

1
2 **Transiting to International Financial Reporting**
3 **Standards for Small and Medium Sized**
4 **Enterprises in Ethiopia: Benefits and Costs**
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10 **ABSTRACT**

11
12 In every nation in the world small and medium enterprises (SME) have a crucial role in the
13 Socio-economic development. Thus Over a decade's they are increasingly attracting
14 different stakeholder's attention. It is in this regard the International Accounting standard
15 Board (IASB) issued IFRS for SMEs in July 09, 2009. This study examined the Benefits and
16 Costs of transiting to International financial reporting standard for Small and Medium sized
17 Enterprises (IFRS for SMEs) in Ethiopia. So as to achieve this objective the researcher used
18 mixed research approach. Semi-structured interview and questionnaires were used as an
19 important tool for gathering the necessary data from tour operators as target group. From
20 320 SMEs given population size, 32 SMEs firms selected using systematic sampling
21 technique and 93 is the sample size of respondents chosen from 32 SME firms based on
22 Judgmental sampling technique.

23 It was found in this study the benefit of transition towards IFRS for SME is expected to
24 decreases the information asymmetry between insiders and outsiders users of accounting
25 information. Moreover its long run effect helps to achieve of the theoretical concept of the
26 primary & secondary qualitative characteristics of accounting information (Relevance &
27 Reliability Vs Comparability & understandability). Above all, the aggregate effects may
28 increase the number of cross boarder investments, increasing the alternative of sources of
29 financing and reducing cost of debt.

30 Furthermore, the finding shows transition towards IFRS for SME is costly to firms primarily
31 because of the superior exertion of efforts, understanding and information systems needed
32 and during post transition period additional effort needed to manage the risk of potential
33 material misstatements appearing in the IFRS for SMEs-generated financial statements.
34 Lack of knowledge (understanding) requires them to be engaged in a capacity building
35 program with the coordination of Auditing and Accounting Board of Ethiopian &
36 academicians.

37 *Key words: IASB, IFRS, IFRS for SMEs*

38
39 **1. INTRODUCTION**

40
41 The foreword of IFRS for SME is a universal program to unite and make more efficient
42 financial reporting for small businesses, will assist the further growth of the SME sector
43 globally. According to [1], reports that causes of failure of SMEs have received little attention
44 compared to those of growth and expansion. SMEs need money to invest, and the micro
45 finance institutions aimed at smaller companies are failing to fill the gap left by banks
46 reluctance to lend due to incomparability and differential financial reporting. If capital
47 providers (owners and lenders) do not understand or have confidence in the financial

48 information they receive, an SME's access to capital funds, and ability to evaluate the cost of
49 capital will suffer. The IFRS for SMEs, issued by the IASB in July 2009, responds to these
50 concerns.

51 A study done by [2] describes SMEs as an important element for unwavering and equitable
52 growth in any national economy. It further states that Ethiopia takes the development and
53 expansion of SME's as the main way to solve many of the social problems. Moreover, [3]
54 argues that SMEs are particularly important in supporting economic growth and livelihoods in
55 developing countries.

56 Charming the vital role of SMEs in the socio-economic development of Ethiopia, SMEs are
57 more and more attracting different stakeholder's attention. For instance Policy makers,
58 investors, financial institutions, regulatory bodies and other are progressively becoming
59 interested in the financial presentation of SMEs. The above attention has placed a demand
60 on SMEs to show more accountability for the stewardship of resources allocated to SMEs;
61 that is, a call for standardized financial reporting by SMEs [3].

62 As [4] indicates in their study the benefits that possibly will accrue to a firm which prepares
63 comprehensive, transparent and comparable financial statements are gains in competitive
64 advantages in raising funds at lower interest rates, securing new suppliers or customers or
65 arriving at an acquisition or cooperative agreement. On the other hand, applying
66 comprehensive financial reporting standards comes with a cost. Businesses need to employ
67 and train more qualified personnel and implement new processes and controls. In relation to
68 SMEs, it is currently being argued that compliance with the full standards as that of large
69 public companies will be onerous, complex and costly [5].

70 In the most developing nations it is difficult to observe the SMEs practices of financial
71 reporting for users of accounting information with the exception of profit and loss statements
72 for yearly taxation returns purpose. The other types of financial statements like Balance
73 sheet, owner's equity statement, cash flow statements and management accounting reports
74 like Production report, Variance reports are infrequently prepared. As cited by [2] from [6],
75 Without adequate, effective and timely financial reports and analysis, the SMEs are losing
76 out on the benefits from those practices such as improved monitoring of financial health and
77 progress, improved ability to anticipate fortunes or failures, better assessments of financial
78 risks and greater ease in financial planning and control. Most importantly, in the context of
79 SMEs requiring extra capital to grow and regular financial reports can provide indications on
80 their ability to produce steady cash flows and to service debt. It has been established that
81 the use of appropriate financial reporting and management accounting practices could be
82 one of the determinants of company survival particularly SMEs.

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

86 SMEs and publically listed company in most countries including Ethiopia are subject to the
87 differential financial reporting regulations. In Ethiopia, there are no requirements for SMEs to
88 report a general purpose financial statement before the issuance of proclamation number
89 847/2012. As a result, SME reports financial information differently. Datuk Johan, a
90 proponent of single financial reporting regime, argues that there is the need to produce a
91 single set of high quality of global Financial Reporting standards aiming at eliminating the
92 incomparability factor while escalating the clearness of financial statements and heightening
93 disclosure [5].

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

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

102 The main reasons for the researcher to undertake this study particularly on tourism industry
103 is that Tourism is a large global industry that is expanding rapidly in developing countries. It
104 comprises 11% of world GNP if related activities 'tourism and general travel' are included.
105 Tourism is also growing faster than global output, so its share of the global economy is
106 increasing. Critically, from a development perspective, the market share of tourism in
107 developing countries is also increasing significantly. According to
108 <http://www.tigraionline.com>, the first long-term vision of Federal Democratic Republic
109 government of Ethiopia is to make Ethiopia, one of the top ten tourist destinations in Africa
110 by the year 2020, with an emphasis on maximizing the poverty-reducing impacts of tourism.
111 The second part of the Government's vision for tourism is that it maximizes poverty-reducing
112 impacts. To this end, IFRS to SMEs plays a significant role in the tourism industry to go
113 global and attract investors to take part in Ethiopia.

114 It is on this basis that this study has investigated the Benefits and costs of transiting to IFRS
115 for SMEs in Ethiopia.

116 Thus, this study answers the following research questions:

117 Captivating all the above reflection, would IFRS for SME specifically customized to the
118 special needs of SME results benefit to Ethiopian SMEs?

119 Would IFRS for SMEs costs Ethiopian SMEs?

120 Are SMEs willing to transit in to IFRSs for SMEs?

121 Are SMEs having the fitting level of understanding so as to keep in touch to IFRS for
122 SMEs?

123 **1.2. Literature review**

124 **1.2.1. Definitions of a small- and medium-sized entity**

126 The study done by [4] argued that there is no commonly agreed definition of an SME across
127 all scholastic disciplines. This is so because no single definition can capture all the
128 dimensions of a small and medium-sized entity, nor can be expected to reflect the
129 differences between entities in different industrial sectors or countries at different levels of
130 development. Most definitions are however based on size and they use fundamental bases
131 such as number of employees, financial position or annual turnover ([7]; [8]; [9]. However,
132 none of these bases are pegged at the same level across disciplines and national
133 boundaries [10].

134 In almost all nations in the world, those from the leading economies to the least, over 99% of
135 companies have fewer than 50 employees [11] quoted in [12]. In Ethiopia context as , [13]
136 defines a small enterprise as a business that employs 6 - 30 people and total asset of birr
137 100,001 – 1,500,000 for manufacturing, construction and mining sector and total asset of birr

138 50,001 -500,000 for service sector though working as a registered entity. Furthermore [14],
139 defines an SME as an entity that does not have public accountability and thus publishes
140 general purpose financial statements for external users.

141 So, one can observe from the afro stated definitions there is no commonly agreed definition
142 given to SMEs throughout the world's nations. Majority of the jurisdiction define it by
143 contextualizing their own socio-economic factors. Indeed, for this study purpose the
144 researchers consider SME definitions given by Government of Ethiopia, the federal micro
145 and small enterprise development agency as an entity that employs less than 100
146 employees, having total asset of less than birr 1,000,000 in the service sector only and
147 holding assets only for the owner managers excluding micro enterprise that have less than 5
148 employees and total asset of less than birr 50,000 in the service sector.

149 As quoted by [2] from the study of [15], these study was conducted in Australia and
150 investigates the types of financial reports produced by SMEs, the frequency of their
151 preparation and their perceived usefulness for management purposes. The findings indicate
152 that financial reports for SMEs are prepared predominantly by external accountants at
153 annual intervals, and they normally comprise just the balance sheet and the profit and loss
154 statement. The content and presentation of financial reports appear to be greatly influenced
155 by taxation and corporate statutory reporting requirements.

156 According to [16], Other Studies were conducted in various countries to examine the
157 usefulness of accounting reports within the context of SMEs, for examples [17] & [18] in
158 Australia, [6] and [19] in the UK; and [20] on SME Manufacturing Zimbabweans companies.
159 These studies found evidence that financial reports are not considered particularly useful for
160 decision making purposes by SMEs owner-managers. These studies also found that there is
161 limited usage of financial and management accounting reports by SMEs. In addition, it has
162 been argued that accounting reports produced by SME's are usually limited to a few types of
163 simple reports comprising mainly profit and loss account and balance sheet. The studies
164 using a postal questionnaire to small private limited companies in the UK, found that 82 per
165 cent of the companies use monthly or quarterly management accounts, 87 per cent of the
166 companies prepare profit and loss statement and 78 per cent prepare balance sheet [18].

167 If we carefully observe the legal framework of every nation, it requires all businesses to
168 prepare financial statements and be audited. In Ethiopia, according to [21], article 48(1) all
169 persons who are engaged in a business or trade as defined in Article 2(5), are required to
170 keep proper books of accounts and primarily for tax purpose.

171 As per the study done by [22] reports that small firms use professional accounting firms for
172 preparation of annual reports and for other accounting needs. [23] Argue that the
173 professional accountants should develop their services to also include graphic presentations
174 and comments and interpretation of the amounts in financial statements.

175 **1.2.2 Characteristics and Operations of SMEs**

176 According to [24], small businesses in general do have many characteristics that set them
177 apart from larger ventures. These include personalized management, small market share,
178 loyal but limited customer base, family-ownership and difficulty in obtaining finance.

179 In terms of financial reporting, research focusing on internal preparation seems to suggest
180 that financial awareness amongst owner-managers of the smallest entities is quite low and
181 that there is inadequate record-keeping [25]. Inadequate financial record keeping, and the

182 consequent failure to make good use of available financial information, is characteristic of
183 microenterprises and many small businesses in developing economies [26].

184 As [27] argue that there are three central aspects in which small firms are different to large
185 firms – uncertainty, innovation and evolution. Their claim is well supported by literature.
186 There is seen to be greater external uncertainty of the environment in which the small firm
187 operates, together with the greater internal consistency of its motivations and actions. Small
188 firms are also more likely to introduce fundamentally new innovations than larger firms, a
189 feature often attributed to small firms having less commitment to existing practices and
190 products.

191 In Ethiopia, SMEs are predominantly owner-managed and sole proprietorship is the norm.
192 They provide the greatest avenue for the less educated entrepreneurs at the lower MSE's
193 end. It is also exciting to memo that small businesses make better use of scarce resources
194 than large businesses.

195 **1.2.3. International Harmonization of the Financial Reporting**

196 As [4] indicates in their study, Financial statements prepared according to globally accepted
197 standards are easier to analyze and understand for foreign stakeholders than those based
198 on the FAS. Investors, of financial resources and knowledge, can compare the financial
199 situation of the company with other equivalent companies worldwide. Therefore, the
200 harmonization of the financial reporting and IFRS has an effect on the SME. Research
201 addressing the harmonization of international accounting standards is extensive. Generally,
202 in the international accounting literature the voluntary adoption of high-quality accounting
203 standards -IFRS included- is found to have a positive impact on accounting quality.

204 Business enterprises operating in the 21 century faces dynamism of business environments
205 in terms of political, social and legal requirements, rapid global economic integration and
206 increased cross border capital flows. To be able to convince the overseas investors of the
207 business and its ability to create cash flow and profit, the investors must understand the
208 financial information provided by the company.

209 According to [28] companies may even face a competitive disadvantage from an inefficient
210 financial reporting model. Especially, firms competing in global markets face growing
211 pressure to apply globally accepted financial reporting standards. International reporting
212 standards may work as a useful tool in creating valuable accounting information for financing
213 needs.

214 The harmonization of the financial reporting enables a comparison of financial statements
215 and financial situation of companies operating in different countries. For the first time,
216 transparency and comparability exists for multinational companies and their stakeholders
217 enabling the expansion of the global business [29]. The foregoing enables international
218 investors to read financial statements and compare investment opportunities globally.
219 Creditors may use the information to make better lending decision [30].

220 **1.2.4. International Financial Reporting Standard (IFRS)**

221 The driver behind the global IFRS adoption has been the goal at achieving the following [29].

222 I. "Consistent global financial reporting.

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

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

227 According to [28], to receive the above mentioned universally acceptable set of accounting
228 standards, accounting professionals from nine countries (9) founded and formed the
229 International Accounting Standards Committee (IASC) 1973. The author further states that
230 the International Accounting Standards Board (IASB) was founded in 2001 and its purpose is
231 to continue the work of the IASC. The IASB is an independent standard setting body of the
232 IASC based in London and it develops the International Financial Reporting Standards
233 (IFRS). A professionally and geographically diverse body of Trustees oversees the activities
234 of the IASB and appoints the board. The external advisory council (SAC) as well as the
235 interpretations committee (IFRIC) supports the IASB. These two bodies guide the IASB
236 where divergence in practice occurs.

237 [31] Studied how the convergence in 17 European countries was directly affected by the
238 EU’s decision. Their study reveals that concerns about tax linkages and complicated
239 standards lead to non-listed companies to use other than the IFRS basis of accounting for
240 their annual financial statements.

241 According to the [32], over 100 countries have either required or permitted the use of the
242 IFRS since 2001. In these countries, the benefits of globally accepted financial reporting
243 standards seem to have topped the costs [30]. Still, it is worth mentioning that some of these
244 countries require companies to report their financial statements according to the IFRS
245 because of the lacking supporting accounting standard setting in the country and the
246 efficiencies gained by outsourcing the function. This is the case for many of the developing
247 countries. The European Union wanted to reduce the information costs and therefore
248 decided to move to common accounting standards. In other countries, the global dimension
249 supported the decision [32].

250 The study by [33] conclude that firms adopt international standards (e.g. IAS) in order to
251 expand their sales to foreign markets, to attain more customers and to reduce political costs
252 when expanding activities into foreign markets. These companies see the benefits of
253 applying the IFRS exceeding the costs of implementation and in-usage. In some European
254 countries the linkage between financial reporting and tax accounting has influenced the
255 willingness of non-listed companies to converge the national GAAP based financial
256 statements with the IFRS based financial statements [31]. The same researcher would
257 assume that in Finland the general attitude of non-listed companies toward financial
258 reporting is affected by the same way. The Finnish FAS are based on common economic
259 interests with special interest in aspects of executing the taxation. The connection between
260 the IFRS and the taxation is rather loose.

261 Evidently, benefits of IFRS implementations have been found in the literature. Still, [31]
262 discovered that several European countries had concerns for the IFRS applicability to SMEs.

263 **1.2.5. The Benefits of IFRS for SME**

264 The expected benefits of IFRS for SME are international acceptance of financial reports
265 created using IFRS or IFRS for SME; international comparability of SME financial reports;
266 and understanding by users of the reports world-wide [50]. Also, there is expected to be a
267 cost saving on the standard setting process for adopting countries [32].

268 Some countries adopted IFRS for SME as soon as it was released. One example is South
269 Africa. The reason for its adoption was the legislative requirement that all limited liability
270 companies prepare financial accounts using IFRS. Prior to the release of IFRS for SME all
271 such entities, regardless of size, were required to prepare their financial accounts fully
272 compliant with IFRS. This was considered too burdensome, and as such, the government
273 now allows SMEs to report under the new standard [34].

274 [35] Point out that many countries' SMEs would have to adopt full IFRS, due to World Bank
275 demands. Where there is no DIFFREP system in a country IFRS for SME may be a cost
276 effective alternative to full IFRS. The study showed that SMEs who reports under IFRS for
277 SME found it easier to get loans from banks. They also found it helpful for audit purposes.
278 The study also revealed that IFRS reporting was aiding Bahrain SMEs that reported under
279 full IFRS to better control financial management. The introduction of IFRS for SME to these
280 companies may reduce their compliance costs, but at the same time maintain the relative
281 ease of obtaining bank finance, due to international recognition of the IFRS for SME
282 standard and the standard's perceived value.

283 Other countries have not been so quick to adopt the standard, including Ethiopia. These
284 countries' standard setters are treading more cautiously in their consideration of the
285 appropriateness of the new standard and its adoption. The ASRB states in its discussion
286 document that "the differing measurement and extensive disclosure requirements of IFRS for
287 SME means that its suitability for use as a differential version of IFRS is still being assessed
288 in Australia and NZ" [36]. This study hopes to inform standard setters (other concerned
289 body) in Ethiopia as to the potential effects on financial reporting that IFRS for SME may
290 have for Ethiopia.

291 **1.3. Scope of the study**

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

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

300 **1.4. Limitation of the study**

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

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

310 **2. RESEARCH METHODOLOGY**

311 This section gives us brief clues about the research design, Data source, Methods of data
312 collection and the sampling techniques used to determine the sample size for this study.

313 **2.1. Preconceptions**

314 The researchers of this study was determine to adopt the important terminology used by [37]
315 Study of research methodology. For example the above heading of “Preconception”, it is an
316 opinion formed in advance more importantly used when little or no information or
317 experiences yet about the study topic. So that IFRS for SME is a new standard to be
318 transited towards by in Ethiopian SMEs in the mean time. Thus, this preconception helps the
319 researcher in choosing the suitable methods and tools for data collection and analysis. It
320 was during the course of Advanced Financial Accounting and auditing that the researcher’s
321 interest towards IFRS was developed. Moreover, during the course delivery & “training for
322 trainers” was delivered by Accountants and Auditing Board of Ethiopia (AABE), researcher
323 was got brief highlights regarding a new set of standards. It was since then the researcher
324 started to look into these standards and to read about it in some articles published and
325 available. Further concern was born when the researcher could not discover any earlier
326 studies done specifically on the study topic in Ethiopia.

327 **2.2. Research Design**

328 According to [38] as cited by [37], there are five different types of research designs;
329 experimental, cross-sectional, longitudinal, case study and comparative designs. In this
330 study the researcher in use in the cross-sectional design. It is also referred as social survey
331 design. “ Cross-sectional design involves the collection of data on more than one case and
332 at a single point in time in order to collect a body of quantitative or quantifiable data in
333 connection with two or more variables, which are then examined to detect patterns of
334 association” [ibid]. In this design, the researcher employed semi-structured interviews and
335 questionnaires for tour operators of SMEs in Ethiopia.

336 According to the study of [39], there are three approaches that are used in conducting a
337 given research. These are: qualitative, quantitative and mixed approach. In this study, the
338 researcher used mixed approach. The rationale for using this method is to combine the
339 numerical values from quantitative research and the detailed of qualitative research to offset
340 the weaknesses inherent within one method with the strength of the other method.

341 The research format for this study was descriptive statistics. This is because it blends the
342 characteristics of both quantitative and qualitative approach. The quantitative nature of the
343 study attempted to obtain statistics regarding the benefits and costs of transiting to the
344 adoption of IFRS to SMEs in Ethiopia and quantify them to come up with conclusions. This
345 was most excellently executed using the descriptive format of research. Descriptive research
346 provides information about the population being studied [40].

347 **2.3. Data source**

348 The data sources from where the researcher gathers relevant information can be primary
349 and secondary data sources. Primary data sources where original data is collected for the
350 research problems identified in the study. It includes observations, experiments, surveys like
351 questionnaires, and interviews. Secondary data sources are scholarly works contributed by
352 others towards the study. It may include books, journals, articles and web-based data about
353 the specific subject [41].

354 For this study the primary data was collected by face-to-face interviews and structured
355 questionnaires. The researcher used semi-structured interviews in order to collect data from
356 professionals and creditors. Semi-structured interviews provide the researcher with the ease
357 of producing a list of questions on specific topics, which are formulated into the interview
358 guide [38]. Open-ended questions were used in the semi-structured interview guide, in order
359 to provide much more room to the respondents to express their views and reasons [ibid]. In
360 addition, a structured questionnaire was also used means of collecting relevant data. The
361 questionnaire was organized based on IFRS for SMEs issued by IASB, in 2009 and other
362 related literatures. The questionnaire were designed as dichotomous (i.e. yes–no) and Likert
363 scales. All interviews were taken place by selecting favorable environment to both the
364 interviewee and interviewer. From ethics point of views, respondents were provided with all
365 kind confidentiality concerns.

366 **2.4. Sample size and sampling technique**

367 In this study the populations of interest was the SMEs in the tourism sector of Ethiopia.
368 There are currently 320 SMEs in the tour operator sector [42].

369 The study applied the probability sampling method for tour operators and non probability for
370 other stakeholders. Sample of 32 was selected from the population of SMEs in tourism
371 sector of tour operator in Ethiopia by employing systematic sampling technique in which
372 every 10th of alphabetically ordered population were selected as a sample firm.
373 Respondents from audit firms and financial institutions were selected based on Judgmental
374 sampling. A total sample size of 93 respondents was selected as sample size of the study.
375 Finally, those gathered data's was analyzed by descriptive techniques using tables &
376 percentages.

377 **3. DATA ANALYSIS AND DISCUSSION**

378 This section of the study is concerned with data analysis and discussion that was gathered
379 by questionnaires and semi-structured interview to disclose the benefits and costs of
380 transiting to IFRS for SMEs in Ethiopia. This study tries to address the research objectives,
381 provide a reasonable answer to the research question. The results obtained from the survey
382 are analyzed through descriptive statistics.

383 **3.1. Descriptive Analysis**

384 Descriptive statistics describes the main features of collection of data quantitatively. As it
385 was clearly stated in the previous chapter, this study uses Descriptive statistics for
386 summarizing and describing data's gathered from respondents regarding the Benefits and
387 Costs of transiting to IFRS for SMEs. A total of 93 questionnaires were distributed for
388 different tour operators in the tourism industry of SME & professionals located in Addis
389 Ababa, out of which 87 were completed and retrieved, representing 93.55% retrieval
390 (response) rate.

391 **3.2. Adoption of IFRS for publically listed company in Ethiopia**

392 Globalization of accounting standards under the guide of IFRS is becoming trend among
393 countries because of the advantages it provides for countries and multinational companies.
394 According to the proponents of accounting harmonization, worldwide comparability of
395 financial statement is necessary for the globalization of capital markets. It would be easy for
396 investors to evaluate potential investments in foreign securities and it would also simplify
397 multinational companies for evaluation of possible foreign merger and acquisition. IFRS
398 would reduce the cost of preparing worldwide consolidated financial statements.

399 Multinational companies would also find it easier to transfer accounting staff to other
400 countries [As cited in 43].

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

406 Based on the afro-stated facts sample respondents of SME managers/accountants were
407 asked to answer "yes" or "no" as to whether they were aware of the adoption of IFRS by
408 publically listed company in 2011 as follows;
409

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	

410 Source: Own survey result, 2019

411
412 From the above table the researcher observes 73.6% of study respondents were conscious
413 of the adoption while the remaining 26.4% had no information about the adoption. This
414 suggests that, majority of the respondents are following information about the accountancy
415 profession. On the same manner sample respondents of SME managers/accountants were
416 asked to answer "yes" or "no" as to whether they were aware of the release of the IFRS for
417 SMEs by IASB in 2009.
418

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

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	65	74.7	74.7	74.7
No	22	25.3	25.3	100.0
Total	87	100.0	100.0	

419 Source: Own survey result, 2019

420
421 From the above table 2, one can observe that the response was nearly same as that to the
422 previous question response.

423 Most of SMEs sampled respondents seemed to be shoulder to shoulder with current
424 developments with respect to financial reporting standards that affect them. Probably this is

425 due to their educational level which indicates that about 65.5% of the sampled respondents
 426 are first Degree holder, 33.3% of them are Diploma holders and the remaining percents have
 427 certificate (see in the Appendixes section).
 428

429 **Table 3. Descriptive statistics for Results of transiting to Adoption and compliance**
 430 **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				

431 Source: Own survey result, 2019

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

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

446 The above table 3 results shows that respondents of the study were clearly convinced about
 447 IFRS for SME adoption and compliance with it which provide comparable accounting figure,
 448 value relevant accounting figure and more additional information disclosure. However, they
 449 also believe that the financial statements prepared accordingly are difficult to understand by

450 most users. This problem could be minimized through continuing training program and
 451 upgrading users' educational level as it was discussed in the next section. Generally, from
 452 the above discussions there are indications for adoption and compliance with IFRS by SMEs
 453 is important and appropriate in Ethiopia.
 454

455 **Table 4. Descriptive statistics of Benefits of IFRS for SMEs to different stakeholders**
 456

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				

457 Source: Own survey result, 2019

458 As it was shown in the above table 4 the mean responses for all questions are above 4
 459 which indicate that all respondents have a close perception to one another with a standard
 460 deviation of less than 1. Both the mean and standard deviation values reveal that research
 461 respondents have the same opinion with the idea of transiting to IFRS for SMEs expected to
 462 improve the monitoring of firms by owner/manager and creditors, thus decreasing
 463 information asymmetry between insiders and outsiders. Moreover, respondents also share
 464 the benefit of IFRS for SMEs in decreasing of firms' interest rate. Above all, this idea was
 465 supported by an interview result with one private bank loan officer as "we are very reluctant
 466 to provide loan for SMEs because usually they don't have collateral and a standardized
 467 financial statement which serve as a base. However, there are cases that we gave a loan at
 468 a higher interest rate in order to compensate the high risks". This effect may be perceived in
 469 Ethiopia's SMEs because accounting figures resulting from the transition to IFRS for SME

470 are more relevant and reliable. This may increase the number of investors that invest in
 471 Ethiopia in different sector, increasing the number of sources of financing and reducing cost
 472 of debt. Therefore, these findings provide a clear answer to the second research question
 473 partly by indicating respondents' willingness to adopt and compliance with IFRS for SMEs
 474 due to the benefits thought to be gained from the subject if SMEs are able to equip with the
 475 appropriate knowledge and skills of IFRS for SME.

476 The benefits of transiting to IFRS for SMEs associated with the monitoring and financial
 477 decision making. The SMEs and users accounting information receive high benefits if
 478 monitoring and decision making is done in effective and efficient way. If the collective
 479 benefits out weights its costs, it means the newly enacted IFRS for SMEs are very soon
 480 adopted in Ethiopia.

481
 482
 483

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 transition IFRS for SME will be high	87	3	4.25	.085	.796
The overall costs associated with the transition and compliance with IFRS for SME is significantly high.	87	4	3.32	.161	1.506
Valid N (list wise)	87				

484 Source: Own survey result, 2019
 485

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

489 In relation to the assertion that the information required by IFRS for SME being not available
490 in it's wholly makes IFRS for SMEs is costly for adopting and compliance with in Ethiopia,
491 the respondents agreed with the mean value of 4.33 and standard deviation of 0.083. This
492 result further shows that although information about IFRS for SMEs was available at the
493 global level, it further requires be re-organizing and re-processing according to an Ethiopian
494 business context. This task may involve mobilization of both human and financial resources
495 which makes adoption and compliance with IFRS for SMEs costly at the initial stage. This
496 finding provides an answer to the first research question.

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

504 More interestingly, the afro stated finding were further supported by [44] study done for
505 publically listed Companies as adoption of IFRS is costly due to the complex and less
506 understandable nature of IFRS and it is especially the case for developing and least
507 developed countries. This complexity requires a double workload during the transition year
508 for finance and accounting people and many others. This results in not only increased
509 internal cost but also external monitoring costs such as high audit fees. A training program
510 for staff across the company is also another costly investment and of course one of the most
511 important factors that foster the transition process towards IFRS for SME. The foregoing
512 discussions provide an answer to the second research question partly that SMEs lack
513 knowledge to implement the standard.

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

521 Generally, based on the above findings the researcher view IFRS for SME transition and
522 compliance as costly to firms primarily because of the greater effort, knowledge and
523 information systems needed to implement the new accounting standards, and, the additional
524 effort needed to handle the risk of potential material misstatements resulting from IFRS for
525 SMEs generated financial reports.

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527
528

Table 6. Descriptive statistics for transiting to IFRS for SMEs

	N	Range	Mean	Std. Deviation
Transiting to IFRS for SMEs				

	Statistic	Statistic	Statistic	Std. Error	Statistic
Has increased the time spent to prepare accounting information and financial reports.	87	4	4.13	.093	.872
Has reduced the time required to process accounting information and financial reports.	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				

529 Source: Own survey result, 2019

530 In the above table 6, the researcher observe that respondents believe in transiting to IFRS
531 for SME causes decrease in the time for processing accounting information and diminished
532 the relevance of users' forecasts and recommendations is not so relevant. This is because
533 the mean responses and standard deviation for both questions are less than 3 and greater
534 than 1 respectively. In general, almost all respondents believe that the transition of IFRS for
535 SME impact the time spent to process accounting data in order to issue financial reports to
536 users. Besides, respondents are convinced that financial statements under IFRS for SME
537 have improved the relevance of their forecasts.

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

542
543 **Table 7. Descriptive statistic for analyzing IFRS for SME based financial statements**
544

Analyzing IFRS for SME based financial statements	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

545 Source: Own survey result, 2019

546

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

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

557

558 **4. CONCLUSIONS & RECOMMENDATION**

559

560 This study assessed the benefits and costs of transiting to IFRS to SMEs in Ethiopia.
561 According to the this study findings, transiting to IFRS for SMEs in Ethiopia results for more
562 easily comparable accounting figure, more value relevant accounting figure, figures of higher
563 quality and provide more additional information disclosure. Besides, the study reveals that
564 financial statements prepared according to IFRS for SME is difficult to understand by most
565 users of this accounting information due to their past accounting experience and low
566 knowledge of the standard.

567 Furthermore, the study indicates the principal benefit of transiting to this new standard is:
568 improves the monitoring of firms by owner/manager and creditors, thus decreasing
569 information asymmetry between insiders and outsiders, and a decrease of firms' interest rate
570 on money borrowed. This effect may be perceived in Ethiopia's SMEs because accounting
571 figures resulting from the adoption and compliance with IFRS for SME are more relevant and
572 reliable. This may increase the number of investors that invest in Ethiopian tourism sector,
573 increasing the number of sources of financing and reducing cost of debt.

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

581 As it was clearly indicated in this study, SME respondents were aware of the recent activity
582 of publically owned company's like Banks and Insurance firms towards the adoption of full
583 IFRS and in the mean time to transit towards IFRS for SMEs issued by IASB in 2009.
584 However, a respondent doesn't be familiar with the detailed requirements of both standards.

585 Moreover, because of the respondents perception about the complexities involved in the
586 application of IFRS for SMEs, a practitioner professionals who will support the transition
587 process like authorized accountants and auditors are required to be equipped with the IFRS
588 for SME technical skill. To do so, professional bodies in Ethiopia like Accounting and
589 Auditing Board of Ethiopia and Government bodies especially Ethiopian Higher Education
590 institutions have series homework in creating awareness among different stakeholders.

591 The awareness creation campaign needs to be created by stakeholders in different plat
592 forms (short and long term plans). This mission can be achieved by arranging seminars,
593 training programs and conferences about broad concepts of IFRS for SMEs, its long term
594 benefits and its short term costs of IFRS for SMEs from the viewpoint of SMEs. Above all
595 Ethiopian higher education's (universities and colleges) should take lions share in equipping
596 skills and knowledge of IFRS to SMEs for their business students by re-structuring in their
597 curriculum as a separate subject in the formal education.

598 Finally, SMEs financial information users are should have audacity all the time to know more
599 and implement the updated information as "Annual improvement cycle" of IFRS for SMEs by
600 IASB.

601

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603

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702 **ACRONYMS**

703 IASB = International Accounting Standard Board

704 IASC = International Accounting Standard Committee

705 IFRS = International Financial Reporting Standard

706 SME = Small and Medium Sized Enterprise

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

708 Enterprise

709 LSCA = London Society of Chartered Accountants

710 US GAAP = United States Generally Accepted Accounting Principles

711 SAICA = South Africa Institute of Chartered Accountants

712 IASCF = International Accounting Standards Committee Foundation

713 MSEs = Micro and Small Enterprises

714 OECD = Organization for Economic Co-operation and Development

715 CPy = Company

716 **APPENDIX**

Frequency Table

position in a firm

	Frequency	Percent	Valid Percent	Cumulative Percent
manager	14	16.1	16.1	16.1
Valid 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
Female	39	44.8	44.8	44.8
Valid 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
Certificate	1	1.1	1.1	1.1
Valid 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