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

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Authors' contributions

This work was carried out in collaboration between both authors. Both authors have participated in designing and conducting the study as well as preparing the report. Both authors read and approved the final manuscript.

Original Research Article

ABSTRACT

In every nation in the world small and medium enterprises (SME) have a crucial role in the Socio-economic development. Thus Over a decade's they are increasingly attracting different stakeholder's attention. It is in this regard the International Accounting standard Board (IASB) issued IFRS for SMEs in July 09, 2009. This study examined the Benefits and Costs of transiting to International financial reporting standard for Small and Medium sized Enterprises (IFRS for SMEs) in Ethiopia. So as to achieve 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, 32 SMEs firms selected using systematic sampling technique and 93 is the sample size of respondents chosen from 32 SME firms based on Judgmental sampling technique.

It was found in this study the benefit of transition towards IFRS for SME is expected to decreases the information asymmetry between insiders and outsiders users of accounting information. Moreover its long run effect helps to achieve of the theoretical concept of the primary & secondary qualitative characteristics of accounting information (Relevance & Reliability Vs Comparability &

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understandability). Above all, the aggregate effects may increase the number of cross boarder investments, increasing the alternative of sources of financing and reducing cost of debt.

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

Keywords: IASB; IFRS; IFRS for SMEs.

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*

1. INTRODUCTION

The foreword of IFRS for SME is a universal program to unite and make more efficient financial reporting for small businesses, will assist the further growth of the SME sector globally. According to [1], 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.

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

Charming the vital role of SMEs in the socio-economic development of Ethiopia, SMEs are more and more attracting different stakeholder's attention. For instance Policy makers, investors, financial institutions, regulatory bodies and other are progressively becoming interested in the financial presentation 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 [3].

As [4] indicates in their study the benefits that possibly will 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 [5].

In the most developing nations it is difficult to observe the SMEs practices of financial reporting for users of accounting information with the exception of profit and loss statements for yearly taxation returns purpose. The other types of financial statements like Balance sheet, owner's equity statement, cash flow statements and management accounting reports like Production report, Variance reports are infrequently prepared. As cited by [2] from [6], 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.

The afro stated problems are also true in 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 escalating the clearness of financial statements and heightening disclosure [5].

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.

Although there are several SMEs spread in 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. According to http://www.tigraionline.com, the first long-term vision of Federal Democratic Republic 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. 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 Benefits and costs of transiting to IFRS for SMEs in Ethiopia.

Thus, this study answers the following research questions:

>Captivating all the above reflection, would IFRS for SME specifically customized to the special needs of SME results benefit to Ethiopian SMEs?
>Would IFRS for SMEs costs Ethiopian SMEs?
>Are SMEs willing to transit in to IFRSs for SMEs?
>Are SMEs having the fitting level of understanding so as to keep in touch to IFRS for SMEs?

1.1 Literature Review

1.1.1 Definitions of a small- and medium-sized entity

The study done by [4] argued that there is no commonly agreed definition of an SME across all scholastic 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 almost all nations in the world, those from the leading economies to the least, over 99% of companies have fewer than 50 employees [11] quoted in [12]. In Ethiopia context as , [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 though working as a registered entity. Furthermore [14], defines an SME as an entity that does not have public accountability and thus publishes general purpose financial statements for external users.

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

As quoted by [2] from the study of [15], 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.

According to [16], 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].

If we carefully observe the legal framework of every nation, it requires all businesses to prepare financial statements and be audited. 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.

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

1.1.2 Characteristics and operations of SMEs

According to [24], 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 [25]. 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 [26].

As [27] argue that there are three central aspects 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. 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.

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 exciting to memo that small businesses make better use of scarce resources than large businesses.

1.1.3 International harmonization of the financial reporting

As [4] indicates in their study, 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.

Business enterprises operating in the 21 century faces dynamism of business environments in terms of political, social and legal requirements, rapid global economic integration and increased cross border capital flows. To be able to convince the overseas 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 [28] 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.

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 [29]. The foregoing enables international investors to read financial statements and compare investment opportunities globally. Creditors may use the information to make better lending decision [30].

1.1.4 International Financial Reporting Standard (IFRS)

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

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."

According to [28], 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 author further states that the International Accounting Standards Board (IASB) was founded in 2001 and its purpose is to continue the work of the IASC. The IASB is an independent standard setting body of the IASC based in London and it develops 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.

[31] 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 [32], 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 [30]. 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 [32].

The study by [33] 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 [31]. 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, [31] discovered that several European countries had concerns for the IFRS applicability to SMEs.

1.1.5 The benefits of IFRS for SME

The expected benefits of IFRS for SME are international acceptance of financial reports created using IFRS or IFRS for SME; international comparability of SME financial reports; and understanding by users of the reports world-wide. Also, there is expected to be

a cost saving on the standard setting process for adopting countries [32].

Some countries adopted IFRS for 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 for 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 [34].

[35] 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 for SME may be a cost effective alternative to full IFRS. The study showed that SMEs who reports under IFRS for SME 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 for 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 for 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 for SME means that its suitability for use as a differential version of IFRS is still being assessed in Australia and NZ" [36]. This study hopes to inform standard setters (other concerned body) in Ethiopia as to the potential effects on financial reporting that IFRS for SME may have for Ethiopia.

1.2 Scope of the Study

The focal point 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 for 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.

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

2.1 Preconceptions

The researchers of this study was determine to adopt the important terminology used by [37] Study of research methodology. For example the above heading of "Preconception", it is an opinion formed in advance more importantly used when little or no information or experiences yet about the study topic. So that IFRS for SME is a new standard to be transited towards by in Ethiopian SMEs in the mean time. Thus, this preconception helps the researcher in choosing the suitable 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. Moreover, during the course delivery & "training for trainers" was delivered by Accountants and Auditing Board of Ethiopia (AABE), researcher was got brief highlights

regarding a new set of standards. It was since then the researcher started to look into these standards and to read about it in some articles published and available. Further concern was born when the researcher could not discover any earlier studies done specifically on the study topic in Ethiopia.

2.2 Research Design

According to [38] as cited by [37], there are five different types of research designs; experimental, cross-sectional, longitudinal, case study and comparative designs. In this study the researcher in use in the cross-sectional design. It is also referred as 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]. In this design, the researcher employed semi-structured interviews and questionnaires for tour operators of SMEs in Ethiopia.

According to the study of [39], there are three approaches that are used in conducting a given research. These are: qualitative, quantitative and mixed approach. 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.

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 most excellently executed using the descriptive format of research. Descriptive research provides information about the population being studied [40].

2.3 Data Source

The data sources from where the researcher gathers relevant information can be primary and secondary data sources. Primary data sources where original data is collected for the research problems identified in the study. It includes

observations, experiments, surveys like questionnaires, and interviews. Secondary data sources are scholarly works contributed by others towards the study. It may include books, journals, articles and web-based data about the specific subject [41].

For this study the primary data was collected by face-to-face interviews and structured questionnaires. The researcher used semi-structured interviews in order to collect data from professionals 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 [38]. 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 [ibid]. In addition, a structured questionnaire was also used means of collecting relevant data. The questionnaire was organized based on IFRS for SMEs issued by IASB, in 2009 and other related literatures. The questionnaire were designed as dichotomous (i.e. yes–no) and Likert scales. All interviews were taken place by selecting favorable environment to both the interviewee and interviewer. From ethics point of views, respondents were provided with all kind confidentiality concerns.

2.4 Sample Size and Sampling Technique

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 [42].

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

3. DATA ANALYSIS AND DISCUSSION

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

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 transiting to IFRS for SMEs. A total of 93 questionnaires were distributed for different tour operators in the tourism industry of SME & professionals 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 guide of 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 merger and acquisition. IFRS 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 43].

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 signal for adoption of IFRS in Ethiopia even though this draft financial reporting proclamation required for certain types of institution (like Banks, Insurances 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 Table 1 the researcher observes 73.6% of study respondents were conscious of the adoption while the remaining 26.4% had no information about the adoption. This suggests that, 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.

From the 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).

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 transition to IFRS for SME. They also agree with an increase in the value relevance of accounting data under IFRS for SMEs was seen. 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 transition to IFRS for SMEs results to more timely loss recognition.

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	

Source: Own survey result, 2019

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

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.

As it was shown in the 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 have the same opinion with the idea of transiting to IFRS for SMEs expected to improve 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 transition to 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 IFRS for SMEs associated with the monitoring and financial decision making. The SMEs and users accounting information receive high benefits if monitoring and decision making is done in effective and efficient way. If the collective benefits out weights its costs, it means the newly enacted IFRS for SMEs are very soon adopted 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

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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				

Source: Own survey result, 2019

As shown in the Table 5 seven questions were forwarded to the respondents in order to obtain their perception about the reason that makes first time adoption and obedience 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 wholly 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 about IFRS for SMEs was available at the global level, it further requires be re-organizing and re-processing 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 [43] 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 foster the transition process towards IFRS for SME. 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 transition 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 handle the risk of potential material misstatements resulting from IFRS for SMEs generated financial reports.

In the Table 6, the researcher observe that respondents believe in transiting 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 believe that the transition of IFRS for SME impact the time spent to process accounting data in order to issue financial reports to users. Besides, 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 6. Descriptive statistics for transiting to IFRS for SMEs

Transiting to IFRS for SMEs	N	Range	Mean		Std. deviation
	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				

Source: Own survey result, 2019

Table 7. Descriptive statistic for analyzing IFRS for SME based financial statements

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
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. CONCLUSIONS AND RECOMMENDATION

This study assessed the benefits and costs of transiting to IFRS to SMEs in Ethiopia. According to the this study findings, transiting to 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 this new standard 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 at the initial stage of transition & compliance towards IFRS for SME is costly 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 publically owned company's like Banks and Insurance firms towards the adoption of full IFRS and in the mean time to transit towards IFRS for SMEs issued by IASB in 2009. However, a respondent doesn't be familiar with the detailed requirements of both standards.

Moreover, because of the respondents perception about the complexities involved in the application of IFRS for SMEs, a practitioner professionals who will support the transition process like authorized accountants and auditors are required to be equipped with the IFRS for SME technical skill. 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.

The awareness creation campaign needs to be created by stakeholders in different plat forms (short and long term plans). This mission can be achieved by arranging seminars, training programs and conferences about broad concepts of IFRS for SMEs, its long term benefits and its short term costs of IFRS for SMEs from the viewpoint 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.

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

CONSENT

As per international standard or university standard, respondents' written consent has been collected and preserved by the author(s).

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COMPETING INTERESTS

Authors have declared that no competing interests exist.

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APPENDIX

Frequency Table 8, 9, 10

		Frequency	Percent	Valid percent	Cumulative percent
Position in a firm					
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

		Frequency	Percent	Valid percent	Cumulative percent
Gender					
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

		Frequency	Percent	Valid percent	Cumulative percent
Educational level					
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

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