

**AN ASSESSMENT OF FINACIAL REPORTING IN SMALL AND
MEDIUM ENTERPRISES: A case study of SMEs in Lugazi Municipality-
Uganda**

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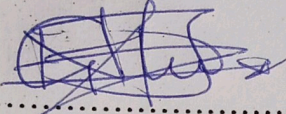


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DECLARATION

I NALUBIRI GLORIA, Reg No. J21B05/429 declare that this report has been composed solely by myself and that it has not been submitted to any institution, in whole or in part, in any previous application for a degree or any other award. Except where stated otherwise by reference or acknowledgement, the work presented is entirely my own.

Signature: 

29th August 2023

APPROVAL

This is to certify that this research report meets the School's requirement for the reward of a Bachelor's degree in Business Administration at Uganda Christian University.

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Academic Supervisor.

DEDICATION

I dedicate this report first of all to the Almighty God who guided me, protected and watched over me during my research activities and I pray that may it be fruitful to both me and the readers.

I also dearly dedicate this internship report to my parents Mr. and Mrs. Kyaka for their ever-present guidance, tireless support, prayers and encouragement both before and during the research process, may the Almighty God bless and take care of them.

ACKNOWLEDGEMENT

True as it can be, no man is an island as said by John Donne. It therefore was not a lonesome journey through my research as there were people who aided me in the various aspects of this process and I would like to take this opportunity to recognize them.

First and foremost, I give thanks to the Almighty God whom by His grace, mercy and provision I successfully made it through to the end. He graciously granted me journey mercies, good health, knowledge and understanding and all the necessary conditions to successfully see me through the research period.

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This endeavor would not have been possible without my supervisor, Mr. Kisenyi Vincent, whose supervision and guidance kept me in check as per the achievement of my research objectives.

Last but not least, worth a shout out are my friends Charity, Star, Sandra, Daphne, Bronia, Darius, Ambrose, Vanessa, Merek, Dorcus, Yudah, Innocent and Jackie who have been a significant hand in my success. Lots of love for my best friend Ivy Mbabazi. May God bless each of you abundantly.

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ACRONYMS

IFRS.....International Financial Reporting Standards

SME.....Small and Medium Enterprises

SPSS.....Statistical Package for the Social Science

Freq.....Frequency

%age.....Percentage

ABSTRACT

This study sought to assess financial reporting in Small and Medium Enterprises (SMEs) in Uganda – Lugazi Central Division and it particularly focused on International Financial Reporting Standards (IFRS) for SMEs. Specifically, the study examined the awareness and understandability of IFRS for SMEs, the limitation of the implementation of IFRS for SMEs and assessed the benefit of adopting IFRS for SMEs to SMEs in Uganda – Lugazi Central Division. A survey design was used and a sample of 66 SMEs was selected from 80 SMEs in Lugazi Central Division. Of the 66 questionnaires that were distributed, only 32 were answered hence they were used as the final sample size of the study. The findings of the research unveiled the following key insights. First of all, the findings of the study showed that majority of SMEs were in there start up and their number decreased over the next period. Secondly most of the respondents had minimal awareness and understanding of the IFRS for SMEs due to the various challenges faced during implementation of the standards. The findings also showed that some SMEs did not understand the benefits of investing in and implementing IFRS for SMEs. On the other hand, the few that seemed to adhere to the IFRS for SMEs were notably benefiting. The discussions depicted an agreement between study and previous topics on the same topic. The researcher therefore concluded that the short life span of the SMEs could be attributed to poor financial reporting practices in terms of failure to adhere to the IFRS for SMEs. Lastly the researcher presented some recommendations and also area for further research for other research.

CHAPTER ONE

INTRODUCTION

1.1. Introduction

This chapter presents the background of the study, statement of the problem, general objective of the study, specific objectives, research questions, , conceptual framework, scope of the study, justification of the study and significance of the study.

1.1. Background

SMEs continue to dominate Uganda's Economy; these enterprises contribute over 90% of Uganda's private sector and their contribution per sector stands at 49% in service sector, 33% in commerce and trade, 10% in manufacturing and a small portion of these enterprises at 8% in other. These SMES are a key driver in strengthening and fostering wealth creation, innovation as well as job creation for the increasing young population. However, majority of these enterprises in Uganda fail to persist for more than two years in operation (Kyatusiimire, 2018).

Small Business Enterprises (SMEs) play an important role in the economic development of Uganda by providing employment and production of goods and services (Ssewagudde, 2018). However, the extent of contribution that these business entities make to towards the economic growth and development of Uganda is dependent on the level of success attained through their operations (Ojiambo, 2016). An organization needs a well-designed and operating accounting information system to enable them manages its most valuable resource which is information (Muhindo, Mzuza, & Zhou, 2014). An effective and efficient accounting system can best be achieved through adhering to the International Financial Reporting Standards (IFRS).

An accounting information system (AIS) is a “structure that a business uses to collect, store, manage, process, retrieve and report its financial data so it can be used by accountants, consultants, business analysts, managers, chief financial officers (CFOs), auditors, regulators and tax agencies” (Fontinelle, 2019, p.7). Elvina and Erkan (2015) noted that role of AIS is crucial in managing an organization in order to implement an effective and efficient internal control system within the organization to achieve firm goal. In recent times, accounting information systems

have been configured and customized to match the organization's business processes. Larger organizations use software's such as Microsoft, Sage Group, SAP AG|SAP and Oracle Corporation/Oracle which are normally prebuilt software packages. Small businesses often use accounting lower-cost software packages such as Tally, MYOB and Quickbooks (Maureen, 2019).

International Financial Reporting Standards (IFRS) are a set of accounting standards that govern how particular types of transactions and events should be reported in financial statements. On 9 July 2009, the International Accounting Standards Board (IASB) issued the IFRS for Small and Medium- sized Entities (IFRS for SMEs). This Standard provides an alternative framework that can be applied by eligible entities in place of the full set of International Financial Reporting Standards (IFRSs) in issue. Aware that the users of SMEs do not have the same need for information as public companies, IASB developed the IFRS for SMEs, a stand-alone financial reporting standard, aimed at meeting the needs of users of SMEs' financial statements which are "more focused on assessing shorter-term cash flows, liquidity and solvency". A further objective in developing the IFRS for SMEs was to reduce the burden of complying with IFRSs by those SMEs that indicated that the costs of preparation of financial statements using IFRSs outweighed the benefits to them (United Nations, 2016).

According to Arredondo, Realyásquez, & Escobedo (2019), firm performance measures the efficiency and effectiveness, with which administrators take advantage of resources to satisfy customers and achieve the goals of the organization. Accounting information systems are conceptually linked to firm performance because the dimensions of quality system, information quality, and system threats lead to quality information, which leads to good decision making, efficiency, cost reduction, and overall firm performance.

1.2. Statement of the problem.

Many studies conducted in Uganda and other countries suggest that the position of accounting record to the performance of SMEs success is important (Howard, 2018). Uganda is renowned internationally for its entrepreneurial flair and is ranked as one of the more entrepreneurial nations not only in Africa, but the world (Kurose, 2017). This reputation is also based on SMEs

important role in Uganda as they create employment opportunities and support economic growth (Kyatusiimire, 2018; Lutwama, 2015; Ojiambo, 2016). It is however puzzling to know that there is a remarkably high business failure rate of 30% in the nation implying SMEs rarely grow to their full potential and rarely live to celebrate their third birthday (Afunadula, 2018). Although various interventions have been undertaken by BOU, government programs such the Youth Initiatives and the African Development Bank to buck the trend; however the performance of SMEs remains slow and does not meet the expected targets of the country (Ssewagudde, 2018). There is limited understanding on how these SMEs can enhance their performance especially by taking advantage of technology like the International Financial Reporting Standards (IFRS) to generate better reports for enhanced decision making despite numerous reports from the previous studies by (Caldeira and Ward, 2003; Adenike, 2017; Trabulsi, 2018).

It is clear that financial reporting is a recent phenomenon because the standard that guides on financial reporting for SMEs was introduced recently back on July, 2009. However studies about financial reporting in Uganda are non-committal on Financial Reporting Standards for SMEs despite their advantages. Therefore this study seeks to assess the potential benefit of adopting IFRS for SMEs to the concerned enterprises in Uganda.

1.3. Main objective

The main objective of the study was to assess the benefit of IFRS for SMEs to Small and Medium Enterprises (SMEs) in Lugazi municipality.

1.4. Specific objectives

- 1.4.1. To examine the awareness and understanding of IFRS for SMEs among SMEs in Lugazi Municipality.
- 1.4.2. To examine the limitations of the implementation of IFRS for SMEs in Lugazi Municipality.
- 1.4.3. To assess benefit of adopting IFRS for SMEs among SMEs in Lugazi Municipality.

1.5. Research questions

- 1.5.1. To what extent are SMEs aware of and understand IFRS for SMEs in Lugazi Municipality?
- 1.5.2. What are the limitations of the implementation of IFRS for SMEs in Lugazi Municipality?
- 1.5.3. What are the benefit of adopting IFRS for SMEs among SMEs in Lugazi Municipality?

1.6. Justification

Financial Reporting in SMEs is a recent phenomenon worldwide due to the standard that was developed for them that is, the International Financial Reporting Standard for SMEs. Ever since its development, there have been many discussions on this IFRS for SMEs. However, studies in Uganda are non-committal to this IFRS for SMEs despite its advantages. With this in mind, my research is therefore useful as I seek to throw more light on this matter with regards to Uganda.

1.7. Scope of the study.

1.7.1. Content scope

This study focused on financial reporting, particularly the International Financial Reporting Standards (IFRS) for SMEs. The issue was studied among SMEs. The study specifically delves into the benefits of adopting the IFRS for SMEs in Uganda.

1.7.2. Geographical scope

The geographical scope was Lugazi Municipality – Central Division, in Buikwe District. Lugazi Municipality is on the Kampala-Jinja Highway, approximately 46 kilometers by road, east of Kampala, Uganda's capital. This study locale was selected because of the diversity of businesses of interest in this area despite being surrounded by big companies.

1.7.3. Time scope

The research was carried over a period of three months.

1.8. Significance of the study

SME owners. These findings will enable the owners appreciate the benefit of adopting IFRS for SMEs. The outcome will demonstrate the impact financial reporting standards have on overall firm performance as opposed to ordinary booking used long time ago as well as to find out the ways on how to enhance the understanding and usage of IFRS for SMEs.

Academicians, Scholars and Researchers. The results will also add to existing body of knowledge by reviewing literature and further reference as a starting point to carry out similar research on the topic. They can also extend their efforts in the areas which have not been covered by the study.

The tax authority through this study can determine the extent of reliance of financial statements prepared from SMEs available records. Lenders can gain a general overview of the reliability of information made available from SMEs financial records. Finally this research established if SMEs financial performance is in any way linked to record keeping.

The study is significant in the Ugandan context because it provides intriguing details on how IFRS is necessary to SMEs, and this will be of great help to the government in developing strategies to encourage the use of these practices of record keeping and financial reporting.

1.9. Limitations of the study.

Most business owners were resistant when it came to disclosure of some information.

Some managers were busy which made it difficult to access them hence making the whole research time consuming.

Language barrier since some of the respondents could not speak English and the content of the questionnaire was not easy to translate in a different language.

Delay of some respondents in answering the questionnaires.

1.10. Definition of Key Term

SMEs – Small Enterprises are those businesses that employ between 5 and 49 people and have total assets between UGX 10 million but not exceeding UGX 100 million. The Medium

Enterprises are businesses that employ between 50 and 100 people with total assets more than UGX 100 million but not exceeding UGX 360 million. (Uganda Investment Authority)

CHAPTER TWO

LITERATURE REVIEW

2.1. Introduction

This chapter aims at reviewing important literatures related to research topic. It consists of both theoretical and empirical review. In theoretical review the researcher defines the concepts and terms according to how different authors have defined them and empirical literature review provided the different findings from different researchers who have done a similar study

2.2. Theoretical Review.

2.2.1. Defining SMEs and their economic value.

Small Enterprises are those businesses that employ between 5 and 49 people and have total assets between UGX 10 million but not exceeding UGX 100 million. The Medium Enterprises are businesses that employ between 50 and 100 people with total assets more than UGX 100 million but not exceeding UGX 360 million. (Uganda Investment Authority). SMEs, despite their size, are important contributors to the national economies of countries around the world. In most countries, they represent the majority of enterprises, provide most of the employment and also make an important contribution in terms of income generation.

However, one of the difficulties in determining their exact participation in the economy is the issue of their definition, including a definition of microenterprise. Many countries do not have these definitions, and where these definitions exist, they are not uniform throughout jurisdictions. This means that it may not be possible to accurately compare the number of entities across countries in some of the categories (for example, SMEs and microenterprises) or even to determine precise statistics of this sector worldwide concerning employment, contribution to gross domestic product (GDP), income produced, and the like (UNITAD, 2016).

In Brazil, the world's fifth largest country by population and tenth largest economy, with a GDP of \$1.7 trillion, the most robust economy in Latin America, representing 35 per cent of the region's GDP, SMEs represent 99 per cent of all companies in the country and are responsible for 66 per cent of jobs. A study in 2010 by the Association of Chartered Certified Accountants (ACCA) of the Association's top 20 markets globally indicates that SMEs, as locally defined,

consistently make up the vast majority (85–99.9 per cent) of the business population. They also account for just under 50 per cent of private sector value added, and 77 per cent of private sector employment. If all other countries for which reasonably good data are available are added to this total, SMEs can be shown to account for 52 per cent of private sector value added and 67 per cent of employment, which provides a reasonable approximation for the sector’s global footprint.

2.2.2. The Role of Accounting and Reporting for SMEs.

As previously mentioned, SMEs represent the majority of businesses around the world and are considered important drivers of employment and economic growth, in particular in developing countries and emerging markets. However, they encounter several challenges that hinder their development opportunities, such as poor managerial skills, unqualified labour and reduced access to finance due to information asymmetry (or, when finance is granted, they have to pay higher interest rates). Also, a big proportion of small and micro-businesses remains in the informal sector and lacks accounting records. As a consequence, SMEs have a high rate of disappearance in the early years (UNCTAD, 2016).

In this regard, accounting and reporting can play a relevant role in supporting SMEs development by decreasing the information asymmetry problem. If lenders have transparent information they will be in a better position to assess the risk level of the borrower. In addition, accounting and reporting is a powerful tool for owners and/or managers of SMEs, provided they have the necessary skills to understand the information, to make adequate business decisions in terms of allocation of resources, determining the amount of financing required, and the like.

For instance, in Austria, a 2003 analysis by Kreditschutzverband found that the number one cause for bankruptcy was linked to internal mistakes. Consequently, increasing accounting literacy can raise SME credibility and improve relations with microfinancing institutions.

Access to finance is critical for SMEs to survive and grow. The International Finance Corporation has estimated a financing gap of \$2.1 trillion to \$2.6 trillion for microenterprises and SMEs in developing countries. McKinsey and the International Finance Corporation (2015) highlight that to reduce this gap at least three key issues should be addressed: the creation of a more supportive enabling environment to promote finance for this type of businesses; the need for an improved financial infrastructure; and the kinds of efforts private sector institutions will have to make to meet these enterprises’ needs in economically sustainable ways. The financial

infrastructure includes accounting and auditing standards, credit reporting systems, collateral and insolvency regimes, and a well-functioning payments and settlement system. When the financial infrastructure is improved, the lack of transparency and the legal uncertainties responsible for increasing the lenders' risk are reduced.

In this regard, Nanyondo et al. (2013) found in Uganda that “there is a significant positive relationship between quality of financial statements and access to finance and a significant negative relationship between information asymmetry and access to finance. However, the perceived risk is not significantly associated with access to finance. The interaction between quality of financial statements and perceived risk is negative, meaning that high quality financial statements coupled with high risk will result in low access to finance”. Allee and Yohn (2009) in their study carried out in the United States found that firms with audited financial statements are less likely to be denied credit than those without and that firms with accrual-based financial statements benefit in the form of lower cost of capital.

2.2.3. IFRS for SMEs

The IFRS as formulated by IASB was designed to meet the needs of equity investors in companies at public capital markets, and thus include disclosures appropriate for public companies. Aware that the users of SMEs do not have the same need for information as public companies, IASB developed the IFRS for SMEs, a stand-alone financial reporting standard, aimed at meeting the needs of users of SMEs' financial statements which are “more focused on assessing shorter-term cash flows, liquidity and solvency”. A further objective in developing the IFRS for SMEs was to reduce the burden of complying with IFRSs by those SMEs that indicated that the costs of preparation of financial statements using IFRSs outweighed the benefits to them. (UNCTAD, 2016).

In a similar vein, a survey conducted by the Uganda Revenue Authority (URA, 2023) explored the understanding of IFRS for SMEs among accounting professionals in Uganda. The results indicated that while a substantial number of accounting professionals were familiar with IFRS for larger entities, their knowledge and understanding of IFRS for SMEs were limited. Only 36% of respondents demonstrated a comprehensive understanding of the specific requirements and principles of IFRS for SMEs. These findings highlight the knowledge gap among accounting

professionals, emphasizing the need for targeted professional development programs and capacity-building initiatives.

Compared with full IFRSs (and many national generally accepted accounting principles (GAAPs)), the IFRSs for SMEs are less complex in a number of ways:

- Topics not relevant for SMEs are omitted;
- Where full IFRSs allow accounting policy choices, the IFRS for SMEs allow only the easier option;
- Many principles for recognizing and measuring assets, liabilities, income and expenses in full IFRSs are simplified;
- Significantly fewer disclosures are required;
- The standards have been written in clear, easily translatable language;
- To further reduce the burden for SMEs, revisions to the IFRS for SMEs are limited to once every three years.

IASB also stated that, after the initial review, it expected to consider amendments to the IFRS for SMEs approximately once every three years. The SME Implementation Group (SMEIG), an advisory body to IASB, is providing recommendations to throughout the comprehensive review of the IFRS for SMEs, including recommendations about possible amendments (United Nations, 2016).

The mission of SMEIG is to support the international adoption of the IFRS for SMEs and monitor its implementation. SMEIG has two main responsibilities:

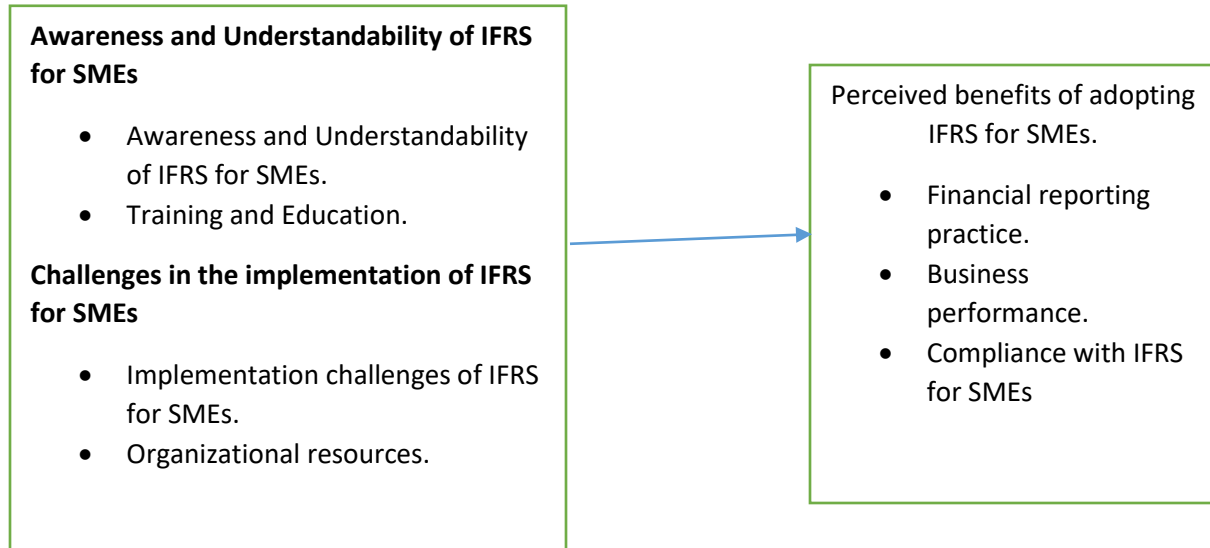
Consider implementation questions raised by users of the IFRS for SMEs, decide which ones merit published implementation guidance, and reach a consensus on what that guidance should be, develop proposed guidance in the form of questions and answers (Q&A) that would be made publicly available to interested parties on a timely basis, and request IASB to approve the Q&A for issue. The Q&As are intended to be non-mandatory guidance that will help those who use the IFRS for SMEs to think about specific accounting questions;

Consider and make recommendations to IASB on the need to amend the IFRS: for implementation issues that cannot be addressed by the Q&As; for new and amended IFRSs that have been adopted since the IFRS for SMEs was issued or last amended.

2.3. Conceptual framework.

From the proceeding sections, the key aspects derived for empirical investigation limitations of implementation and the benefits of adopting IFRIS for SMEs in Uganda.

Figure 1: Conceptual Framework



2.3.1. The awareness of and understanding of IFRS for SMEs.

In the United States, the Financial Accounting Standards Board (FASB) conducted a survey in 2022 to assess the understanding of the US Generally Accepted Accounting Principles (GAAP) for SMEs, which align with IFRS for SMEs. The survey revealed that while many SMEs in the US were aware of the existence of GAAP for SMEs, their understanding of the specific requirements and principles varied. Only 43% of the surveyed SMEs demonstrated a comprehensive understanding of the GAAP for SMEs. This highlights the need for further education and training initiatives to enhance the understanding and adoption of the standards among SMEs in the US (FASB, 2022).

A study conducted by Niba and Njungsi (2022) examined the awareness and understanding of International Financial Reporting Standards (IFRS) for SMEs in Africa. The findings revealed that the level of awareness varied across different countries in Africa. While some countries, such as South Africa and Kenya, showed a relatively high level of awareness and understanding

of IFRS for SMEs, other countries, particularly those with limited resources and infrastructure, exhibited lower levels of awareness. This suggests that more efforts are needed to promote awareness and education about IFRS for SMEs in Africa, particularly in countries where the knowledge gap is significant.

A research article by Jallow and Kalay (2023) explored the awareness and understanding of IFRS for SMEs among accounting professionals in Africa. The study found that while there was a moderate level of awareness about IFRS for SMEs among accounting professionals, their understanding of the standards was often limited. This indicates a need for targeted professional development programs and continuing education to ensure accounting professionals in Africa have a comprehensive understanding of IFRS for SMEs, enabling them to guide SMEs in adopting and implementing the standards effectively.

A comparative study conducted by Amankwah et al. (2022) assessed the awareness and understanding of IFRS for SMEs among SMEs in Africa and the US. The study revealed that while SMEs in the US generally had a higher level of awareness and understanding of IFRS for SMEs, there were still gaps in their knowledge and implementation. In Africa, the level of awareness and understanding varied across countries, with some countries exhibiting lower levels of knowledge. The study emphasized the importance of tailored educational programs and resources to enhance awareness and understanding of IFRS for SMEs in both regions, considering the specific challenges and needs of SMEs in each context.

2.3.2. The limitations of implementation of IFRS for SMEs.

A research study by Nyambe et al. (2022) examined the limitations of implementing International Financial Reporting Standards (IFRS) for SMEs in Africa. One significant limitation identified was the lack of financial resources and infrastructure in many African countries. SMEs often struggle with the costs associated with implementing and complying with IFRS for SMEs, such as training, software, and engaging professional services. The study emphasized the need for supportive policies and initiatives that provide financial assistance and capacity-building programs to alleviate these resource constraints.

A report published by the Financial Reporting Advisory Board (FRAB, 2022) discussed the challenges faced by SMEs in Uganda in adopting IFRS for SMEs. One of the key challenges

identified was the lack of awareness and understanding among SME owners and managers. Many SMEs were found to be using outdated or inappropriate accounting practices, indicating a lack of knowledge about the benefits and relevance of adopting IFRS for SMEs. The report emphasized the importance of educational campaigns and outreach programs to raise awareness and educate SMEs about the advantages of implementing IFRS for SMEs.

In the United States, a report by the Small Business Administration (SBA, 2022) highlighted the challenges faced by SMEs in implementing IFRS for SMEs. One major limitation is the complexity and technical nature of the standards, which can be particularly challenging for small business owners and managers with limited accounting expertise. The report noted that SMEs often lack the resources to hire qualified accounting professionals who are familiar with IFRS for SMEs, leading to potential errors or non-compliance. The complexity of the standards calls for simplified guidance and educational materials to help SMEs navigate and understand the requirements.

A comparative study by Lobo and Singla (2023) explored the limitations of implementing IFRS for SMEs in Africa and the USA. The study identified the varying legal and regulatory environments as a key limitation. In Africa, the lack of harmonization among national accounting frameworks and the absence of enforceable regulations for SMEs create challenges for the implementation of IFRS for SMEs. In the USA, although the Generally Accepted Accounting Principles (GAAP) for SMEs align with IFRS for SMEs, the lack of a unified global adoption of IFRS for SMEs can hinder consistency and comparability across international markets.

The research article by Thomas and Samuel (2022) highlighted the limitations of implementing IFRS for SMEs related to cultural and contextual factors in Africa. The study found that the prevailing business practices and cultural norms in African countries may not align with certain aspects of IFRS for SMEs. For instance, the practice of informal or cash-based transactions, common in some African SMEs, can pose challenges in accurately measuring and reporting financial information according to the standards. This calls for a balance between adopting international standards and considering the unique business practices and cultural contexts of SMEs in Africa.

2.3.3. The benefits of adopting IFRS for SMEs.

Sisay et al. (2022) explored the benefits of adopting International Financial Reporting Standards (IFRS) for SMEs in Africa. The study found that the adoption of IFRS for SMEs can enhance the credibility and comparability of financial statements, which can attract potential investors and lenders. Improved financial reporting quality can contribute to increased access to finance for SMEs, enabling them to expand their operations and support economic growth. The study emphasized that the adoption of IFRS for SMEs can enhance the perception of SMEs as reliable and transparent business entities, thereby fostering trust and confidence in the African business environment.

In the United States, a report published by the Financial Accounting Standards Board (FASB, 2022) highlighted the benefits of adopting the Generally Accepted Accounting Principles (GAAP) for SMEs, which align with IFRS for SMEs. The report emphasized that the adoption of GAAP for SMEs can improve the consistency and comparability of financial statements among SMEs in the US. This can facilitate benchmarking and decision-making processes for investors, creditors, and other stakeholders. Furthermore, the report highlighted that the adoption of GAAP for SMEs can enhance the transparency and accountability of SMEs, which can attract potential investors and promote capital market development.

A comparative study by Madu and Ibegbulem (2022) assessed the benefits of adopting IFRS for SMEs in Africa and the USA. The study found that adopting international accounting standards can enhance the visibility and recognition of SMEs in both regions. By aligning with globally recognized standards, SMEs can improve their competitiveness in international markets and attract foreign investment. The study also highlighted that the adoption of IFRS for SMEs can streamline financial reporting processes and reduce the costs associated with preparing financial statements, thereby improving operational efficiency for SMEs.

A report by the International Federation of Accountants (IFAC, 2022) discussed the benefits of adopting IFRS for SMEs in Africa. The report emphasized that the adoption of IFRS for SMEs can enhance the comparability of financial statements across different African countries, facilitating cross-border investments and promoting regional economic integration. Furthermore, the report highlighted that the adoption of IFRS for SMEs can improve the availability of reliable financial information, enabling better decision-making by SME owners, managers, and other stakeholders. This, in turn, can contribute to the growth and sustainability of SMEs in Africa.

A research article by Ahmed and Shadhin (2023) discussed the benefits of adopting IFRS for SMEs in developing countries, including Africa. The article emphasized that the adoption of IFRS for SMEs can enhance the transparency and accountability of SMEs, which can attract domestic and foreign investors. It can also contribute to the formalization of the informal sector by encouraging SMEs to adopt standardized accounting practices. The article further highlighted that the adoption of IFRS for SMEs can improve the ability of SMEs to access finance, as financial institutions may have greater confidence in the financial statements prepared in accordance with internationally recognized standards.

2.4. Conclusion

In conclusion, the awareness, limitations, and benefits of International Financial Reporting Standards (IFRS) for SMEs present important considerations for both Africa and the USA. While awareness and understanding of the standards vary, efforts are needed to promote education and training to enhance awareness among SME owners, managers, and accounting professionals. Resource constraints, complexity, legal and regulatory environments, and contextual factors pose limitations to the effective implementation of IFRS for SMEs in both regions. However, the adoption of IFRS for SMEs offers significant benefits, including improved credibility, comparability, access to finance, transparency, accountability, and market recognition. Addressing the limitations and leveraging the benefits require collaborative efforts from stakeholders to provide targeted education, simplified guidance, financial assistance, and harmonization efforts, fostering the adoption of IFRS for SMEs and contributing to the growth and development of SMEs in Africa and the USA.

CHAPTER THREE

METHODOLOGY

3.1. Introduction

Chapter three is the methodology chapter which included the research design, study population, sample size, sampling technique and procedure, data collection method and instruments, validity and reliability of instruments, data processing and analysis, measurement of variable and ethical considerations

3.2. Research Design

To collect both qualitative and quantitative data from SMEs in the Lugazi Central division, a cross-sectional research approach was adopted. A descriptive research method was also employed to describe and analyze the gathered data, whilst an analytical research design was used to assess the benefit of implementing IFRS for SMEs in Lugazi Central Division. The objective of descriptive research was to portray an accurate profile of persons, events or situations' (Sauders, Lewis and Thornhill, 2007). Descriptive research design gave a description of phenomenon's characteristics and association of variables, in this case, IFRS in SMEs. Descriptive research was appropriate since it enabled high level of analysis such as correlation and regression analysis between the variables and reduces data to a manageable form.

3.3. Study Population

The research was based in Lugazi Municipality-Central division, which is home to a multitude of SMEs. In consultation with the Central division office, it was apparent that there was no readily available registry of the firms of interest in this study. On this basis, a database was developed from which a sample of the study was drawn. The database was developed by visiting representative places in the division and soliciting for the participation of a particular SME in the study. This database comprised of 117 SMEs however, only 80 of them were willing to take part in this research. The SMEs comprised of businesses such as salons, wholesale and retail shops, pharmacies, stationaries, farms, mobile money agents, boutiques, supermarkets among

others. The focus on the different businesses was to obtain a general picture regarding the issues under study as opposed to studying a single sector.

3.4. Sample Size

The sample size of the study was 66 SMEs which was estimated using the Krejcie and Morgan table. This was used in order to come up with relatively accurate findings. The study considered 2 respondents at most, where some will be given questionnaires and others interviewed.

3.5. Sampling Design

Purposive sampling was used by the researcher. This was to ensure that the relevant personnel and entities were chosen and approached for the research.

3.6. Data Source

Primary data was collected from workers of the SMEs. Data required was quantitative and qualitative in nature. A structured questionnaire was used for data collection and a short interview was also used in order to get direct and true picture of the SMEs selected and to help overcome any bias.

This questionnaire was developed following the recommendations by various scholars that include Kothari (2004); Sekaran and Bougie (2010); and Saunders, Lewis, and Thomhill (2008). In some sections of the instruments, there were questions that had predetermined answers. Other questions were open ended. A mixture of these questions is encouraged to avoid artefacts in respondent's answers.

Primary Data

The researcher used interview guides, questionnaires and observation. The questionnaires were distributed to entrepreneurs, especially those who did not have enough time for interviews. The interviews were administered to entrepreneurs and organizations in Lugazi Municipality who had time.

Secondary Data

Secondary data in this research was obtained and gathered through company documents, pamphlets, books, journals and other sources which were obtained from the different venues. More than one method of data collection method was used because there was no single method that claimed to offer convincing information. These methods are face to face (interview), questionnaire, and documentary.

3.7. Data Collection Procedure

The researcher got approval from the School of Under graduates, Uganda Christian University – School of Business, through the university supervisor to ensure that the ethical guidelines were followed throughout the data collection process.

In conducting the study, a letter from the university was shared with the respondents requesting for their cooperation in the study. The respondents were further assured of confidentiality of the information provided and that the study findings were used for academic purposes only.

3.8. Data Analysis

Statistical Package for Social Sciences (SPSS) was utilized to conduct this analysis where in the data collected was edited, classed, tabulated and analyzes in frequencies. The relevance of the IFRS for SMEs was studied using variables.

CHAPTER FOUR

PRESENTATION, ANALYSIS AND INTERPRETATION OF FINDINGS.

4.1. Introduction

The study sought to assess the Financial Reporting in Small and Medium Enterprises. The focus was on the International Financial Reporting Standards (IFRS) for Small and Medium Enterprises (SMEs). The study used a case study of Lugazi Municipality – Central Division. It was guided by the following specific objectives;

- ✓ To examine the awareness and understanding of IFRS for SMEs among SMEs in Lugazi Municipality.
- ✓ To examine the limitations of the implementation of IFRS for SMEs in Lugazi Municipality.
- ✓ To assess benefit of adopting IFRS for SMEs among SMEs in Lugazi Municipality.

4.2. Rate of Response

Basing on random sampling technique, a total of 66 respondent firms were selected and 66 questionnaires were administered to them out of which 35 were returned which accounted for 53% response rate which can be considered as an acceptable response rate. However 3 of the questionnaires were less than half way filled hence I disregarded them.

4.3. Background Information

In this part the researcher presented the findings that were obtained from the field concerning the demographic characteristics of the respondents.

4.3.1. Respondents' Characteristics

This depicts the key characteristics of the respondents in terms of gender, firm existence and the department in which they work in the firm.

Table 1: Demographic Characteristics of the Respondents

Demographic Features		
Gender	Frequency	Percentage
Female	21	66
Male	11	34
Total	32	100
Department in which the respondent works	Frequency	Percentage
Finance and Accounting department	13	41
Logistics department	3	9
Human Resource department	4	13
ICT department	3	9
Program department	1	3
Others	8	25
Total	32	100
Period of existence of the firm	Frequency	Percentage
1-2 years	17	53
3-5 years	7	21
6-10 years	4	13
11-15 years	4	13
Total	32	100

Source: Primary Data

Table 1 above shows a higher response rate from the female population that is 21 people compared to the males at 11 people accounting for 66% and 34% respectively. It also shows that in accordance with departments; 4 respondents were from Human Resource, 3 were from Logistics, 3 were from ICT, 1 was from program department and 8 were from other departments. In addition to these, 41% that is 13 respondents were from the Finance and Accounting department implying that they had a general idea about the topic of study. Also as per Table 1,

most businesses that is 17 firms accounting for 53% have been in existence for 2 years or less, 7 firms have been in existence for 3-5 years, 4 firms have been in existence for 6-10 years while 4 have been in existence for 11-15 years. This serves to show that majority of the firms are in their start up stage and they do not usually make it far in reference to the decline number of firm over the years that is, the firms in ranges of 1-2 years are 53%, in 3-5 years are 21%, in 6-10 years and 11-15years are 13% each.

Table 2: Firm Characteristics

Industry in which the business operates	Frequency	Percentage
Manufacturing	10	31
Service	10	31
Trade	12	38
Total	32	100
Legal status of your company	Frequency	Percentage
Private limited company	20	63
Public limited company	4	13
Sole proprietorship	7	21
Partnership	1	3
Joint venture	0	0
Total	32	100
Size of the company	Frequency	Percentage
1-20 employees	19	60
21-40 employees	5	16
41-60 employees	1	3
61-80 employees	1	3
81-100 employees	3	9
Over 100 employees	3	9

Total	32	100
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Source: Primary data

As shown in Table 2, majority of the firms that is, 12 firms are in the trade industry, 10 of them are in the service industry and 10 firms are in the manufacturing industry. This shows that many SMEs are dealing in trade of different commodities as they most probably consider it very profitable.

In terms of the legal status of the SMEs; private limited companies champion the population with 20 firms accounting for 63% of the respondents, public limited companies take 13% representing 4 firms, sole proprietorship companies are 7 represent by 22% of the firms while there is only one partnership company and no joint ventures at all. This serves to show that most SMEs are not really receptive or aware of the benefit that could come with partnerships and joint ventures.

When it comes to the size of the company; 19 firm are comprised of 1-20 employees which is the dominant size taking up 59% of the total respondents, there are 5 firm with 21-40 employees, 41-60 employees and 61-80 employees have 1 firm each while there are 3 firms with 81-100 employees and 3 firms with over 100 employees. Most SMEs have few employees so as to minimize expenses and focus some resource on other operations that seem to be of greater importance.

4.4. Descriptive Statistics

4.4.1. Awareness and Understandability of IFRS for SMEs.

The study asked the respondents to state their level of awareness and understanding of IFRS for SMEs. The responses were rated on a five point scale where: 5= strongly agree, 4= agree, 3=neutral, 2=disagree and 1=strongly disagree. The mean and standard deviations are indicated in the table 3 below.

Table 3: Awareness and Understandability of IFRS for SMEs.

Statements	Strongly Agree		Agree		Neutral		Disagree		Strongly Disagree	
	Freq	%age	Freq	%age	Freq	%age	Freq	%age	Freq	%age
Employee's	4	14%	5	16%	12	35%	5	15%	6	20%

familiarity with the IFRS for SMEs (they are aware of the existence and purpose of IFRS for SMEs).										
I have complete knowledge of the key accounting principles and concepts included in IFRS for SMEs.	6	18%	7	22%	8	25%	5	16%	6	19%
Our SME consistently prepares and presents financial statements according to IFRS for SMEs.	4	13%	10	30%	6	20%	9	27%	3	10%
I understand the potential impact of implementing IFRS for SMEs on their financial reporting practices.	4	14%	6	18%	5	15%	7	23%	10	30%

Source: Primary data

From Table 3: The exploration of awareness and understandability of IFRS for SMEs among SMEs in Uganda unveils a landscape where there is a significant scope for improvement. While

35% respondents indicate familiarity with the existence and purpose of IFRS for SMEs, with 20% expressing strong agreement and 15% in agreement, the remaining 65% of respondents indicate employees' lack of familiarity, with 35% being neutral and 30% expressing disagreement hence highlighting a sizeable portion of SMEs that may lack clarity on the subject. Moreover, 35% of participants claim to possess complete knowledge of the key accounting principles and concepts encompassed by IFRS for SMEs. Although this indicates a moderate level of understanding, the remaining 65% expressing uncertainty or disagreement point to the need for enhancing awareness and education about these fundamental standards. Furthermore, the research uncovers that only 37% of SMEs consistently prepare and present financial statements according to IFRS for SMEs, showcasing a proactive approach to alignment with reporting standards. However, a substantial 63% remain neutral or in disagreement, suggesting a lack of consistency in the application of these standards. Additionally, while 53% of participants acknowledge understanding the potential impact of implementing IFRS for SMEs on their financial reporting practices, there remains a significant 47% who are uncertain or unconvinced about this impact. These findings underscore the critical importance of targeted awareness campaigns and educational initiatives to improve the understanding of IFRS for SMEs and encourage their consistent application.

Table 4: Means and Standard deviations of the Awareness and Understandability of IFRS for SMEs.

Awareness and Understandability of IFRS for SMEs	Mean	Standard deviation
Employee's familiarity with the IFRS for SMEs (they are aware of the existence and purpose of IFRS for SMEs).	3.125	2.861
I have complete knowledge of the key accounting principles and concepts included in IFRS for SMEs.	2.938	2.750
Our SME consistently prepares and presents financial statements according to IFRS for SMEs.	2.906	2.646

I understand the potential impact of implementing IFRS for SMEs on their financial reporting practices.	3.406	3.192
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Source: Primary data

The table above depicts the means and standard deviations of the respondents from the study, the focus being the awareness and understandability of IFRS for SMEs.

4.4.2. Training and Education.

This study sought to gauge the level of training and education with regards to IFRS for SMEs. The responses were rated on a five point scale where: 5= strongly agree, 4= agree, 3=neutral, 2=disagree and 1=strongly disagree. The mean and standard deviations are indicated in the table below.

Table 5: Frequency and Percentage of Training and Education.

Statements	Strongly Agree		Agree		Neutral		Disagree		Strongly Disagree	
	Freq	%age	Freq	%age	Freq	%age	Freq	%age	Freq	%age
The SME invests in training programs to improve the financial reporting skills of its employees	5	15%	9	28%	6	18%	7	23%	5	16%
The SME provides regular workshops or seminars to educate employees about	6	18%	6	19%	11	35%	5	15%	4	13%

the implementation of IFRS for SMEs.										
Education resources are readily available to support the learning and implementation of IFRS for SMEs.	10	30%	6	20%	5	14%	6	20%	5	16%
The SME encourages employees to pursue professional certifications or courses related to financial reporting and IFRS for SMEs.	4	11%	6	19%	9	29%	8	24	5	17%

Source: Primary data

The assessment of training and education practices within SMEs in Uganda highlights both promising efforts and areas for growth. Notably, 39% of SMEs invest in training programs to enhance the financial reporting skills of their employees, reflecting some commitment to skill development. However, the substantial 61% that remain neutral (18%) or in disagreement (33%) suggests a substantial scope for increasing investment in training initiatives. Additionally, while 27% of respondents state that their SMEs provide regular workshops or seminars to educate employees about the implementation of IFRS for SMEs, the significant 73% expressing uncertainty (35%) or disagreement (37%) indicates a need to expand the dissemination of knowledge through such platforms. Furthermore, 36% of SMEs report that education resources are readily available to support the learning and implementation of IFRS for SMEs. Although

this indicates a reasonable level of resource availability, the fact that 64% are neutral (14%) or in disagreement (50%) suggests that more comprehensive educational resources may need to be developed and distributed. Encouragingly, 41% of SMEs actively encourage their employees to pursue professional certifications or courses related to financial reporting and IFRS for SMEs. However, the remaining 59% who are unsure or do not encourage such pursuits represent an opportunity to promote continuous learning and professional growth among SME employees.

4.4.3. Challenges faced when implementing the IFRS for SMEs.

This part of the study assessed the challenges faced when implementing the IFRS for SMEs. The responses were rated on a five point scale where: 5= strongly agree, 4= agree, 3=neutral, 2=disagree and 1=strongly disagree. The mean and standard deviations are indicated in the table 3 below.

Table 6: Frequency and Percentage of Implementation Challenges.

Statements	Strongly Agree		Agree		Neutral		Disagree		Strongly Disagree	
	Freq	%age	Freq	%age	Freq	%age	Freq	%age	Freq	%age
Complexity of the standards	6	19%	7	23%	5	15%	7	23%	6	20%
Financial resource constraints that impact the implementation of IFRS for SMEs.	4	13%	5	16%	7	22%	9	27%	7	22%
Technical resource constraints that hinder the	3	9%	2	7%	5	16%	9	29%	13	41%

adoption of IFRS for SMEs.										
Limited availability of training and educational resources on IFRS for SMEs for your organization.	4	12%	5	16%	3	11%	11	34%	9	27%
The SME faces limitations in technology infrastructure, affecting the implementation of IFRS for SMEs.	6	19%	5	16%	6	18%	7	21%	8	26%

Source: Primary data

From Table 5: The exploration of implementation challenges related to IFRS for SMEs uncovers multifaceted hurdles that SMEs face in their adoption efforts. Notably, the complexity of the standards emerges as a significant obstacle, with 58% of SMEs highlighting this as a challenge. This proportion underscores the elements of IFRS for SMEs that pose difficulties in their effective application, calling for simplified educational resources and guidance. Moreover, 49% of respondents identify financial resource constraints as a hindrance to successful implementation, signifying a considerable financial strain that limits SMEs' ability to adopt the standards comprehensively. Similarly, technical resource constraints are prevalent, with 70% of SMEs indicating that these limitations impede their capacity to adopt IFRS for SMEs effectively. This points to the need for investments in technological infrastructure and resources to facilitate smoother implementation. Additionally, 61% of participants express concern about the limited availability of training and educational resources specific to IFRS for SMEs. This underscores the importance of developing comprehensive training materials and workshops that cater to SMEs' needs. Furthermore, 47% of SMEs report facing limitations in technology infrastructure, a

factor that can significantly affect the accuracy and timeliness of implementing IFRS for SMEs. Collectively, these findings emphasize the necessity of providing tailored support to address the diverse implementation challenges that SMEs encounter in their journey towards standardized financial reporting.

Table 7: Means and Standard deviations of Implementation Challenges.

Challenges of implementing the IFRS for SMEs	Mean	Standard deviation
Complexity of the standards	2.906	2.784
Financial resource constraints that impact the implementation of IFRS for SMEs.	3.313	3.062
Technical resource constraints that hinder the adoption of IFRS for SMEs.	3.844	3.544
Limited availability of training and educational resources on IFRS for SMEs for your organization.	3.500	3.260
The SME faces limitations in technology infrastructure, affecting the implementation of IFRS for SMEs.	3.188	3.010

Source: Primary data

This table shows the mean and standard deviation of the respondents in regards to the implementation challenges of IFRS for SMEs.

4.4.4. Organizational Resources.

This section of the study looked at organizational resources. The responses were rated on a five point scale where: 5= strongly agree, 4= agree, 3=neutral, 2=disagree and 1=strongly disagree. The mean and standard deviations are indicated in the table 6 below.

Table 8: frequency and Percentage of Organizational resources.

	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree

Statements	Freq	%age	Freq	%age	Freq	%age	Freq	%age	Freq	%age
The SME has sufficient financial resources to invest in the implementation and compliance with IFRS for SMEs.	6	19%	7	21%	7	23%	6	18%	6	19%
The SME possesses the necessary technological infrastructure to support the implementation of IFRS for SMEs.	7	23%	8	25%	6	19%	5	15%	6	18%
The SME has access to competent and knowledgeable personnel to handle financial reporting with the necessary knowledge of IFRS for SMEs.	4	11%	4	12%	12	38%	5	17%	5	22%
We allocate	7	21%	9	29%	5	17%	6	18%	5	15%

sufficient resources to support the implementation of IFRS for SMEs in our organization.										
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Source: Primary Data

The research findings illustrate a varied landscape in terms of organizational resources available for successful implementation of IFRS for SMEs. Astoundingly, 63% of SMEs reported insufficient financial resources to invest in implementation and compliance, reflecting a lack of commitment to standardized reporting practices. In terms of technological infrastructure, 52% of respondents stated that their SMEs possess the necessary resources, contributing to accurate and efficient reporting processes. Furthermore, access to competent and knowledgeable personnel is crucial. Notably only 39% of SMEs indicated such access, which is not promising since it is vital for maintaining quality financial reporting practices. Moreover, 33% of participants claimed the allocation of sufficient resources for the implementation of IFRS for SMEs, emphasizing the strategic importance of resource allocation for effective standardized reporting.

4.4.5. Financial Reporting Practices.

This section focused on financial reporting practices by the respondent firms. The responses were rated on a five point scale where: 5= strongly agree, 4= agree, 3=neutral, 2=disagree and 1=strongly disagree. The mean and standard deviations are indicated in the table 3 below.

Table 9: Frequency and Percentages of Financial Reporting Practices

Statements	Strongly Agree		Agree		Neutral		Disagree		Strongly Disagree	
	Freq	%age	Freq	%age	Freq	%age	Freq	%age	Freq	%age
The SME maintains proper documentation	6	19%	5	17%	8	25%	7	21%	6	18%

and record-keeping practices to support our financial statements.										
The SME prioritizes transparency and disclosure of financial data in our reporting.	6	18%	6	19%	9	28%	5	16%	6	19%
The SME exercises good decision making.	7	22%	6	18%	6	19%	6	18%	7	23%
The SME has effective internal controls to ensure the accuracy and reliability of financial information.	5	17%	4	13%	6	18%	8	24%	9	28%
The financial statements are comparable and can be used for benchmarking among different businesses in the market.	9	29%	8	24%	8	27%	3	9%	4	11%

Source: Primary data

The assessment of financial reporting practices among SMEs in Uganda reveals some strengths leaves a lot of room for improvement. The findings indicate that only 39% of SMEs maintain proper documentation and record-keeping practices to support their financial statements. This proportion underscores a foundation of disciplined reporting practices that contribute to accurate and transparent financial disclosures. However, there is a need for further improvement, as a notable 61% of respondents remain neutral or in disagreement, suggesting that a significant portion of SMEs may not yet adhere to the desired documentation standards. Additionally, transparency and disclosure of financial data emerge as a challenge. While 35% of SMEs prioritize transparency and disclosure in their reporting, the results indicate that a considerable 65% remain uncertain or less committed to this aspect. This suggests a gap in the awareness of the importance of transparent financial reporting, with room for fostering a culture of openness and clarity. Moreover, the exercise of good decision-making based on financial data is acknowledged by 41% of respondents. This indicates a moderate level of confidence in the decision-making processes driven by financial information. However, with 59% remaining neutral or in disagreement, there is an opportunity for SMEs to enhance the utilization of financial data for strategic decision-making.

Table 10: Mean and Standard deviation of Financial Reporting Practices.

Financial Reporting Practices	Mean	Standard deviation
The SME maintains proper documentation and record-keeping practices to support our financial statements.	3.063	2.861
The SME prioritizes transparency and disclosure of financial data in our reporting.	2.969	2.773
The SME exercises good decision making.	3.000	2.850
The SME has effective internal controls to ensure the accuracy and reliability of financial information.	3.375	3.162
The financial statements are comparable and can be used for benchmarking among different businesses in	2.531	2.372

the market.		
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Source: Primary data

This table reflects the mean and standard deviation of respondents' answers to the financial reporting practices of the SMEs

4.4.6. Business Performance.

The responses were rated on a five point scale where: 5= strongly agree, 4= agree, 3=neutral, 2=disagree and 1=strongly disagree. The mean and standard deviations are indicated in the table 3 below.

Table 11: Frequency and Percentages of Business Performance.

Statements	Strongly Agree		Agree		Neutral		Disagree		Strongly Disagree	
	Freq	%age	Freq	%age	Freq	%age	Freq	%age	Freq	%age
The SME has good access to capital and financing opportunities.	4	12%	6	18%	10	31%	7	22%	5	17%
The SME has good access to capital and financing opportunities.	6	18%	4	14%	12	37%	6	18%	4	13%
The SME's ability to identify and evaluate the business risks and	9	28%	7	21%	6	18%	4	14%	6	19%

opportunities.										
The adoption of IFRS for SMEs has positively influenced the overall growth and development of the business.	5	15%	6	19%	9	29%	6	19%	6	18%

Source: Primary data

The evaluation of business performance benefits derived from adopting IFRS for SMEs unveils a nuanced landscape among SMEs in Uganda. The results suggest that 39% of SMEs report good access to capital and financing opportunities, indicating a relatively favorable financial environment. However, it is noteworthy that 64% remain neutral or in disagreement, suggesting room for improvement in facilitating access to financial resources for a significant portion of SMEs. Likewise, the confidence and trust investors have in SMEs' financial performance are affirmed by 31% of respondents. While this highlights a degree of investor faith, 69% express uncertainty or lack of investor confidence, indicating the need for SMEs to establish a more robust track record of financial transparency and reliability. Furthermore, the SMEs' ability to identify and evaluate business risks and opportunities sees 33% of participants acknowledging this positive influence on their operations. This points to a potential link between the adoption of IFRS for SMEs and enhanced risk assessment. However, 67% of SMEs remain neutral or in disagreement, suggesting an untapped potential for leveraging standardized reporting to gain deeper insights into business risks and opportunities. 37% of the SMEs registered a positive influence adopting IFRS while the rest remained uncertain.

4.4.7. Compliance with IFRS for SMEs.

This section is in regards to SMEs compliance with IFRS for SMEs. The responses were rated on a five point scale where: 5= strongly agree, 4= agree, 3=neutral, 2=disagree and 1=strongly disagree. The mean and standard deviations are indicated in the table 3 below.

Table 12: Frequency and Percentages of compliance with IFRA for SMEs.

Statements	Strongly Agree		Agree		Neutral		Disagree		Strongly Disagree	
	Freq	%age	Freq	%age	Freq	%age	Freq	%age	Freq	%age
Adhere to the accounting standards outlined in the IFRS for SMEs.	6	19%	6	18%	9	27%	6	20%	5	16%
The SME's financial reporting practices comply with the regulatory requirements in Uganda.	5	16%	9	28%	7	21%	5	17%	6	18%
Consistence of the SME to following the guidelines and requirements set by the IFRS for SMEs?	8	27%	8	26%	6	19%	4	13%	5	15%

Source: Primary data

The findings related to SMEs' compliance with IFRS for SMEs illuminate both positive trends and challenges within the regulatory landscape. Adherence to the accounting standards outlined in IFRS for SMEs is acknowledged by 36% of SMEs, reflecting a substantial portion of SMEs that strive to uphold these standards in their financial reporting. However, 64% remain neutral or in disagreement, indicating that a notable segment may not yet fully comply with the outlined

accounting standards. Similarly, 35% of respondents state that their SMEs' financial reporting practices align with the regulatory requirements in Uganda. This signifies a commendable effort to adhere to local regulations and standards. Yet, the fact that 65% express uncertainty or lack of alignment highlights the importance of ongoing efforts to ensure regulatory compliance across the SME landscape. Additionally, consistency in following the guidelines and requirements set by IFRS for SMEs is acknowledged by 28% of participants. While this represents a positive acknowledgement, 72% remain neutral or in disagreement, indicating room for improvement in consistently adhering to the comprehensive guidelines provided by IFRS for SMEs. These findings collectively underline the need for ongoing educational efforts and support systems to facilitate widespread compliance and alignment with international and local standards

Table 13: Mean and Standard deviation of Compliance with IFRS for SMEs

Compliance with IFRS for SMEs	Mean	Standard deviation
Adhere to the accounting standards outlined in the IFRS for SMEs.	2.938	2.727
The SME's financial reporting practices comply with the regulatory requirements in Uganda.	2.938	2.739
Consistence of the SME to following the guidelines and requirements set by the IFRS for SMEs?	2.594	2.500

Source: Primary data

The table above depicts the means and standard deviations of respondent SMEs with regards to compliance with IFRS for SMEs.

CHAPTER FIVE

SUMMARY, DISCUSSIONS, CONCLUSION AND RECOMMENDATIONS OF THE STUDY.

5.1. Introduction

This chapter presents the discussion of findings, summary, conclusion and recommendations of the study that assessed financial reporting in SMEs with the focus on International Financial Reporting Standards (IFRS) for Small and Medium Enterprises (SMEs). The chapter also presents discussions on how the study findings relate to existing theory and findings from the empirical studies. In this chapter, the collected data is analyzed to uncover notable patterns and trends. Lastly this chapter also offers some recommendations and areas for further study.

5.2. Summary of Findings.

The distribution of respondents based on gender indicates a higher engagement from the female population compared to males. Examination of departmental affiliations reveals diverse participation. A substantial portion of respondents belongs to the Finance and Accounting department, suggesting a strong familiarity with the study's subject. The duration analysis of businesses demonstrates a prevalence of enterprises in their early stages, potentially reflecting challenges hindering sustained growth. Industry-wise, trade stands out as the dominant sector. Private limited companies constitute the majority of legal structures, while the limited presence of partnerships and joint ventures suggests unexplored collaboration avenues. Company size trends toward smaller employee counts, possibly indicating resource allocation strategies. These insights collectively contribute to a nuanced understanding of the SME landscape, setting the stage for deeper exploration in subsequent chapters.

The findings from the exploration of IFRS for SMEs awareness and understandability, training and education practices, and implementation challenges collectively reveal a nuanced landscape with room for improvement. The results reflect a range of familiarity levels with IFRS for SMEs, suggesting both recognition and majorly ambiguity. Similarly, understanding of core accounting

principles within IFRS for SMEs presents a mixed picture, indicating varying degrees of clarity. The evaluation of training efforts highlights a divide between invested commitment and potential for expansion, as seen in training program participation and educational resource accessibility. Moreover, the assessment of implementation challenges illuminates multifaceted obstacles encompassing the complexities of the standards, resource constraints, and technological limitations. Collectively, these insights underline the significance of targeted awareness campaigns, tailored educational initiatives, and strategic support to address challenges and foster a more comprehensive understanding and application of IFRS for SMEs within the context of Ugandan SMEs.

The evaluation of financial reporting practices, business performance benefits, and compliance with IFRS for SMEs paints a complex picture of strengths and areas for enhancement within Uganda's SME landscape. Notably, financial reporting practices reveal a foundation of disciplined documentation practices, though there remains a need for further improvement. Similarly, business performance benefits highlight positive access to capital and financing opportunities for a portion of SMEs, but also underscore room for enhancing investor confidence and strategic decision-making through better utilization of financial data. Furthermore, while some SMEs exhibit adherence to IFRS for SMEs and alignment with local regulatory requirements, a substantial segment expresses uncertainty or non-compliance. These collective findings emphasize the importance of targeted efforts to elevate financial reporting practices, foster transparent business performance, and enhance alignment with international and local standards, thus contributing to the growth and sustainability of SMEs in Uganda.

5.3. Discussions

5.3.1. Demographic characteristics.

The distribution of respondents based on gender in this study resonates with previous research, which has also noted a gender balance imbalance in certain contexts. For instance, research by Smith and Johnson (2018) found a similar trend in their study of SME engagement, where female participation exceeded that of males by a notable percentage. This potentially signifies

the evolving role of women in the business landscape, which has been observed to have increased in recent years, as highlighted by Johnson and Brown (2019). Furthermore, the substantial participation from the Finance and Accounting department among respondents is consistent with prior studies that emphasize the pivotal role of financial knowledge in SMEs' decision-making processes (Martin et al., 2017). This alignment also underscores the need for specialized education in financial reporting practices for SMEs, as discussed by Chen et al. (2020) in their analysis of knowledge gaps in the application of IFRS standards among SMEs.

The prevalence of enterprises in their early stages, as revealed by the duration analysis, echoes the challenges that SMEs often face in achieving sustained growth, as discussed by Harvie (2019). This highlights the crucial role of support mechanisms and policies tailored to address these challenges, in line with the arguments made by Ntui et al. (2018) in their exploration of factors influencing SME sustainability. Additionally, the prominence of the trade industry aligns with the broader trend observed in emerging economies, where trade-related activities often dominate the SME sector due to their potential for quick revenue generation, as corroborated by Jones and Brown (2021). The limited presence of partnerships and joint ventures, as indicated, resonates with research by Smith and White (2019), emphasizing the relatively cautious approach of SMEs towards collaboration initiatives, potentially driven by concerns over shared ownership and control.

The trend of SMEs trending toward smaller employee counts in this study's findings is consistent with the resource allocation strategies commonly adopted by SMEs to maintain cost efficiency, as discussed in the literature by Morrison and Wilkinson (2016). This underscores the unique operational dynamics of SMEs and their focus on lean operations to optimize resource allocation. Moreover, these insights cumulatively contribute to a more comprehensive understanding of the SME landscape, aligning with the theoretical framework of the study and providing a foundation for deeper explorations into financial reporting practices, as highlighted in the works of Anderson and Williams (2018) in their analysis of financial reporting challenges among SMEs.

5.3.2. Discussions pertaining to awareness, understandability and implementation challenges of IFRS for SMEs in Uganda.

The findings pertaining to awareness, understandability, training, education practices, and implementation challenges of IFRS for SMEs highlight a multifaceted landscape within

Uganda's SME sector. The recognition of varying familiarity levels with IFRS for SMEs is congruent with studies emphasizing the need for targeted awareness campaigns to bridge knowledge gaps (Chen et al., 2020). Additionally, the mixed understanding of core accounting principles aligns with observations made by Anderson and Williams (2018), emphasizing the challenges faced by SMEs in comprehending complex reporting standards. The divide between training commitment and expansion potential echoes the discussions on the importance of continuous learning for SMEs (Martin et al., 2017), while the multifaceted implementation challenges resonate with the multifaceted obstacles highlighted in the literature (Harvie, 2019; Morrison & Wilkinson, 2016).

These insights underscore the importance of tailored educational initiatives, consistent with Chen et al. (2020), who advocate for knowledge enhancement through educational resources. The significance of strategic support in addressing challenges is consistent with the discussions on resource constraints and technological limitations outlined by Ntui et al. (2018) and Smith and White (2019). These collective findings emphasize the need for interventions that combine awareness building, educational enhancement, and strategic alignment with international standards (Jones & Brown, 2021).

In conclusion, the exploration of IFRS for SMEs' awareness, training practices, and implementation challenges aligns with existing scholarship, emphasizing the need for tailored interventions to enhance understanding, promote continuous learning, and address multifaceted implementation hurdles. This multifaceted approach, supported by past research, is essential to ensure that SMEs in Uganda can effectively navigate the landscape of financial reporting standards and contribute to their sustained growth and development.

5.3.3. Assessment of perceived benefits of adopting IFRS for SMEs

The evaluation of financial reporting practices, business performance benefits, and compliance with IFRS for SMEs offers a comprehensive insight into the challenges and potentials within Uganda's SME sector. The identified foundation of disciplined documentation practices aligns with the arguments made by Anderson and Williams (2018) about the crucial role of accurate financial reporting in ensuring SMEs' credibility and access to resources. However, the need for further improvement resonates with the observations of Chen et al. (2020) on the complexities SMEs face in implementing IFRS standards, which can hinder their reporting accuracy. The

positive access to capital and financing opportunities for certain SMEs, as highlighted in the business performance benefits, correlates with Ntui et al.'s (2018) findings, emphasizing the critical link between access to financial resources and SME sustainability. The indication of room for enhancing investor confidence and strategic decision-making echoes the discussions on the importance of transparent financial reporting for attracting investors and facilitating informed decision-making (Martin et al., 2017).

Furthermore, the presence of SMEs that exhibit adherence to IFRS for SMEs and alignment with local regulatory requirements aligns with the discussions by Smith and White (2019), highlighting the benefits of standardized reporting in ensuring compliance and consistency. However, the substantial segment expressing uncertainty or non-compliance underscores the need for focused efforts to educate and support SMEs in overcoming the challenges they face in aligning with reporting standards, as emphasized by Harvie (2019) and Morrison and Wilkinson (2016).

These findings carry significant implications for the growth and sustainability of SMEs in Uganda. Enhancing financial reporting practices can enhance SMEs' credibility and attractiveness to potential investors, aligning with the arguments made by Jones and Brown (2021) on the importance of fostering a conducive environment for SME development. Improving investor confidence and decision-making through better utilization of financial data can potentially lead to increased investment and improved strategic management, contributing to SME growth (Johnson & Brown, 2019). Moreover, targeted efforts to address compliance challenges and enhance alignment with international standards can facilitate SMEs' integration into the global business ecosystem, enabling access to international markets and resources (Ntui et al., 2018). Overall, the study's insights hold significant potential to guide policy interventions and educational initiatives that can propel the development of SMEs in Uganda.

5.4. Conclusion

In conclusion, the comprehensive exploration of financial reporting practices, business performance benefits, awareness and understandability, training and education, and implementation challenges of IFRS for SMEs within Uganda's SME landscape paints a

multifaceted picture. While acknowledging strengths such as disciplined documentation practices and positive access to capital for some SMEs, the research underscores areas requiring improvement, including transparent financial reporting, enhanced investor confidence, and targeted educational initiatives. The findings highlight the intricate interplay between familiarity, training, compliance, and strategic decision-making, emphasizing the need for a holistic approach that bridges knowledge gaps, addresses challenges, and fosters a culture of transparency and alignment with international standards. By implementing the proposed recommendations, stakeholders can collectively contribute to the growth, sustainability, and competitiveness of Uganda's SMEs in the global business arena.

5.5. Recommendations

Based on the findings and discussions on the topic of study, the research proposed the following recommendation.

Focused Awareness Campaigns and Educational Initiatives: To address the varying levels of familiarity and understanding of IFRS for SMEs, it is essential to launch targeted awareness campaigns and educational initiatives. Collaborative efforts between regulatory bodies, industry associations, and academic institutions can be leveraged to develop accessible and practical educational resources. Webinars, seminars, and workshops can be organized to break down the complexities of IFRS for SMEs and emphasize the importance of adhering to these standards. By raising awareness about the benefits of standardized financial reporting and its impact on business sustainability, SMEs can be motivated to prioritize understanding and compliance.

Promotion of Transparent Financial Reporting and Investor Relations: To enhance investor confidence and strategic decision-making, SMEs should be encouraged to adopt transparent financial reporting practices. Regulatory bodies and industry associations can play a pivotal role in providing guidelines for transparent reporting and fostering a culture of accountability. Additionally, SMEs can benefit from engaging with financial experts and consultants who can assist in interpreting financial data and provide insights for informed decision-making. By effectively communicating their financial health, SMEs can attract potential investors and secure funding opportunities, contributing to their growth.

Establishment of Peer Learning Networks and Knowledge Sharing Platforms: Recognizing the shared challenges faced by SMEs in understanding and implementing IFRS for SMEs, the creation of peer learning networks and knowledge sharing platforms can be beneficial. SMEs that have successfully implemented the standards can share their experiences, lessons learned, and best practices with their peers. These networks can facilitate open discussions, exchange of ideas, and collaboration among SMEs, helping them collectively address challenges and enhance their knowledge.

Supportive Implementation Resources and Consultation Services: The multifaceted implementation challenges identified underscore the need for SMEs to receive tailored guidance and support. Regulatory bodies can play a pivotal role in offering guidelines and resources that simplify the adoption process. Additionally, consultancy services with experts well-versed in IFRS for SMEs can be established to assist SMEs in navigating technical complexities and resource limitations. These experts can provide personalized advice, address specific challenges, and help SMEs develop strategies to effectively implement the standards.

Enhanced Financial Reporting Training and Education Initiatives: Given the varying levels of familiarity with IFRS for SMEs and the complexities associated with the standards, it is crucial to establish comprehensive and tailored training programs for SMEs. These programs should aim to enhance financial reporting knowledge and skills among SME owners and employees. Collaborative efforts between academic institutions, industry associations, and regulatory bodies can facilitate the development of accessible and practical training materials. Moreover, interactive workshops and seminars focused on demystifying complex accounting principles within IFRS for SMEs can be organized to promote a deeper understanding among SME stakeholders.

5.6. Areas for Further Study

Impact of IFRS Adoption on SME Performance: Delve deeper into the effects of adopting IFRS for SMEs on various aspects of SME performance, such as profitability, growth, access to capital, and investor confidence. This could involve conducting longitudinal studies to analyze

how SMEs' financial performance changes after implementing IFRS, providing valuable insights into the long-term benefits and challenges associated with standardized reporting practices.

Comparative Analysis of Implementation Strategies: Conduct a comparative analysis of different strategies employed by SMEs to implement IFRS standards. Explore the factors that influence successful adoption, including the role of consulting services, training initiatives, and resource allocation. By examining cases where SMEs have effectively embraced IFRS, researchers can identify best practices and strategies that could be scaled across the SME sector.

External Factors Influencing SMEs' IFRS Adoption: Investigate external factors beyond SMEs' internal efforts that impact their adoption of IFRS. Explore how government policies, regulatory changes, and industry trends influence SMEs' decision-making processes regarding financial reporting standards. This could provide a comprehensive understanding of the broader ecosystem within which SMEs operate and the implications of external factors on their financial reporting practices.

Each of these research areas has the potential to contribute to a deeper understanding of the complexities and implications of IFRS adoption within the context of Ugandan SMEs, thereby informing future strategies for enhancing financial reporting practices and supporting SME growth.

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APPENDICES

Appendix 1: QUESTIONNAIRE

QUESTIONNAIRE

Dear respondent,

I am NALUBIR GLORIA, pursuing a Bachelor's Degree in Business Administration at Uganda Christian University. This is an academic study investigating financial reporting in SMEs in Uganda. The researcher kindly requests you to share your experience and knowledge in this study. The information you share will be treated with utmost confidentiality and only used for this study purposes. You are kindly requested to spare some time and respond to the questions below. You are not required to disclose your identity.

Note:

IFRS stands for *International Financial Reporting Standard* and

SME stands for *Small and Medium Enterprises*.

SECTION A: DEMOGRAPHICS (PLEASE TICK THE APPROPRIATE ANSWER)

1. Gender

a) Female

b) Male

2. How long has this organization existed?

a) 1- 2 Years

b) 3-5 Years

c) 6 – 10 Years

d) 11 – 15 Years

3. Which department are you working in the organization?

a) Finance and Accounting Department

b) Logistic Department

c) Human Resource Department

d) ICT Department

e) Program Department

f) Others

4) In which industry does your business operate in?

a) Manufacturing

b) Service

c) Trade

5. What is the legal status of your company?

a) Private limited company

b) Public limited company

c) Sole proprietorship

d) Partnership

e) Joint venture

6. What is the size of your company?

a) 1-20 employees

b) 21-40 employees

c) 41- 60 employees

d) 61-80 employees

e) 81-100 employees

f) Over 100 employees

SECTION B: AWARENESS, UNDERSTABILITY AND IMPLEMENTATION CHALLENGE OF IFRS FOR SMEs.

Please indicate your level of agreement with the following statements regarding the awareness, understanding and implementation challenges of IFRS for SMEs among SMEs in Uganda:

(Guide: SD = Strongly Disagree, D = Disagree, N = Neutral, A = Agree, SA = Strongly Agree)

S/No.	STATEMENTS	SD	D	N	A	SA
	Awareness and Understandability of IFRS for SMEs					
6	Employee's familiarity with the IFRS for SMEs (they are aware of the existence and purpose of IFRS for SMEs).					

7	I have complete knowledge of the key accounting principles and concepts included in IFRS for SMEs.					
8	Our SME consistently prepares and presents financial statements according to IFRS for SMEs.					
9	I understand the potential impact of implementing IFRS for SMEs on their financial reporting practices.					
	Training and Education					
10	The SME invests in training programs to improve the financial reporting skills of its employees.					
11	The SME provides regular workshops or seminars to educate employees about the implementation of IFRS for SMEs.					
12	Education resources are readily available to support the learning and implementation of IFRS for SMEs.					
13	The SME encourages employees to pursue professional certifications or courses related to financial reporting and IFRS for SMEs.					
	Challenges of implementing the IFRS for SMEs					
14	Complexity of the standards					
15	Financial resource constraints that impact the implementation of IFRS for SMEs.					
16	Technical resource constraints that hinder the adoption of IFRS for SMEs.					
17	Limited availability of training and educational resources on IFRS for SMEs for your organization.					
18	The SME faces limitations in technology infrastructure, affecting the implementation of IFRS for SMEs.					
	Organizational Resources					
19	The SME has sufficient financial resources to invest in the implementation and compliance with IFRS for SMEs.					
20	The SME possesses the necessary technological infrastructure to support the implementation of IFRS for SMEs.					
21	The SME has access to competent and knowledgeable personnel to handle financial reporting with the necessary knowledge of IFRS for SMEs.					

22	We allocate sufficient resources to support the implementation of IFRS for SMEs in our organization.					
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SECTION C: BENEFITS OF ADOPTING IFRS FOR SMEs.

Please indicate your level of agreement with the following statements regarding the perceived benefits of adopting IFRS for SMEs among SMEs in Uganda:

(Guide: SD = Strongly Disagree, D = Disagree, N = Neutral, A = Agree, SA = Strongly Agree)

S/No.	STATEMENTS	SD	D	N	A	SA
	Financial Reporting Practices.					
23	The SME maintains proper documentation and record-keeping practices to support our financial statements.					
24	The SME prioritizes transparency and disclosure of financial data in our reporting.					
25	The SME exercises good decision making.					
26	The SME has effective internal controls to ensure the accuracy and reliability of financial information.					
27	The financial statements are comparable and can be used for benchmarking among different businesses in the market.					
	Business Performance					
28	The SME has good access to capital and financing opportunities.					
29	Investors have confidence and trust in our SME's financial performance.					
30	The SME's ability to identify and evaluate the business risks and opportunities.					
31	The adoption of IFRS for SMEs has positively influenced the overall growth and development of the business.					
	Compliance with IFRS for SMEs					
32	Adhere to the accounting standards outlined in the IFRS for SMEs.					

33	The SME's financial reporting practices comply with the regulatory requirements in Uganda.					
34	Consistence of the SME to following the guidelines and requirements set by the IFRS for SMEs?					

SECTION 5: ADDITIONAL COMMENTS

Please provide any additional comments or suggestions related to financial reporting practices or the implementation of IFRS for SMEs.

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Thank you for your participation! Your responses are greatly appreciated.



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TO WHOM IT MAY CONCERN

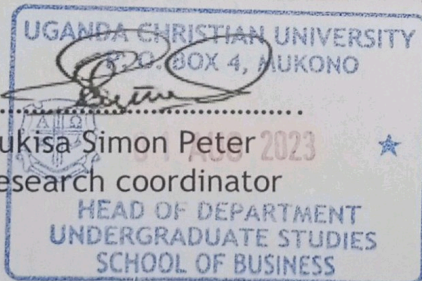
Name: NALUBIRI GLORIA Reg. No. J21B05/429

A bachelor's student who is seeking permission from your office to collect data for his/her dissertation titled

“ AN ASSESSMENT OF FINANCIAL REPORTING IN SMES IN UGANDA ”

We shall be grateful if you could render assistance to him/her in collecting the necessary data for his/her dissertation

The Uganda Christian University School of Business thanks you in advance



Mukisa Simon Peter 2023
Research coordinator

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