these unlisted companies are devised by the financial market. These instruments should provide SMEs with long-term financing, which can be refinanced in the market without any formal listing on the stock exchange. The probability is that in the near future such instruments will be made available for the situations in which capital markets seek investment opportunities and unlisted firms in Europe offer such opportunities. In situations like this unlisted firms would be required to present financial reports in accordance to IFRS stating and communicating the financial and economic stability of a firm to attract the prospective investors of the capital market [48].

For successful transition from local GAAP to IFRS, a relationship needs to be developed between audit procedures and management assertions. Audit objectives can be derived from the IAS statements itself which can serve to be a reasonable starting point of the transition process. The detailed regulations included in the IAS statements are regarded as the audit procedures. These audit procedures and the process of auditing involves certain types of risks; audit risk and inherent risk are the ones which affect the transition process [49].

Audit risk refers to the inappropriateness of opinion given by the auditor in his report about the compliance of a company's financial statement in accordance to the standards set out in IFRS. Audit risk arises can be further broken down into two segments of different consequences and they are: the risk that misstatements might be there in the financial statements and the risk that auditor will not be able to determine such risk of misstatements by the use of extensive audit procedures [4].

Inherent risk refers to the risk is which is associated with the characteristics of an event, transaction or account balance, and are affected as a result of the environment in which the business operates. What a business environment constitutes of are: general market conditions, existing or new governmental laws and regulations, and the industry trends are some of them, and cannot be controlled by the management [4].

In all EU countries, SMEs and unlisted companies use national accounting standards. Roughly all listed companies in Europe have to use IFRS for financial statements and disclosure from 1 January 2005. In Ethiopia, the problem of SMEs or unlisted companies is that their reporting and disclosures are still open.

National accounting standards are divided into two main types: ones that fetch National accounting standards in accordance with IAS/IFRS and the other that brings completely independent standards for their companies. Australia, New Zealand, Japan, Canada, United Kingdom, France, United States and Germany are using independent National Standards for unlisted companies. EU Members countries (27 countries) have National Accounting standards and Company Law, Some countries have Accounting Act (or Law) but some countries are regulating accounting issue through Company Law. There is lack of country-specific textbooks, guidance, training materials and software for implementing national standards and also developing national standards is very costly. The comparability within a country is decreased due to this problem because different requirements are interpreted differently [11].

1.3.8. <u>Financial Statements Users</u>

IASB realized the fact that IFRS for listed companies is not enough to serve the global purpose of accounting standards, and there is a great demand of global standards for the small and medium-sized entities, which outnumber the listed companies with huge margin. The reasons because of which global standards for SMEs were needed are that: around half of the SMEs have bank loans, and bankers for their lending decisions regarding loan terms and interest rates rely on financial statements; vendors need financial reports in order transact on credit with buyers from different countries; financial reports are important for an entity's rating by the credit rating agencies and banks; financial reports of suppliers are used by SMEs in assessing the prospects of business relationship for long-term; financial reports needed by the venture capital firms in order to provide SMEs across the border with funds; financial reports are required by outside investors who are not directly involved in the daily operations of the management [47].

Mostly users of SMEs financial reports are interested in information regarding the firm's short-term cash flows, financial position and performance of the firm in prior years, interest coverage, and trends of profit and loss in prior years. SMEs financial statements users unlike the listed companies financial statements users do not look for the company's cash flows in long-term, profit or loss and value of the firm in long run [47]. Keeping in mind the needs and requirements of the users of financial reports of SMEs, IFRS for SMEs has been developed with much more simple rules and options as compared to the full-IFRS.

Some of the examples related to the simplicity of options in IFRS for SMEs are: in IFRS for SMEs provisions regarding investment property allow the firm to opt for either fair value method if the value of the investment property can be measured reliably without any extra expenditure, or else the firm should consider the cost method for its measurement. For the measurement of amortization and impairments of property, plant and equipment along with intangibles, the cost-amortization-impairment model method should be used as per IFRS for SMEs, while the use of revaluation model is not allowed. IFRS for SMEs require immediate expensing by the firms regarding its borrowing costs, unlike the capitalization model used in full-IFRS for borrowing costs. As per the standards of IFRS for SMEs, those entities which are jointly controlled are not allowed to be consolidated under these standards; rather they should be consolidated under full-IFRS. Firms adopting IFRS for SMEs are required to expense both the research and development cost as they are incurred; while firms employing full-IFRS expense the research costs and capitalize the development costs [48].

1.3.9. <u>Applicability and Relevance of IFRS-SME</u>

The expected benefits of IFRS-SME are international acceptance of financial reports created using IFRS or IFRS-SME; international comparability of SME financial reports; and understanding by users of the reports world-wide [50]. Also, there is expected to be a cost saving on the standard setting process for adopting countries [42].

Some countries adopted IFRS-SME as soon as it was released. One example is South Africa. The reason for its adoption was the legislative requirement that all limited liability companies prepare financial accounts using IFRS. Prior to the release of IFRS-SME all such entities, regardless of size, were required to prepare their financial accounts fully compliant with IFRS. This was considered too burdensome, and as such, the government now allows SMEs to report under the new standard [51].

[52] point out that many countries' SMEs would have to adopt full IFRS, due to World Bank demands. Where there is no DIFFREP system in a country IFRS-SME may be a cost effective alternative to full IFRS. Research in Bahrain, by Joshi & Ramadhan (2002) showed evidence that SMEs who chose to report under IFRS (IFRS-SME was not available at the time) found it easier to get loans from banks. They also found it helpful for audit purposes. The study also revealed that IFRS reporting was aiding Bahrain SMEs that reported under full IFRS to better control financial management. The introduction of IFRS-SME to these companies may reduce their compliance costs, but at the same time maintain the relative ease of obtaining bank finance, due to international recognition of the IFRS-SME standard and the standard's perceived value.

Other countries have not been so quick to adopt the standard, including Ethiopia. These countries' standard setters are treading more cautiously in their consideration of the appropriateness of the new standard and its adoption. The ASRB states in its discussion document that "the differing measurement and extensive disclosure requirements of IFRS-SME means that its suitability for use as a differential version of IFRS is still being assessed in Australia and NZ" [53]. This study hopes to inform standard setters (other concerned body) in Ethiopia as to the potential effects on financial reporting that IFRS-SME may have for Ethiopia SMEs.

1.4. Scope of the study

The focus of this study was on Ethiopian SMEs and this study was exclude Micro-sized entities (MSEs) who are primarily owner-managed and have limited or no impetus to disclose their financial state and performance. The financial reporting standard that was considered was IFRS-SMEs.

This study was limited to a selected number of entities in the service sector particularly tour operators in Addis Ababa. This is because, the researcher believes Addis Ababa is the hub of trade and commercial activities. And the findings reflect to a high extent of opinions on the financial reporting standards regime for SMEs category in Ethiopia.

1.5. Limitation of the study

Like any research activity this study also has limitations and the findings of this study should be evaluated in light of these limitations. One of the Data collection method is semi-structured interview which is very challenging because it produce a large number of data without well-defined instructions for the analysis and the interviews present the views, perceptions, and beliefs of individuals. Besides, this study focuses only the SMEs in the service sector particularly tour operators.

Despite the limitations here, it can still be argued that the study yielded reliable results in describing the phenomenon not yet existent in Ethiopia in the literature related to the topic. Furthermore, the results of the study answer the research questions presented above.

2. RESEARCH METHODOLOGY

This chapter describes the research philosophy, approach and method that were used in the study. It also discusses the types of methods selected for data collection and analysis and the reasons why these methods were chosen in comparison to the other alternative methods.

2.1. Preconceptions

In order to be objectively involved in the study work one needs to have certain pre-involvement or interest in the field of study. This helps in choosing the appropriate methods and tools for data collection and analysis. It was during the course of Advanced Financial Accounting and auditing that the researcher's interest towards IFRS was developed. During the course delivery researcher was got brief highlights regarding a new set of standards which have been developed by IASB for the SMEs known as IFRS for SMEs. Since then the enthusiasm to know IFRS for SMEs much in detail and how it will be seen by different stakeholders was developed. It was then the researcher started to look into these standards and to read about it in some articles published and available. As these standards were in very early stages of its launch into the market, the researcher wanted to see how the SMEs particularly are going to react to it, and what is going to be their approach and knowledge towards it. More interest was developed when the researcher could not find any previous studies conducted specifically in this area in Ethiopia.

2.2. Research philosophy

Research philosophy is very important for selecting the best appropriate research design for answering the research questions. There are two research philosophies. These are the epistemological philosophy and the ontological philosophy. Epistemology is the study of knowledge and knowing/belief. It refers to the ways to acquire the knowledge [54]. (It describes how it is possible to know about the world that is how we can study about reality). It is further divided into two parts: positivism and interpretivism (phenomenology). Positivism is a study of social reality that is how the social world can be analyzed as natural science. While, interpretivism or anti-positivism relates to elements such as values, norms and subjective position of researcher and research community are important for interpretation of reality [ibid]

On the other hand, Ontological assumption refers to the subject of existence. It concerned with the nature of the world and human being in social contexts. It deals with nature of the world and what we can know about it. The ontological assumption is divided into Objectivism and Constructionism. Objectivism is a normative emphasis that asserts that social phenomena and their meanings have an existence that is independent of social actors. On the other hand, Constructionism position accepts that social phenomena and their meanings can be continually accomplished by social actors and reality of social world is constructed and does not exist out there [ibid].

In this study, the researcher has selected interpretivist position for the epistemological assumption and constructionist view point for the ontological stance. A reason for doing so is that the researcher wanted to investigate the Ethiopian SMEs Benefits and costs to transit & adopt IFRS for SMEs. And what is more, it is to see the reaction of SMEs either against or in favor of new standard. As per the interpretivist approach, the researchers' norms and values were used in identifying and interpreting the approach of SMEs in Ethiopia towards the accounting standards. The adoption of constructionism view point as the ontological assumption lead the researcher in accomplishing his conclusive result as per his analysis of the knowledge acquired. Subjective judgment of the respondents in expressing their viewpoint in support of easing the tasks of interpretation and opinion building was considered vital.

2.3. Research Approach

The concern of research approach is about answering the researchers' questions regarding the way in which they will collect data [55]. The research philosophy is usually based on the researchers' interpretation of the development of data, facts and knowledge. It is just simply the way we go about doing research to develop knowledge rather than profound and not something which you will give much thought [ibid]. Thus, the implementation of suitable method to achieve the best foundation of the study is essential for any research. Since there can be numerous concerns at stake but two stands out in particular. First, there is question of what form of theory one is talking about?. Secondly, there is a matter of whether data are collected to test or to build theories [54].

According to [ibid], research approaches can be segregated into three different types; inductive, deductive and abductive approaches. In deductive approach a conceptual and theoretical structure (model) is developed and then tested by empirical observations; use the hypothesis testing to derive its outcome. This is usually from general to particular approach and data is collected to test the theories. Inductive approach is normally from particular to general approach and data is collected to generate the theories. In this approach, theory is developed from the observations of empirical reality and all findings connected with certain enquiry that what reality is.

Abductive approach was used in this study because the researcher thinks it is the best approach that has a link with research methods to answer the research questions. The researcher started with the theories about the International Financial Reporting Standards (IFRS), Small and Medium-sized entities (SMEs) (IFRS for SME). On the basis of these theories, the researcher developed the theoretical framework to create the interview guide.

Analysis of empirical findings was tested against the theoretical framework, and on the basis of this, conclusion regarding this study were drown. The tests conducted on the findings lead the researcher to the conclusions in terms of either the empirical findings validate the theoretical framework or not. If the empirical findings are in line with the theoretical framework, then no need of generating any new theory. Contribution to the knowledge would be made when the findings are not in accordance to the theoretical framework and reasons are provided by the respondents to support their views or opinions of rejecting particular findings.

2.4. Research Design

There are five different types of research designs; experimental, cross-sectional, longitudinal, case study and comparative designs [54]. The research design that the researcher employed in this research work is the cross-sectional design. It is also called social survey design. " Cross-sectional design involves the collection of data on more than one case and at a single point in time in order to collect a body of quantitative or quantifiable data in connection with two or more variables, which are then examined to detect patterns of association" [ibid]. When a number of cases are looked at one single point in time, then it is termed as a survey. In this design, the researcher used semi-structured interviews and questionnaires for the different targeted group relating to SMEs in Ethiopia. The data collection was finished at a single point in time for all groups concurrently. This means that the respondents were expected to answer most of the questions asked in the interview and questionnaire, and their feedback was collected promptly. Through this data, the researcher obtained useful findings which helped in exploring the research questions. Using this design, the researcher tried to make sure that the representativeness of the sample being studied in relation to the overall population was adequate. The key strong point of this research design is thus derived from its representation of the different groups, which the researcher got through analyzing different reactions of SMEs in Ethiopia to adopt IFRS for SMEs.

2.4.1. Research Method

There are three approaches that are used in conducting a given research. These are: qualitative, quantitative and mixed approach [56]. In this study, the researcher used mixed approach. The rationale for using this method is to combine the numerical values from quantitative research and the detailed of qualitative research to offset the weaknesses inherent within one method with the strength of the other method.

2.4.2. Research Format

The research format for this study was descriptive statistics. This is because it blends the characteristics of both quantitative and qualitative approach. The quantitative nature of the study attempted to obtain statistics regarding the benefits and costs of transiting to the adoption of IFRS to SMEs in Ethiopia and quantify them to come up with conclusions. This was best executed using the descriptive format of research. Descriptive research provides information about the population being studied [57].

2.4.3. Data source and Research Technique

Data collections are the means, which refer to the sources from where the relevant information can be gathered that we used in answering the research questions. The sources from where the relevant information can be gathered are primary and secondary data sources. Primary data sources refer to the sources from where original data is collected for the research problems identified in the study. It includes observations, experiments, social surveys like questionnaires, and interviews. Secondary data sources are the ones from where we collect the information contributed by others towards the study. It comprise of books, journals, articles and web-based data about the specific subject [58].

In primary data collection the researcher have opted face-to-face interviews and structured questionnaires. The researcher employed semi-structured interviews to collect data from professional accountants & auditors and creditors. Semi-structured interviews provide the researcher with the ease of producing a list of questions on specific topics, which are formulated into the interview guide [54]. Open-ended questions were used in the semi-structured interview guide, in order to provide much more room to the respondents to express their views and reasons. In semi-structured interviews, the order in which the questions will be asked might vary, but it is preferred to keep track of the questions in the same order as in the interview guide [ibid]

The interview guide was provided to the respondents two days prior to the formal interview so that the respondents do have an idea and appropriate preparation for their expressions regarding the questions. Besides, a structured questionnaire was also used as a tool of gathering the necessary data from SMEs and other stakeholders. The questionnaire was prepared based on the coverage of IFRS for SMEs (IASB, 2009) and the previous literature regarding full IFRS and IFRS for SMEs.

The questions used in the questionnaire were dichotomous (i.e. yes–no) and Likert scales. The sections of the questionnaire include demographic questions, results of Adopting and compliance with IFRS for SMEs from the view point of its benefit and costs.

All interviews were taken place in setting comfortable situation to both the interviewee and interviewer. From the perspective of ethics, respondents were provided with all kind confidentiality concerns.

2.4.4. Population

It is the total group of people or entities from which information is required [59]. In this study the populations of interest was the SMEs in the tourism sector of Ethiopia. There are currently 320 SMEs in the tour operator sector [60].

2.4.5. Sampling procedure

The study applied the probability sampling method for tour operators and non probability for other stakeholders. A probability sampling method is any method of sampling that utilizes some form of random selection. The population in the present study is 320 which are large to handle and then the researcher believes that the sample that comes out of it is representative. Sample of 32 was randomly selected from the population of tourism sector SMEs in the tour operator in Ethiopia by employing systematic sampling technique in which every 10th of alphabetically ordered population were selected as a sample. The sample was selected from the list provided by ministry of culture and tourism. And respondents from audit firms and financial institutions were selected based on convenience sampling. Finally, those gathered data's was analyzed by descriptive techniques using tables & percentages.

3. DATA ANALYSIS AND DISCUSSION

This section of the study deals with analysis and discussion of the data collected through various data collection techniques (questionnaires and interview) to reveal the transiting to Adoption and compliance of small and medium scale enterprises with IFRS for SMEs in Ethiopia. This study tries to address the research objectives, provide a reasonable answer to the research question and As the researcher indicated in the methodology section, this study was used a questionnaire survey and semi-structured interview. The results obtained from the survey are analyzed through descriptive statistics. Ultimately, 87 respondents responded to the questionnaire and collected accordingly from a total of 93 questionnaires distributed to them.

3.1. Descriptive Analysis

Descriptive statistics describes the main features of collection of data quantitatively. As it was clearly stated in the previous chapter, this study uses Descriptive statistics for summarizing and describing data's gathered from respondents regarding the Benefits and Costs of IFRS for SMEs for adopting and compliance with it. The researcher uses only the primary data collected by questionnaire survey and interviews. Inferential statistics are also used for drawing conclusion concerning a population based on a sample.

A total of 93 questionnaires were distributed for different tour operators in the tourism industry of SME located in Addis Ababa, out of which 87 were completed and retrieved, representing 93.55% retrieval (response) rate.

3.2. Adoption of IFRS for publically listed company in Ethiopia

Globalization of accounting standards under the lead of International Financial Reporting Standards (IFRS) is becoming trend among countries because of the advantages it provides for countries and multinational companies. According to the proponents of accounting harmonization, worldwide comparability of financial statement is necessary for the globalization of capital markets. It would be easy for investors to evaluate potential investments in foreign securities and it would also simplify multinational companies for evaluation of possible foreign takeover targets. International Financial Reporting Standards would reduce the cost of preparing worldwide consolidated financial statements. Multinational companies would also find it easier to transfer accounting staff to other countries [As cited in 61].

During the year 2011, the Ethiopian government issued a draft proclamation called "Financial Report Proclamation of Ethiopia" that requires public interest entities to follow IFRS in their financial reporting. This is an indication for adoption of IFRS in Ethiopia even though this draft financial reporting proclamation required for certain types of institution (like Banks and ECX Member Company)

Based on the afro-stated facts sample respondents of SME managers/accountants were asked to answer "yes" or "no" as to whether they were aware of the adoption of IFRS by publically listed company in 2011 as follows;

Table 1. Are you aware of adoption of IFRS for publically listed company?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	64	73.6	73.6	73.6
	No	23	26.4	26.4	100.0
	Total	87	100.0	100.0	

Source: Own survey result, 2019

From the above table the researcher observes 73.6% of respondents were aware of the adoption while 26.4% had no knowledge about the adoption. This indicates, majority of the respondents are following information about the accountancy profession. On the same manner sample respondents of SME managers/accountants were asked to answer "yes" or "no" as to whether they were aware of the release of the IFRS for SMEs by IASB in 2009.

Table 2. Are you also aware of IFRS for SME release by IASB?

	Frequency	Percent	Valid Percent	Cumulative Percent

	Yes	65	74.7	74.7	74.7
Valid	No	22	25.3	25.3	100.0
	Total	87	100.0	100.0	

Source: Own survey result, 2019

From the above table 2, one can observe that the response was nearly same as that to the previous question response.

Most of SMEs sampled respondents seemed to be shoulder to shoulder with current developments with respect to financial reporting standards that affect them. Probably this is due to their educational level which indicates that about 65.5% of the sampled respondents are first Degree holder, 33.3% of them are Diploma holders and the remaining percents have certificate (see in the Appendixes section).

Table 3. Descriptive statistics for Results of transiting to Adoption and compliance with IFRS for SMEs

Results IFRS for SMEs	N	Range	Mean		Std. Deviation
	Statistic	Statistic	Statistic	Std. Error	Statistic
More easily comparable Accounting figure	87	4	4.14	.082	.765
More value relevant Accounting Figure	87	3	4.25	.070	.651
More timely loss recognition	87	4	3.18	.161	1.498
Figures of higher quality	87	3	4.56	.076	.710
More additional information disclosures	87	4	4.70	.088	.823
Financial statement that are difficult to understand by most SME users of accounting information	87	2	4.41	.064	.601
Valid N (list wise)	87				

Source: Own survey result, 2019

The objectives of IASB (2008) are the most clearly supported by respondents as shown in the above table. Indeed, since all the respondents mean is greater than 3 and their standard deviation is less than 1 except for 'more timely loss recognition' respondents agree with the increase in comparability of accounting figures resulting from IFRS for SME adoption and compliance with it. They also agree with an increase in the value relevance of accounting data under IFRS for SMEs was observed. Moreover, they support that the higher information content of IFRS for SMEs.

The research respondents also agree that IFRS for SME adoption results in financial statements that are difficult to understand by most users. Interestingly, this argument was more supported with an interview conducted with the one who is ACCA certified and external auditor in one of auditing firms in Ethiopia. The interviewee also states the possible explanation as “this is due to users past experience and their low educational level”. However, the respondents didn’t support the idea that adoption and compliance with IFRS for SMEs results to more timely loss recognition

The above table 3 results shows that respondents of the study were clearly convinced about IFRS for SME adoption and compliance with it which provide comparable accounting figure, value relevant accounting figure and more additional information disclosure. However, they also believe that the financial statements prepared accordingly are difficult to understand by most users. This problem could be minimized through continuing training program and upgrading users’ educational level as it was discussed in the next section. Generally, from the above discussions there are indications for adoption and compliance with IFRS by SMEs is important and appropriate in Ethiopia.

Table 4. Descriptive statistics of Benefits of IFRS for SMEs to different stakeholders

Benefits of IFRS for SMEs	N	Range	Mean		Std. Deviation
	Statistic	Statistic	Statistic	Std. Error	Statistic
More efficient monitoring of the company by owners/ managers and therefore better owner/manager protection	87	3	4.60	.076	.706
More efficient monitoring of the company by creditors and therefore better creditors protection.	87	4	4.41	.090	.843
A decrease of information asymmetries between insiders (owner/manager) and outsiders (creditors, customers)	87	4	4.31	.089	.826
A decrease in the firms interest rate on money borrowed	87	3	4.72	.073	.677
It promotes cross border investment	87	3	4.56	.076	.710
IFRS for SMEs improves management and investors (users) information for decision making	87	4	4.36	.101	.940
IFRS for SMEs provide transparency of companies through better financial reporting	87	3	4.20	.069	.644

Valid N (list wise)	87				

Source: Own survey result, 2019

As it was shown in the above table 4 the mean responses for all questions are above 4 which indicate that all respondents have a close perception to one another with a standard deviation of less than 1. Both the mean and standard deviation values reveal that research respondents agree with the idea of transiting to adoption and compliance with IFRS for SMEs that expected to improves the monitoring of firms by owner/manager and creditors, thus decreasing information asymmetry between insiders and outsiders. Moreover, respondents also share the benefit of IFRS for SMEs in decreasing of firms' interest rate. Above all, this idea was supported by an interview result with one private bank loan officer as "we are very reluctant to provide loan for SMEs because usually they don't have collateral and a standardized financial statement which serve as a base. However, there are cases that we gave a loan at a higher interest rate in order to compensate the high risks". This effect may be perceived in Ethiopia's SMEs because accounting figures resulting from the adoption and compliance with IFRS for SME are more relevant and reliable. This may increase the number of investors that invest in Ethiopia in different sector, increasing the number of sources of financing and reducing cost of debt. Therefore, these findings provide a clear answer to the second research question partly by indicating respondents' willingness to adopt and compliance with IFRS for SMEs due to the benefits thought to be gained from the subject if SMEs are able to equip with the appropriate knowledge and skills of IFRS for SME.

The benefits of transiting to Adoption and compliance with IFRS for SMEs linked with the monitoring and decision making of the financial statements. The enterprises and users receive high benefits if monitoring and decision making of the financial statement is done in effective and efficient way. If the aggregate benefits are more than the aggregate costs it means rules and regulations related to financial reporting are very soon adopted in Ethiopia.

Table 5. Descriptive statistics of First time application for IFRS to SMEs is costly

IFRS for SME is Costly Because	N	Range	Mean		Std. Deviation
	Statistic	Statistic	Statistic	Std. Error	Statistic
Information system had to be reorganized; the information required by IFRS for SME being not available in it's entirely.	87	3	4.33	.083	.773
The information required by IFRS for SME was available but it had to be re-processed in depth.	87	4	3.85	.112	1.040
Lack of clarity and knowledge of IFRS for SME standards required an in- depth analysis and interpretation of these standards.	87	4	4.15	.083	.771

Due to lack of knowledge, it required in-depth training of peoples involved in the adoption process	87	4	4.78	.086	.799
Fees charged by consultants involved in the adoption process are very high.	87	3	4.80	.069	.644
Fees charged by auditors in the post adoption process of IFRS for SME will be high	87	3	4.25	.085	.796
The overall costs associated with the adoption and compliance with IFRS for SME is significantly high.	87	4	3.32	.161	1.506
Valid N (list wise)	87				

Source: Own survey result, 2019

As shown in the above table 5 seven questions were forwarded to the respondents in order to obtain their perception about the reason that makes first time adoption and compliance with IFRS for SMEs is costly.

In relation to the assertion that the information required by IFRS for SME being not available in it's entirely makes IFRS for SMEs is costly for adopting and compliance with in Ethiopia, the respondents agreed with the mean value of 4.33 and standard deviation of 0.083. This result further shows that although information with regard to IFRS for SMEs were available at the international level, it further requires to be re-organized and re-processed according to an Ethiopian business context. This task may involve mobilization of both human and financial resources which makes adoption and compliance with IFRS for SMEs costly at the initial stage. This finding provides an answer to the first research question.

Besides, Except for the proposition that the information required by IFRS for SME was available but it had to be re-processed in depth and the overall costs associated with the adoption and compliance with IFRS for SME is significantly high, the survey respondents agreed with all the idea with the mean response of greater than 4 and standard deviation of less than 1. Furthermore, these arguments are more supported by an interview conducted with one external auditor: "Even though IFRS for SME adoption by firms let them to incur a significant cost at the initial stage, it will benefit them in the long run".

More interestingly, the afro stated finding were further supported by Fikeru Fantahuns' (2011) study done for publically listed Companies as adoption of IFRS is costly due to the complex and less understandable nature of IFRS and it is especially the case for developing and least developed countries. This complexity requires a double workload during the transition year for finance and accounting people and many others. This results in not only increased internal cost but also external monitoring costs such as high audit fees. A training program for staff across the company is also another costly investment and of course one of the most important factors that increase the adoption of IFRS. The foregoing discussions provide an answer to the second research question partly that SMEs lack knowledge to implement the standard.

However, for the idea that the information required by IFRS for SME was available but it had to be re-processed in depth and the overall costs associated with the adoption and compliance with IFRS for SME iS significantly high, the respondents' standard deviation value is greater than 1 which indicates the respondents' perception was not close to one another. Respondents also think about the availability of information at the international level but it may differ to Ethiopia's SMEs business environment. Thus, respondents may not support the preposition.

Generally, based on the above findings the researcher view IFRS for SME adoption and compliance as costly to firms primarily because of the greater effort, knowledge and information systems needed to implement the new accounting standards, and, the additional effort needed to manage the risk of potential material misstatements appearing in the IFRS for SMEs-generated financial statements.

Table 6. Descriptive statistics for switching to IFRS for SMEs

Switching to IFRS for SMEs	N	Range	Mean		Std. Deviation
	Statistic	Statistic	Statistic	Std. Error	Statistic
Has increased the time spent to process accounting information and financial statements.	87	4	4.13	.093	.872
Has decreased the time spent to process accounting information and financial statements.	87	4	1.92	.132	1.232
Has improved the relevance of users' forecasts and recommendations.	87	3	4.76	.071	.664
Has diminished the relevance of users' forecasts and recommendations	87	4	1.72	.134	1.246
Valid N (list wise)	87				

Source: Own survey result, 2019

In the above table 6, the researcher observe that respondents believe in switching to IFRS for SME causes decrease in the time for processing accounting information and diminished the relevance of users' forecasts and recommendations is not so relevant. This is because the mean responses and standard deviation for both questions are less than 3 and greater than 1 respectively. In general, almost all respondents think that the adoption of IFRS for SME impact the time spent to process accounting data or financial statements. On the other hand, respondents are convinced that financial statements under IFRS for SME have improved the relevance of their forecasts.

The above findings shows increased time requirements for processing accounting information which calls for expertise to design more sophisticated accounting software that are capable of processing accounting data as per IFRS for SME requirement with in very short period of time.

Table 7. Descriptive statistic for analyzing the first financial statements complying with IFRS for SME

Analyzing the first financial statements complying with IFRS for SME	N	Range	Mean		Std. Deviation
	Statistic	Statistic	Statistic	Std. Error	Statistic
Required a specific training because these standards differ significantly from those used previously.	87	4	4.40	.090	.842
Is complex because of accounting figures that they were not easily comparable with those disclosed in the previous statements	87	4	4.82	.084	.785
Valid N (list wise)	87				

Source: Own survey result, 2019

IASB (2009), states that accounting figures under IFRS for SMEs are more easily comparable. However, this increase in comparability was not detected if the previous financial statements were not in IFRS for SME. Indeed, the different accounting methods complicate analysts (auditors) job. From the above table 7, the researcher understands about majority of the respondents believe that this adoption and compliance requires specific training and the accounting data under IFRS for SME differ from the one in the previous statements, making more difficult the comparability between accounting figures.

The researcher can perceive that lack of special training in understanding IFRS for SMEs statements is a problem for analysts (auditors). Thus, in order to come across this problem it is better if special training section arranged for analysts by concerned stakeholders.

4. CONCLUSION

This study examined the results for small and medium-sized companies in transiting to adoption and compliance towards IFRS to SMEs in Ethiopia. This broad concept includes the results, benefits and costs of adopting and compliance with IFRS to SMEs.

According to the findings of this study, transiting to the adoption and compliance with IFRS for SMEs in Ethiopia results for more easily comparable accounting figure, more value relevant accounting figure, figures of higher quality and provide more additional information disclosure. Besides, the study reveals that financial statements prepared according to IFRS for SME is difficult to understand by most users of this accounting information due to their past accounting experience and low knowledge of the standard.

Furthermore, the study indicates the principal benefit of transiting to the adoption and compliance with IFRS for SMEs is: improves the monitoring of firms by owner/manager and creditors, thus decreasing information asymmetry between insiders and outsiders, and a decrease of firms' interest rate on money borrowed. This effect may be perceived in

Ethiopia's SMEs because accounting figures resulting from the adoption and compliance with IFRS for SME are more relevant and reliable. This may increase the number of investors that invest in Ethiopian tourism sector, increasing the number of sources of financing and reducing cost of debt.

Indeed, the study finding shows that first time IFRS for SMEs is costly for adopting and compliance with in Ethiopia. Because: the information required by IFRS for SME being not available in it's entirely, (information with regard to IFRS for SMEs were available at the international level, but it further requires to be re-organized and re-processed according to an Ethiopian business context), lack of knowledge which requires them to be engaged in a capacity building program, fees charged by consultants in the adoption process and auditors in the post adoption.

As it was clearly indicated in this study, SME respondents were aware of the recent activity of Ethiopian government towards the adoption of IFRS for publically listed companies in 2011 and of IFRS for SMEs by IASB in 2009. However, a respondent doesn't know the detailed requirements of both standards.

Besides, due to the complexities involved in the application of IFRS for SMEs, a practitioner accountants and auditors are required to have the accounting skills and legal knowledge as well. To do so, professional bodies in Ethiopia like Accounting and Auditing Board of Ethiopia and Government bodies especially Ethiopian Higher Education institutions have series homework in creating awareness among different stakeholders.

Efforts towards bringing the awareness of IFRS for SMEs among the users should be prioritized. This can be done by arranging seminars, training programs and conferences regarding the awareness of IFRS for SMEs, its uses and the cost-benefit advantage of IFRS for SMEs from the perspective of SMEs. Above all Ethiopian higher education's (universities and colleges) should take lions share in equipping skills and knowledge of IFRS to SMEs for their business students by re-structuring in their curriculum as a separate subject in the formal education.

Furthermore, What the SMEs in Ethiopia worries more about the IFRS for SMEs are the complexities and costs associated with the adoption of IFRS for SMEs. It should be brought into the knowledge of SMEs that neither IFRS for SMEs is a complex set of accounting standards nor its costs would be so high that companies would not be able to recover from it. Initially, it would be both complicated and would bear some cost of adoption but later on companies could use it in a normal way just like they use their current reporting standards, but with more enhanced characteristics in terms of quality and comparability.

Finally, SMEs financial information users should have courage at any time to know more and implement the updated information of IFRS for SMEs.

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ACRONYMS

IASB = International Accounting Standard Board

IASC = International Accounting Standard Committee

IFRS = International Financial Reporting Standard

SME = Small and Medium Sized Enterprise

IFRS- SMEs = International Financial Reporting Standard for Small and Medium sized Enterprise

LSCA = London Society of Chartered Accountants

US GAAP = United States Generally Accepted Accounting Principles

SAICA = South Africa Institute of Chartered Accountants

IASCF = International Accounting Standards Committee Foundation

MSEs = Micro and Small Enterprises

OECD = Organization for Economic Co-operation and Development

CPy = Company

APPENDIX

Frequency Table

position in a firm

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	manager	14	16.1	16.1	16.1
	Accountant	73	83.9	83.9	100.0
	Total	87	100.0	100.0	

Source: Own survey result, 2019

Gender

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Female	39	44.8	44.8	44.8
	Male	48	55.2	55.2	100.0
	Total	87	100.0	100.0	

Source: Own survey result, 2019

Educational Level

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Certificate	1	1.1	1.1	1.1
	Diploma	29	33.3	33.3	34.5
	First Degree	57	65.5	65.5	100.0
	Total	87	100.0	100.0	

Source: Own survey result, 2019