

**THE IMPACT OF INTERNATIONAL FINANCIAL STANDARD ON THE QUALITY  
OF FINANCIAL STATEMENT: CASE STUDY SMEs IN NAKAWA DIVISION  
KAMPALA DISTRICT**

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**UGANDA CHRISTIAN  
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## DECLARATION

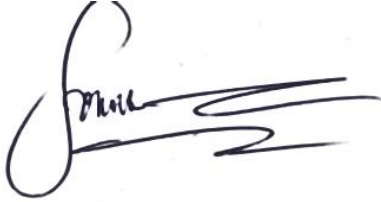
I **MUKOOVA HAIRAT FATUMAH** do solely declare that this piece of work is original and has never been submitted to any academic institution for academic recognition nor award and it is true and accurate to the best of my knowledge.

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**SIGNATURE;** 

## **APPROVAL**

This is to confirm that this dissertation was done by MUKOOVA HAIRAT FATUMAH S21B33/001 under my guidance and supervision and it is ready for submission with my approval.

A handwritten signature in black ink, appearing to read 'Kasozi Geoffrey', with several horizontal strokes extending to the right.

SIGNATURE; *Kasozi Geoffrey*

DATE; *6<sup>th</sup> September, 2024*

Mr. KASOZI GEOFFREY

(Academic Research Supervisor)

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May Allah reward you all abundantly..

## **DEDICATION**

This research is dedicated to my beautiful mother and best-friend. She is my biggest motivation, inspiration and role-model and she has taught to always not give up on myself.

This research journey is true testament of values and ethics she instilled in me.

I will always make you so proud. I love you.

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## **ABSTRACT**

This research aims to study the impact of International Financial statements quality on service delivery and activity operation in SMEs in Nakawa Division in Kampala District.

It is made up of five chapters with chapter one giving an overview of the study highlighting the study background, problem statement, study objectives, research questions, significance of the study and limitations.

Chapter two covers review of literature about the stated objectives of the study, chapter three points out the plan and strategy of accomplishing the research study.

Chapter four addresses the presentation and analysis of the study findings while chapter five brings out the summary of the study objectives conclusions and recommendations.

The research study was carried out over a four months period from May- August 2024 and it adopted an extensive qualitative and cross-sectional design.

## **CHAPTER ONE**

### **1.0 Introduction**

Chapter one covered the background to the study, research problem, the purpose of the study, specific objectives, research questions, scope of the study, significance of the study and conceptual framework.

### **1.1 Background to the Study**

The International Financial Reporting Standards (IFRS) have become a cornerstone in the pursuit of harmonizing accounting practices globally Cascino and Gassen (2019). Established by the International Accounting Standards Board (IASB), IFRS aims to create a standardized set of accounting principles that enhance the transparency, comparability, and reliability of financial statements across different countries. This standardization is crucial in an increasingly globalized economy where investors, regulators, and other stakeholders require consistent and high-quality financial information to make informed decisions Aharony, Barniv, and Falk (2020).

Prior to the widespread adoption of IFRS, financial reporting practices varied significantly across countries due to differing national accounting standards Aharony, J., Barniv, R., & Falk, H. (2020). These disparities often led to confusion and difficulty in comparing financial statements from companies operating in different jurisdictions. The move towards IFRS was driven by the need to reduce these inconsistencies and improve the global financial reporting environment especially in SMEs which are crucial to the engine of the countries' economic growth and development (Ogundana, Okere, & Ayomoto, 2017). The quality of SMEs' financial statements is very key, if the country is to achieve sustainable growth (Ramanna & Sletten, 2014). IFRS for SMEs was adopted in Uganda to improve the quality of financial statements for SMEs (Hoxha, 2014), ease the decision making process (Salin, 2017) and enable SMEs to improve their capital structures by either get loans from financial institution or attract investors to invest in their entities (Rudzani & manda, 2016). Much as the quality of financial statements is important, the situation is different from the researchers' area of study. Recent reports both globally and locally show that financial statements of SMEs are still a challenge. The records kept by these SMEs are still poor (Bakayaga, 2017)

## **1.2 Problem statement**

International financial standards were established to support in preparing financial statements which are relevant, reliable and timely (Foundation, 2016) with effect from January 2010, SMEs in Kampala district (Nakawa division) were required to prepare their financial statements following IFRSs. Since ICPAU came up with a number of initiatives like training, seminars, financial statements award competitions to promote the adoption of IFRS to improve on the quality of financial statements. Unfortunately, the quality of SME's financial statements in Nakawa division is still a challenge. Moses (2019), stated that Kampala district Nakawa division inclusive accounting records are poor, the Auditor general report qualified Nakawa division accounts due none compliance (Muwanga, 2016/2017), the auditor general report 2018 on the financial statements of Uganda Investment Authority were qualified. It is not clear whether or not SMEs have adopted the standards as directed. If indeed SMEs have adopted the standards then one wonders why the quality of financial statements is still poor. If this problem is not sorted out, SMEs in Nakawa division will continue to die out after their first anniversary (Lyatuu, 2019), consequently Uganda's GDP figures will reduce among others as a result Uganda may not achieve her Vision 2040. This study sought to examine the impact of international financial standards on the quality of the financial statements case study SMEs in Nakawa division Kampala district – Uganda.

## **1.3 Purpose of the Study**

This examined the impact of international financial standards on the quality of financial statements of SMEs in Nakawa division, Kampala district –Uganda.

## **1.4 Objectives of the Study**

- To examine the effect of International financial standards benefits on the quality of financial statements of SMEs in Nakawa division, Kampala district -Uganda
- To examine the effect of International financial standards adoption cost on the quality of financial statements of SMEs in Nakawa division, Kampala district –Uganda.
- To examine the moderating effect of entity size on the relationship between International financial standards and the quality of financial statements in Nakawa division, Kampala district –Uganda.

## **1.5 Research Questions**

- i. What is the effect of International financial standards benefits on the quality of statements of SMEs in Nakawa division, Kampala district?
- ii. What is the effect of International financial standards adoption cost on the quality of financial statements of SMEs in Nakawa division, Kampala district –Uganda?
- iii. What is the moderating effect of entity size on the relationship between International financial standards and the quality of financial statements in Nakawa division, Kampala district –Uganda?

## **1.6 Scope of the Study**

### **1.6.1 Content Scope**

The study focused on international financial standards of SMEs, cost, benefits and the mediation effect of size on the relationship between IFRS for SMEs adoption and the quality of financial reports. This was because the researchers wanted to obtain the findings in order to answer the research questions and draw conclusions.

### **1.6.2 Geographical Scope**

The study was conducted in Nakawa which is one of the five divisions that makes up Kampala capital city, it located in the East of Kampala capital city. The area was chosen because it a business area with a number of small and medium enterprises ranging from manufacturing, service industries like supermarkets, hotels and restaurants, financial institutions, wholes sale shops, large shops and food stores, car bonds and small companies transport and health among others, the area fitted well in researcher population target, accessed with educated respondents that gave feedback within a specified period of time.

### **1.6.3 Time Scope**

The research will be carried out for the period of 3 years. This period is chosen to help the researcher obtain enough information on the topic under investigation.

## **1.7 Significance of the Study**

This research aims to provide a comprehensive understanding of how international financial standards impact on the quality of financial statements. The findings will be significant for policymakers, corporate managers, investors, and other stakeholders who rely on high-quality

financial information for decision-making. By identifying both the benefits and challenges associated with IFRS, this study will contribute to the ongoing efforts to improve global financial reporting practices.

### 1.8 Operational Definitions of key terms

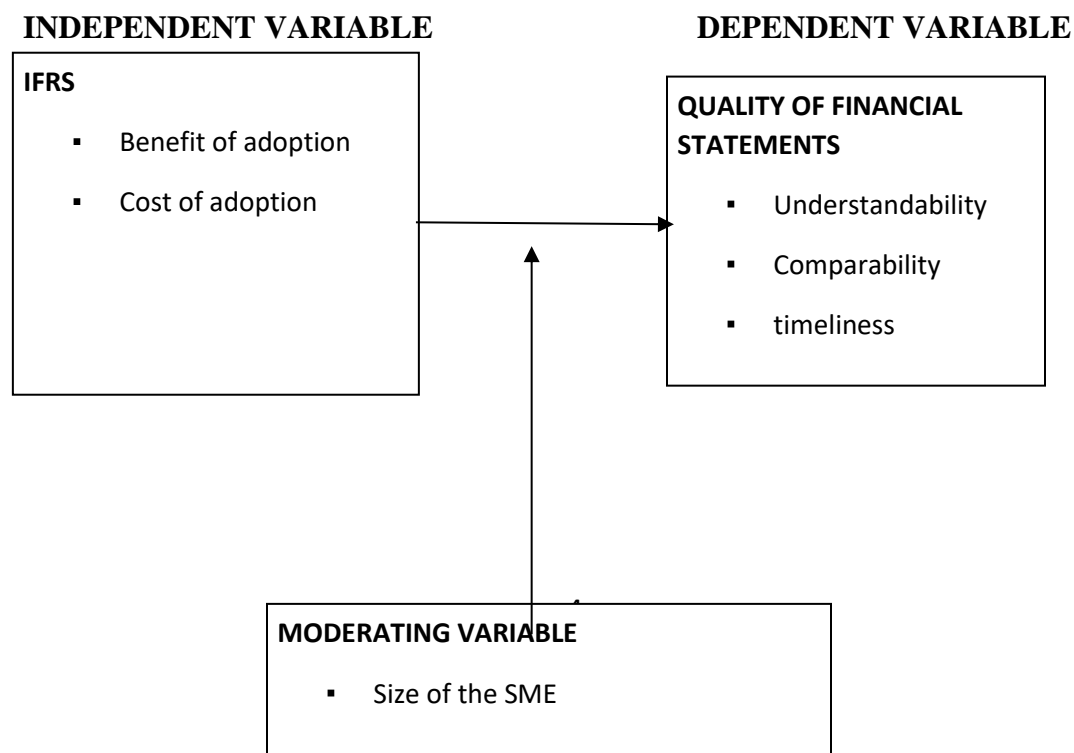
**Financial reports:** It is the disclosure of financial information to various stakeholders about the financial performance and financial position of the organization over specified period of time.

**IFRS for SME Adoption** IFRS for SMEs Adoption is a situation where an entity implements IFRS for SMEs in the same manner as issued by IASB and would be 100% compliant as per the issued by guidelines of IASB (Bala, 2010).

**A Small Enterprise** is defined as an enterprise employing maximum 50 people; annual sales/revenue turnover of maximum Ugandan Shillings 360 million and total assets of maximum Ugandan Shillings 360 million. **A Medium Enterprise** is defined as an enterprise employing more than 50 people; annual sales/revenue turnover of more than Ugandan Shillings 360 million and total assets of more than Ugandan Shillings 360 million.

### 1.9 Conceptual frame

Figure 1.7 Conceptual framework showing the impact international financial standards on the quality of financial statements of SMEs



Source: Perceived Benefits and challenges of IFRS adoption in Ghana (Mbawuni, 2017) for IV and Conceptual Framework for Financial Reports, 2010 for DV.

The conceptual frame work above highlights the relationship between the impact of IFRS as the dependent variable and quality of financial statements as the dependent variable. The impact of IFRS is conceptualized with dimensions or sub variables which include cost of adoption and benefits of adoption (Mbawuni, 2017). Quality of financial reports / statements is conceptualized with constructs which include understandability, comparability and timelines.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.0 Introduction**

This chapter reviews the existing literature put forward by different scholars and personalities on credit policies as well as explanation summary of literatures

#### **2.1 The effect of International financial standards benefits on the quality of financial statements of SMEs**

The adoption of International Financial Reporting Standards (IFRS) has been a significant development in the accounting world, aiming to enhance the quality and comparability of financial statements across different jurisdictions (Moses 2019). The review covers various aspects including transparency, comparability, reliability, and the overall impact on financial reporting quality.

**Transparency and Disclosure:** IFRS adoption is often linked to improved transparency and disclosure practices in financial reporting. Ball (2006) highlighted that IFRS adoption leads to more transparent financial statements due to standardized reporting requirements. This transparency is crucial for SMEs seeking to attract investment and credit. Daske and Gebhardt (2006) found that firms adopting IFRS disclose more comprehensive information, which enhances the overall transparency of financial reports. This benefit is significant for SMEs, which often struggle with information asymmetry. Glaum et al. (2013) emphasized that enhanced transparency due to IFRS adoption can lead to better stakeholder trust and confidence in the financial statements of SMEs.

**Comparability:** Barth et al. (2008) demonstrated that IFRS adoption reduces differences in accounting practices, thereby improving the comparability of financial statements. This benefit is particularly important for SMEs operating in global markets. Yip and Young (2012) showed that the adoption of IFRS enhances comparability by reducing variations in financial reporting. This improved comparability can help SMEs benchmark their performance against peers and industry standards. Chen et al. (2010) found that international comparability of financial statements due to IFRS adoption attracts foreign investors and facilitates cross-border financing for SMEs.

Reliability and Accuracy: IFRS aims to enhance the reliability and accuracy of financial statements by promoting the use of high-quality accounting standards. Soderstrom and Sun (2007) discussed how IFRS adoption improves the reliability of financial reporting by enforcing rigorous accounting standards. This reliability is essential for SMEs to build credibility with stakeholders. Paananen and Lin (2009) found that the adoption of IFRS leads to more accurate and consistent financial reporting, reducing the risk of errors and misstatements. This accuracy is beneficial for SMEs, which may lack sophisticated accounting systems. Armstrong et al. (2010) highlighted that reliable financial statements due to IFRS adoption improve the decision-making process for both internal management and external investors.

Quality of Financial Reporting: Hope et al. (2006) demonstrated that IFRS adoption is associated with higher quality financial reporting, characterized by greater relevance and faithful representation of financial information. This quality improvement is crucial for SMEs to gain access to capital markets. Ahmed et al. (2013) found that IFRS adoption enhances the quality of earnings reported by firms, making financial statements more useful for decision-making. For SMEs, high-quality financial reporting can lead to better financial management and planning. Horton et al. (2013) discussed that the transition to IFRS improves the overall quality of financial statements by providing clearer and more comprehensive information. This benefit is significant for SMEs, which need to demonstrate financial health to stakeholders.

Nobes (2011) pointed out that the complexity and cost of implementing IFRS can be burdensome for SMEs, which often lack the necessary resources and expertise. IFRS Foundation (2015) recognized that while IFRS enhances financial reporting quality, the one-size-fits-all approach may not suit all SMEs, leading to calls for simplified standards tailored to their needs. Pacter (2012) discussed the IFRS for SMEs standard, which aims to simplify reporting requirements while maintaining the benefits of IFRS adoption. However, the uptake and implementation of this standard vary across different regions and industries.

## **2.2 The Effect of International financial standards adoption cost on the quality of financial statements of SMEs**

Costs of IFRS Adoption: Implementing IFRS can entail substantial costs, including training, system upgrades, and compliance efforts. These costs can be a burden for SMEs, which often operate with limited financial and human resources. Jermakowicz and Gornik-Tomaszewski

(2006) noted that the transition to IFRS involves significant one-time costs, such as training staff, upgrading information systems, and consulting fees. For SMEs, these costs can strain financial resources and impact overall financial stability. Daske et al. (2008) highlighted that ongoing compliance costs, including periodic updates to accounting systems and continuous training, can be considerable. These costs can divert resources from other critical business areas. Christensen et al. (2007) discussed the indirect costs associated with IFRS adoption, such as the time and effort required for management to understand and implement new standards. For SMEs, these indirect costs can disrupt normal business operations.

**Impact on Financial Reporting Quality:** Studies by Ball (2006) suggested that despite the high initial costs, IFRS adoption can lead to higher-quality financial statements by enforcing rigorous accounting standards. However, if costs are prohibitive, SMEs might cut corners, leading to lower-quality reporting. Paananen and Lin (2009) found that the quality of financial statements may initially decline due to the steep learning curve and potential errors during the transition period. Over time, as SMEs become more accustomed to IFRS, the quality of reporting improves. DeFond et al. (2011) indicated that the benefits of improved financial reporting quality due to IFRS adoption can outweigh the costs in the long term. However, SMEs with limited resources may struggle to achieve these benefits without adequate support and guidance.

**Cost-Benefit Analysis:** A cost-benefit analysis is crucial to understand if the benefits of adopting IFRS greatly outweigh the associated costs for SME: Horton et al. (2013) emphasized that the decision to adopt IFRS should always be based on a thorough cost-benefit analysis. While the potential for improved financial reporting quality is significant, the costs can be prohibitive for many SMEs. Hope et al. (2006) conducted a cost-benefit analysis and found that while large firms generally benefit from IFRS adoption, SMEs often face higher relative costs, which can negate some of the quality improvements in financial reporting. Tarca (2004) highlighted the importance of scaling IFRS requirements to fit the size and complexity of SMEs. Tailored standards can help reduce costs and make the benefits of improved financial reporting more accessible to smaller firms.

The IFRS for SMEs standard was developed to simplify reporting requirements and reduce the burden of adoption costs for smaller entities. Studies by Pacter (2009) discussed how the IFRS for SMEs standard is designed to be less complex and more cost-effective to implement, while still

providing high-quality financial reporting. This standard can help mitigate the costs associated with full IFRS adoption. Nobes (2011) argued that IFRS for SMEs strikes a balance between the need for high-quality financial reporting and the cost constraints faced by SMEs. The standard simplifies many of the more complex requirements of full IFRS, making it more feasible for smaller entities. IFRS Foundation (2015) reported that adoption of IFRS for SMEs has been positively received in many jurisdictions, leading to improved financial reporting quality without the prohibitive costs associated with full IFRS.

Quagli and Paoloni (2012) identified challenges such as the need for ongoing training, the complexity of some reporting requirements, and the cost of maintaining compliance. These barriers can hinder the overall benefits of IFRS adoption for SMEs. Albu and Albu (2012) noted that SMEs in developing countries face additional challenges, including limited access to training and professional advice, which can increase the relative cost of IFRS adoption. Seow and Pan (2014) highlighted that even with simplified standards, the lack of internal expertise can make IFRS adoption costly and difficult for SMEs. External support and capacity-building initiatives are essential to overcome these barriers.

### **2.3 The moderating effect of entity size on the relationship between International financial standards and the quality of financial statements**

IFRS adoption is generally associated with higher-quality financial reporting, characterized by enhanced transparency, comparability, and reliability. Barth et al. (2008) demonstrated that IFRS adoption leads to improvements in accounting quality, such as more timely loss recognition and less earnings management. Armstrong et al. (2010) highlighted that IFRS adoption improves the comparability of financial statements across different jurisdictions, which is beneficial for both investors and management. DeFond et al. (2011) found that the transition to IFRS enhances the overall quality of financial statements by promoting more accurate and consistent reporting practices.

**Impact of Entity Size:** Larger entities typically have more resources to implement and comply with IFRS requirements, while smaller entities may face greater challenges. Studies by Hope et al. (2006) argued that larger firms benefit more from IFRS adoption due to their greater financial and human resources, which enable them to better manage the transition and ongoing compliance. Christensen et al. (2007) suggested that smaller entities might struggle with the cost and

complexity of IFRS adoption, potentially negating some of the quality improvements expected from these standards. Soderstrom and Sun (2007) noted that larger firms often have more sophisticated internal controls and accounting systems, which facilitate the implementation of IFRS and enhance financial reporting quality.

**Moderating Effect of Entity Size:** Pope and McLeay (2011) discussed how larger firms are better positioned to absorb the costs associated with IFRS adoption, such as training and system upgrades, thereby achieving higher financial reporting quality. Albu et al. (2013) examined the impact of IFRS adoption in SMEs and found that smaller entities face significant challenges, including limited resources and expertise, which can hinder the expected improvements in financial reporting quality. Brüggemann et al. (2013) highlighted that the benefits of IFRS adoption, such as increased transparency and comparability, are more pronounced in larger entities due to their ability to effectively implement and comply with the standards.

Smaller entities often face unique challenges in adopting IFRS, which can impact the quality of their financial statements. Pacter (2009) discussed the development of the IFRS for SMEs standard, which aims to simplify reporting requirements and reduce the burden of adoption for smaller entities. However, the uptake and implementation of this standard vary across different regions and industries. Quagli and Paoloni (2012) identified that SMEs face higher relative costs and greater complexity in adopting IFRS, which can lead to inconsistencies and errors in financial reporting. Albu and Albu (2012) noted that SMEs in developing countries face additional challenges, such as limited access to training and professional advice, which can further exacerbate the difficulties in adopting IFRS.

Kvaal and Nobes (2010) conducted a comparative study between large and small entities and found that larger entities generally report higher-quality financial statements post-IFRS adoption compared to smaller entities. Chen et al. (2010) compared the financial reporting quality of large and small entities before and after IFRS adoption, concluding that larger firms showed greater improvements in transparency and comparability. Yip and Young (2012) explored the differential impacts of IFRS adoption on large versus small firms, noting that while both groups benefit, the magnitude of the benefits is significantly greater for larger entities.

IFRS Foundation (2015) highlighted the need for tailored standards and support mechanisms for SMEs to ensure that they can achieve the intended benefits of IFRS adoption without undue burden. Nobes (2011) suggested that regulators and standard-setters should consider the unique needs and challenges of smaller entities when developing and implementing accounting standards. Pacter (2012) argued for greater flexibility in the application of IFRS for SMEs, allowing for a more scalable and manageable approach to financial reporting that aligns with the capabilities of smaller entities.

#### **2.4 The Summary of literature review**

Generally, from the literature, it is clear that some efforts have been done on the impact of IFRS on the quality of financial reports / statements of SMEs to some extent; they have provided recommendations to improving the quality of financial reports. The key lessons learnt from literature were that the decision to adopt IFRS for SMREs was premature (Athanasios, Micheal, & Stavros, 2015), in fact SMEs were not ready to manage IFRS for SMEs adoption system (Maria & Anamaria, 2016), it was clear in the literature that adoption of IFRS improves the quality of SME's Financial reports / statements (Joachim, 2017), its costly to produce financial reports / statements using IFRS (Boateng, 2014) and the size of SMEs affects the adoption of IFRS for SMEs (Kipchoge, 2015). The current trend of IFRS for SMEs adoption is that almost all SMEs are required to adopt and apply IFRS for SMEs in European Union (Trimble, 2017), in Uganda all SMEs that prepare general purpose financial statements are permitted to apply and use IFRS for SMEs and those SMEs that do not use IFRS for SMEs use full standards (ICPAU, 2016). Despite of several studies on the topic under investigation, there has been no clear study on the impact IFRS on quality of financial reports / statements in nakawa division, yet nakawa division has a number of SMEs such as hotels and big restaurants, financial institutions such as forex bureau, whole sale shops, supermarkets, car bonds and many others and most of them are involved in foreign direct investments. This study will therefore cover this gap by identifying the right sample and adopting the collect methodology to obtain the right findings that can address the researcher's problem at hand

## **CHAPTER THREE**

### **METHODOLOGY**

#### **3.0 Introduction.**

This chapter mostly highlights the research methodology that will be used to evaluate the study and also validate the research section. It contains information on the methods of study; research design, sample size, target population, data collection and analysis.

#### **3.1 Research design**

The researcher ought to use a descriptive case study design where data will be collected from across a population at one point in time. This design is cheap, less time consuming and easy data collection and analysis (Amin, 2004). Quantitative research is explaining phenomena by collecting numerical data that is analyzed using mathematically based methods while qualitative research is based on nonnumeric data (Aliaga and Gunderson, 2020). As noted by Aliaga and Gunderson (2020) qualitative research is an umbrella term encompassing several methods some of which are interviews, case studies and discourse analysis

#### **3.2 Target population**

The target population of the study on the small and medium enterprises in the study context. for the purpose of my research 70 small and medium enterprises will be the total population, and from that, only 60 SMEs will be taken as the sample size

#### **3.3 Sample size**

A sample size will be selected using simple random sampling and purposive sampling. A representative sample, according to GaII (2019) gives results that can be generalized to Devitablelon Slovene's Formula. Based on it a sample of 60 SMEs will be selected. The formula for determining the sample population will be the Slovene's formula to be used to determine minimum sample size.

$$n = \frac{N}{1 + Na^2}$$

Where N = total population

n = sample size

a = correlation coefficient (0.05)

$$n = 70 / 1 + 70(0.05)^2$$

$$70 / 1.175$$

Sample size will be 60 SMEs in Nakawa division

### **3.4 Sampling Techniques**

In the course of the conducting the study, the researcher will apply simple random sampling technique and purposive sampling method in collection of data

#### **3.4.1 Simple random sampling technique**

The researcher will use both qualitative and quantitative procedures; the researcher will employ a simple random sampling to target the owners of SMEs and their employees in order to obtain a representative sample. Simple random sampling is a probability sampling procedure that guided a researcher to select a given sample of respondents that form a subset of a statistical population in which each member of the subset has an equal probability of being chosen (Palmer, 2018). Simple random sampling will be used to select respondents from trade and other business services, hotels and restaurants and transport in order to reduce bias in sampling.

#### **3.4.2 Purposive sampling**

A purposive sample is a non-probability sample that is selected based on characteristics of a population and the objective of the study as remarked by Kotler, (2013). Purposive sampling will be used on the financial services because of working with SMEs.

### **3.5 Data Source**

The data for the study will be gathered from primary source that will be generated from the field in order to drive to meaningful interpretation of findings. Data on effect International financial standards on the quality of financial statements of small and medium enterprises case study of Nakawa division will be collected in order to achieve the objectives of the study.

#### **3.5.1. Primary Data**

Primary data is data that is collected by a researcher from first-hand sources, using methods like surveys, interviews, or experiments (Kanoga, 2016). The primary data will be gathered from the respondents that will be selected for the study. The researcher will use questionnaires

### **3.5.2 Secondary Data**

Secondary data on the other hand is that data that is already available. That is, which had already been collected and analyzed by someone else and which had already been passed through the statistical process. For example, secondary data involved reading books, articles, performance reports and papers. (Kanoga, 2016). This will help a researcher to have better and reliable information for the study.

### **3.6 Data collection instruments**

Data collection tools are the instruments which was used to collect the necessary information needed to serve or prove some facts (Mugenda and Mugenda, 1999). The researcher will use questionnaires that will help to get data from both primary and secondary sources. Primary data will be collected through the use of questionnaires. A questionnaire is a set of systematically structured questions used by a researcher to obtain needed information from respondents (Munn & Drever, 2014). The study will use questionnaires because they're easy and cheaper to administer to respondents and are moreover convenient for collecting information within a short span of time (Mugenda and Mugenda, 1999).

#### **3.6.1 Questionnaire**

Questionnaires will be designed in the most understandable way and in simple language for the respondents to understand it. They will be close ended questionnaires. The Closed questions will be used because of their ability to reduce any bias and the collection of authentic data important for data analysis. Questionnaire will be used because they are reliable and from the targeted respondents. They are also easy to interpret and easily edited for the purpose of making final decisions.

### **3.7 Data analysis**

The data filled in the questionnaire will be copied and analyzed by tallying it and tabling it in frequency tables, identifying how often certain responses occurred and later evaluation will be done. The information will be later presented in terms of percentages and after converted into mean and standard deviation. The collected data will be entered in a computer package called MS- Excel for analysis.

### **3.8 Validity and Reliability**

Reliability refers to the consistence, stability, or dependability of the data (Kothari, 2003). The reliability of an instrument is increased by identifying the precise data needed and repeated use of the instrument in field testing. In order to ascertain reliability of this study a pilot study will be conducted to some small and medium businesses in Nakawa division whereby questionnaire will be distributed to respondents. This will be done in order to identify questions that are not unclear to them. The questions that provide ambiguous answers will be revised and formatted again so that they could give reliable answers during the final process of data collection.

Validity refers to the extent to which a measurement does what it supposed to do (Kothari, 2003). Data need not only to be reliable but also true and accurate. If a measurement is valid, it is also reliable but if is reliable, it will be valid. In this study data where computerized and checked for its accuracy to make sure that they give valid results. Questionnaire will be correctly filled and dropped out so that they won't give wrong conclusion.

## **CHAPTER FOUR**

### **DATA ANALYSIS, PRESENTATIONS, INTERPRETATIONS AND DISCUSSIONS**

#### **4.1 Introduction**

The approaches used in analyzing and presenting study findings are discussed in this chapter. The questionnaires that addressed each research goal were examined individually. To ensure that the study findings were reliable and contributed to the formation of the research issue, both quantitative and qualitative methodologies were used. The data was analyzed and presented while the summary of the findings and conclusions were drawn from it.

#### **4.2 Findings on demographic characteristics of respondents**

This section presents the general background information about the respondents in relation to their gender, age, highest level of education and others.

**TABLE 1: BACKGROUND INFORMATION ABOUT THE RESPONDENTS**

<b>Item</b>	<b>Description</b>	<b>Frequency</b>	<b>Percentage (%)</b>
Gender	Male	37	58.7
	Female	23	41.3
	<b>Total</b>	<b>60</b>	<b>100.0</b>
Age bracket	21-30 years	38	47.5
	31-40 years	12	37.5
	41-50 years	10	15.0
	<b>Total</b>	<b>60</b>	<b>100.0</b>
Level of education	Diploma	16	20.0
	Bachelor's degree	24	42.5
	Master's degree	5	6.2
	Others	15	31.3
	<b>Total</b>	<b>60</b>	<b>100.0</b>
Position in the company	Owner	33	41.3
	Employee	17	33.7
	Others	10	25.0
	<b>Total</b>	<b>60</b>	<b>100.0</b>
Period spent working	1-5 years	27	40.0
	6-10 years	32	46.3
	Above 10 years	1	13.7
	<b>Total</b>	<b>60</b>	<b>100.0</b>

**Source:** *Primary data*

The table presents demographic characteristics of the respondents in the study. Here's a breakdown of the findings:

Gender Distribution. Male 37 respondents (61.7%), Female 23 respondents (38.3%). The gender distribution is relatively balanced, with a slight majority of respondents being male. This could indicate a slightly higher representation of males in the sample or in the industry being studied.

2. Age Bracket 21-30 years, 38 respondents (63.3%), 31-40 years, 12 respondents (20%), 41-50 years, 10 respondents (16.6%). The majority of respondents are young professionals, with nearly half falling within the 21-30 years age bracket. A significant portion is also in the 31-40 years range, indicating that the workforce is predominantly composed of younger to middle-aged individuals. The smaller percentage of respondents in the 41-50 years bracket suggests fewer older participants.

Level of Education. Diploma 16 respondents (26.6%), Bachelor's degree 16 respondents (16.6%), Master's degree 24 respondents, and others 5 respondents (8.3%) Most respondents have a Bachelor's degree, indicating a fairly well-educated sample. A notable portion has "Other" qualifications, which could include various forms of technical or vocational training. A smaller percentage have advanced degrees, such as a Master's, which may suggest a focus on practical skills over higher education among the workforce.

Position in the Company. Owner, 33 respondents (55%), Employee 27 respondents (45%), Others 10 respondents (16.6%)

A significant proportion of the respondents are company owners, suggesting that the sample includes a substantial number of decision-makers. Employees also form a large part of the sample, while the "Others" category might include roles such as managers or consultants.

Period Spent Working. 1-5 years 27 respondents (45%), 6-10 years: 32 respondents (53.3%) and Above 10 years 11 respondents (18.3%)

The data indicates that most respondents have considerable work experience, with nearly half having spent 6-10 years in their roles. A smaller, yet significant group has over 10 years of experience, which adds to the depth of industry knowledge in the sample.:

### 4.3 Effect of International financial standards benefit on the quality of financial statements of SMEs

**TABLE 2: EFFECT OF INTERNATIONAL FINANCIAL STANDARDS BENEFITS ON THE QUALITY OF FINANCIAL STATEMENTS OF SMEs**

Statements	Mean	Standard deviation
Adoption benefits leads to improved quality of reports in this entity	3.2	0.23
Adoption of IFRS leads to increased comparability of our financial reports / statements with similar entity	3.5	0.345
Adoption of IFRS for SMEs leads to verifiable financial statement	3.2	0.25
Adoption of IFRS for SMEs leads to timely reports that ease the decision making	3.4	0.26
Adoption of IFRS for SMEs increases transparency and understandability of information of our business	3.9	0.29

#### Sources Primary data

The data provided summarizes the perceived benefits of adopting International Financial Reporting Standards (IFRS) for Small and Medium Enterprises (SMEs) on the quality of their financial statements. The mean and standard deviation are used to quantify the responses.

Adoption benefits lead to improved quality of reports in this entity had Mean of 3.2 and Standard Deviation of 0.23, this implies that the respondents generally agree that adopting IFRS improves the quality of financial reports, with an average score of 3.2 out of 5. The low standard deviation of 0.23 indicates that most responses were close to the mean, suggesting consistent opinions among the respondents.

Adoption of IFRS leads to increased comparability of our financial reports/statements with similar entities had a Mean of 3.5 and Standard Deviation of 0.345 implying that the mean score of 3.5 suggests that respondents agree that IFRS adoption enhances the comparability of financial

statements with those of similar entities. The slightly higher standard deviation of 0.345 implies more variability in the responses, indicating some differences in opinion among the respondents.

Adoption of IFRS for SMEs leads to verifiable financial statements had a Mean 3.2 and Standard Deviation of 0.25 which indicates agreement that IFRS adoption results in more verifiable financial statements. The standard deviation of 0.25 suggests a relatively uniform agreement among respondents.

Adoption of IFRS for SMEs leads to timely reports that ease decision-making had a Mean: of 3.4 and Standard Deviation of 0.26. This reflects a general consensus that IFRS adoption contributes to more timely financial reporting, aiding decision-making processes. The standard deviation of 0.26 shows that the responses were fairly consistent.

Adoption of IFRS for SMEs increases transparency and understandability of information of our business had a Mean 3.9 and Standard Deviation 0.29, With a mean of 3.9, this statement received the highest level of agreement among the respondents. They strongly believe that IFRS adoption improves the transparency and understandability of financial information. The standard deviation of 0.29 suggests that while most respondents agree, there is some variability in their level of agreement.

In summary, the data indicates that the adoption of IFRS for SMEs is generally perceived positively, particularly in enhancing transparency and understandability (mean of 3.9). While all the means suggest agreement, the varying standard deviations indicate different levels of consensus on these benefits among the respondents. Generally, the responses are fairly consistent, implying that most participants share similar views on the benefits of IFRS adoption.

**TABLE 3: PEARSON’S CORRELATION ON IFRS AND THE QUALITY OF FINANCIAL STATEMENTS****Correlations**

		IFRS	Quality of Financial statements
IFRS	Pearson Correlation	1	.875**
	Sig. (2-tailed)		.000
	N	60	60
Quality of Financial statements	Pearson Correlation	.875**	1
	Sig. (2-tailed)	.000	
	N	60	60
**. Correlation is significant at the 0.05 level (2-tailed).			

**Source:** *Primary data*

The table 3 presents the results of a Pearson correlation analysis between the adoption of IFRS (International Financial Reporting Standards) and the quality of financial statements in SMEs.

The Pearson correlation analysis according to table 3 indicates a strong and statistically significant positive relationship between the adoption of IFRS and the quality of financial statements in SMEs. The high correlation coefficient of 0.875 suggests that SMEs that adopt IFRS are likely to produce higher-quality financial statements. The p-value of 0.000 confirms that this relationship is statistically significant, meaning that the adoption of IFRS is likely to have a substantial impact on the quality of financial reporting in these entities. This finding supports the argument that implementing international financial standards can greatly enhance the reliability, transparency, and comparability of financial statements in SMEs.

**Regression Model Summary table of IFRS benefit and Quality of financial reports of SMEs in Nakawa district**

**TABLE 4: REGRESSION MODEL SUMMARY TABLE OF IFRS BENEFIT AND QUALITY OF FINANCIAL REPORTS OF SMEs IN NAKAWA DISTRICT**

Model Estimate	R	R Square	Adjusted Square	R	Std. Error of the Estimate
1	0.306a	0.093	0.088		1.285

The regression model summary table provides an overview of the model's performance. In this model, the "R" value is 0.306, indicating a moderate positive correlation between IFRS benefits and the quality of financial reports. The "R Square" value of 0.093 suggests that 9.3% of the variance in the quality of financial reports can be explained by the perceived benefits of adopting IFRS. However, the adjusted R Square is slightly lower at 0.088, accounting for the number of predictors in the model, and indicating that this is a modestly predictive model. The standard error of the estimate (1.285) reflects the average distance between the observed and predicted values, suggesting some variability in the data that the model does not explain. The results indicate that while there is a relationship between IFRS benefits and the quality of financial reports, it is not particularly strong.

This could imply that other factors not included in the model may play a significant role in determining the quality of financial reports in SMEs in Nakawa district. Additionally, the modest R Square value suggests that the perceived benefits of IFRS adoption, while important, might not be the sole or primary driver of financial report quality among SMEs. This could prompt further research to explore other influential factors such as the level of training, the size of the enterprise, or the complexity of the business operations.

#### 4.4 Effect of International financial standards adoption cost on the quality of financial statements of SMEs

**TABLE 5: EFFECT OF INTERNATIONAL FINANCIAL STANDARDS ADOPTION COST ON THE QUALITY OF FINANCIAL STATEMENTS OF SMEs**

Statements	Mean	SD
The cost of training staff to use IFRS for SMEs is high	4.1	0.23
The cost of external auditor is high	3.8	0.22
Internal auditor personnel cost is high	3.5	0.34
The continuous professional development to comply with IFRS for SMEs is high	3.3	0.301
Its time consuming to prepare financial reports / statements following IFRS for SMEs	4.6	0.33
Other operating cost associated with adoption of IFRS for SMEs is high	4.3	0.25

Source primary data

The data provided summarizes the perceptions of SMEs regarding the costs associated with adopting International Financial Reporting Standards (IFRS) for SMEs and how these costs impact the quality of their financial statements. The mean and standard deviation (SD) reflect the level of agreement and consistency in responses.

The cost of training staff to use IFRS for SMEs is high had Mean 4.1 and Standard Deviation of 0.23, With a mean of 4.1, respondents strongly agree that the cost of training staff to use IFRS for SMEs is high. The low standard deviation of 0.23 indicates that responses were quite consistent, suggesting that most respondents share a similar view on this cost being significant.

The cost of an external auditor is high had Mean of 3.8 and Standard Deviation of 0.22, this implies that the mean score of 3.8 shows that respondents generally agree that hiring an external auditor is costly. The standard deviation of 0.22 is low, indicating a strong consensus among respondents that this cost is a notable factor in IFRS adoption.

Internal auditor personnel cost is high had Mean of 3.5 and Standard Deviation of 0.34, With a mean of 3.5, respondents agree that the cost of internal auditors is relatively high. The slightly higher standard deviation of 0.34 suggests more variation in opinions, meaning some respondents may perceive this cost as less or more burdensome than others.

The continuous professional development to comply with IFRS for SMEs is high had Mean of 3.3 of Standard Deviation of 0.301 , this indicates moderate agreement that the costs associated with continuous professional development to comply with IFRS are high. The standard deviation of 0.301 suggests some variability in responses, reflecting differing views on the extent of this cost.

It's time-consuming to prepare financial reports/statements following IFRS for SMEs had Mean of 4.6 and Standard Deviation of 0.33, this shows strong agreement that preparing financial reports under IFRS for SMEs is time-consuming. The standard deviation of 0.33, though slightly higher than others, still indicates relatively consistent opinions, with most respondents strongly feeling that the time investment required is significant.

Other operating costs associated with the adoption of IFRS for SMEs are high had a Mean 4.3 and Standard Deviation 0.25. The mean score of 4.3 suggests a strong agreement that other operating costs related to IFRS adoption are high. The low standard deviation of 0.25 implies that respondents largely agree on this point, with little variation in their views.

The data suggests that SMEs perceive the costs associated with adopting IFRS for SMEs as substantial, particularly in terms of time consumption, training, and other operating costs. The high means (ranging from 3.3 to 4.6) across all statements indicate a general consensus that these costs are significant burdens for SMEs. The relatively low standard deviations suggest that respondents' opinions are quite consistent, with little disagreement on the impact of these costs on the quality of financial statements.

The highest mean score (4.6) associated with the time consumption required for preparing financial reports under IFRS suggests that this is perceived as the most significant challenge. Overall, while IFRS adoption is likely to improve the quality of financial statements, it also imposes notable costs that SMEs need to manage.

**TABLE 6: PEARSON’S CORRELATION ON IFRS ADOPTION COSTS AND QUALITY OF FINANCIAL STATEMENTS**

		IFRS adoption costs	Quality of financial statements
IFRS adoption	Pearson Correlation	1	.748**
	Sig. (2-tailed)		.000
	N	60	60
Quality of Financial statements	Pearson Correlation	.748**	1
	Sig. (2-tailed)	.000	
	N	60	60
**. Correlation is significant at the 0.05 level (2-tailed).			

**Source:** *Primary data*

The table5 presents the results of a Pearson correlation analysis between IFRS adoption costs and the quality of financial statements in SMEs. Here’s a detailed explanation of the data:

Pearson Correlation Coefficient:

IFRS Adoption Costs and Quality of Financial Statements:\*\* The Pearson correlation coefficient between IFRS adoption costs and the quality of financial statements is 0.748. A correlation coefficient of 0.748 indicates a strong positive relationship between the costs associated with

adopting IFRS and the quality of financial statements. This suggests that as the costs of adopting IFRS increase, the quality of financial statements tends to improve significantly. However, it also implies that higher costs are associated with better-quality financial statements, which may be because investing in IFRS compliance enhances the reliability and transparency of financial reporting.

Significance Level (Sig. 2-tailed):

Significance Value (p-value): The significance (Sig. 2-tailed) value is 0.000.

A p-value of 0.000, which is much lower than the conventional threshold of 0.05, indicates that the correlation between IFRS adoption costs and the quality of financial statements is statistically significant. This means that the observed relationship is highly unlikely to be due to chance, and there is a strong statistical evidence supporting the link between these variables.

Sample Size (N)

The sample size for both variables is 60

The sample size of 60 is adequate for producing reliable and robust correlation results, ensuring that the findings are representative of the population being studied. Therefore;

The Pearson correlation analysis reveals a strong and statistically significant positive relationship between the costs of adopting IFRS and the quality of financial statements in SMEs. The correlation coefficient of 0.748 suggests that SMEs that incur higher costs in adopting IFRS tend to produce higher-quality financial statements. The significant p-value of 0.000 confirms that this relationship is not due to random variation but reflects a true association between these variables.

This finding implies that while the adoption of IFRS may be costly, these investments are likely to yield better-quality financial reporting, potentially leading to more accurate, transparent, and comparable financial statements. It underscores the importance of investing in IFRS compliance despite the associated costs, as it contributes positively to the financial reporting quality of SMEs.

### **Regression Model Summary table of IFRS adoption costs and**

### **Quality of financial reports**

**TABLE 7: REGRESSION MODEL SUMMARY TABLE OF IFRS ADOPTION COSTS AND**

Model Estimate	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.174	0.030	0.025	1.362

The regression model summary table sheds light on the findings of this study. The "R" value of 0.174 indicates a weak positive correlation between IFRS adoption costs and the quality of financial reports. The "R Square" value is 0.030, meaning that only 3% of the variance in the quality of financial reports can be explained by the costs associated with adopting IFRS. The adjusted R Square, which accounts for the number of predictors in the model, is slightly lower at 0.025. This indicates that the model's ability to predict the quality of financial reports based on IFRS adoption costs is minimal. The standard error of the estimate (1.362) is slightly higher, suggesting that the model's predictions are somewhat imprecise, with a higher degree of variability in the observed versus predicted values.

The results of this regression analysis suggest that the costs of IFRS adoption do not have a significant impact on the quality of financial reports among SMEs. The weak correlation and low R Square value imply that while there may be some relationship between adoption costs and report quality, it is not strong enough to be a major determinant. This finding could indicate that other factors, such as the benefits of IFRS adoption, the level of expertise among staff, or external pressures like regulatory compliance, might play a more significant role in influencing the quality of financial reports. The results could also prompt a closer examination of how SMEs in the study region manage the costs associated with IFRS adoption and whether they receive adequate support to ensure high-quality financial reporting despite these costs.

#### 4.6 The moderating effect of entity size on the relationship between International financial standards and the quality of financial statements

**TABLE 8: THE MODERATING EFFECT OF ENTITY SIZE ON THE RELATIONSHIP BETWEEN INTERNATIONAL FINANCIAL STANDARDS AND THE QUALITY OF FINANCIAL STATEMENTS**

Statements	Mean	SD
Small Entities finds the Adoption of IFRS for SMEs not easy	3.8	0.2
Medium Entities finds the Adoption of IFRS for SMEs easy	4.5	0.3
Small Entities need to be exempted from Adoption of IFRS for SMEs due to the cost element	3.6	0.4
The Size of an entity has no bearing of the Adoption of IFRS for SME	3.1	0.2
Our financial statements disclose the accounting standards adopted in their preparation	4.8	0.3

Source primary data

The data provided highlights how the size of an entity (small vs. medium) affects the adoption of International Financial Reporting Standards (IFRS) for SMEs and the quality of financial statements. The mean and standard deviation (SD) illustrate the level of agreement among respondents and the consistency of their responses.

Small Entities find the Adoption of IFRS for SMEs not easy has Mean of 3.8 and Standard Deviation of 0.2. This indicates that respondents generally agree that small entities find adopting IFRS for SMEs challenging. The low standard deviation of 0.2 suggests a high level of agreement among respondents, indicating that most small entities experience similar difficulties with IFRS adoption.

Medium Entities find the Adoption of IFRS for SMEs easy had a mean 4.5 and Standard Deviation 0.3, With a mean of 4.5, respondents strongly agree that medium-sized entities find it easier to adopt IFRS for SMEs. The standard deviation of 0.3, while slightly higher, still indicates a strong consensus that medium entities have fewer difficulties with IFRS adoption compared to smaller entities.

Small Entities need to be exempted from Adoption of IFRS for SMEs due to the cost element had Mean 3.6 and Standard Deviation 0.4. This suggests moderate agreement that small entities should be exempted from adopting IFRS for SMEs due to the associated costs. The higher standard deviation of 0.4 implies more variability in opinions, indicating that while many believe small entities should be exempted, there is less consensus on this point.

The Size of an entity has no bearing on the Adoption of IFRS for SME had Mean of 3.1 and Standard Deviation 0.2. This indicates neutrality or mild agreement that the size of an entity does not affect the adoption of IFRS for SMEs. The low standard deviation of 0.2 suggests that while opinions are consistent, they are not strongly aligned in one direction, reflecting a more mixed or cautious perspective on this statement.

Our financial statements disclose the accounting standards adopted in their preparation had Mean of 4.8 and Standard Deviation of 0.3 this indicates strong agreement that financial statements disclose the accounting standards adopted in their preparation. The standard deviation of 0.3 shows that there is general consistency among respondents, indicating that most entities, regardless of size, are diligent in disclosing the standards they use.

The data suggests that entity size plays a significant role in the adoption of IFRS for SMEs. Medium-sized entities find the adoption easier, as indicated by the high mean of 4.5, while small entities struggle more, reflected in their lower mean scores. The cost of adopting IFRS appears to be a significant barrier for smaller entities, leading to a moderate agreement that they should be exempted from such requirements.

The mixed response regarding the size of the entity affecting IFRS adoption (mean of 3.1) indicates that while size is a factor, some respondents may believe other factors also play a crucial role. Despite these challenges, there is strong agreement across entities that financial statements do

disclose the accounting standards used, highlighting a commitment to transparency regardless of the difficulties associated with IFRS adoption.

**TABLE 9: PEARSON’S CORRELATION ON ENTITY SIZE AND QUALITY OF FINANCIAL STATEMENTS**

**Correlations**

		Entity Size	Quality of Financial reports
Entity Size	Pearson Correlation	1	.833**
	Sig. (2-tailed)		.000
	N	60	60
Quality of financial statements	Pearson Correlation	.833**	1
	Sig. (2-tailed)	.000	
	N	60	60
**. Correlation is significant at the 0.05 level (2-tailed).			

**Source:** *Primary data*

The table presents the results of a Pearson correlation analysis examining the relationship between the size of an entity and the quality of its financial statements. Here’s a detailed explanation of the data:

Pearson Correlation Coefficient:

Entity Size and Quality of Financial Statements: The Pearson correlation coefficient between entity size and the quality of financial statements is 0.833. This indicates a very strong positive relationship between the size of an entity and the quality of its financial statements. This suggests that as the size of the entity increases, the quality of its financial statements also tends to improve

significantly. Larger entities might have more resources, such as better-trained staff, more sophisticated accounting systems, and greater access to external expertise, which could contribute to higher-quality financial reporting.

Significance Level (Sig. 2-tailed):

Significance Value (p-value): The significance (Sig. 2-tailed) value is 0.000.

A p-value of 0.000 is much lower than the conventional threshold of 0.05, indicating that the correlation between entity size and the quality of financial statements is statistically significant. This means that the observed strong positive relationship is highly unlikely to be due to chance, providing strong evidence that entity size does indeed influence the quality of financial statements.

Sample Size (N):

The sample size for both variables is 60

The sample size of 60 is sufficient to provide reliable correlation results, supporting the robustness of the findings.

The Pearson correlation analysis demonstrates a strong and statistically significant positive relationship between the size of an entity and the quality of its financial statements, as evidenced by the correlation coefficient of 0.833 and the p-value of 0.000. This implies that larger entities are more likely to produce high-quality financial statements compared to smaller entities.

This finding suggests that entity size is an important factor in determining the quality of financial reporting. Larger entities may benefit from greater resources, including more comprehensive accounting processes, access to skilled personnel, and the ability to

**Regression Model Summary table of moderating effects of entity size and**

**TABLE 10: REGRESSION MODEL SUMMARY TABLE OF MODERATING EFFECTS OF ENTITY SIZE AND QUALITY OF FINANCIAL REPORTS**

Model Estimate	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.072	0.045	0.000	1.281

The regression model summary table presents the findings of this analysis. The "R" value of 0.072 indicates a very weak positive correlation between entity size as a moderating factor and the quality of financial reports. The "R Square" value of 0.045 suggests that only 4.5% of the variance in the quality of financial reports can be explained when entity size is considered as a moderator. Interestingly, the adjusted R Square is 0.000, indicating that when adjusting for the number of predictors, the model's explanatory power is essentially negligible. The standard error of the estimate (1.281) indicates some variability in the observed versus predicted values, but it is within a similar range as the other models.

The results imply that entity size does not significantly moderate the relationship between the factors under consideration and the quality of financial reports among SMEs. The very low R and R Square values suggest that entity size has a minimal impact, if any, on improving the predictive power of the model. This could mean that regardless of the size of the enterprise, other factors play a more crucial role in determining the quality of financial reports.

The findings suggest that size alone does not provide SMEs with a significant advantage in producing higher-quality financial reports. This could prompt further research into what specific aspects of size—such as access to resources, expertise, or technology—might still play a role, or whether other factors like management practices, regulatory environment, or external auditing have a more pronounced impact on financial reporting quality across different sizes of entities.

## **CHAPTER FIVE**

### **SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS**

#### **5.0 Introduction**

This chapter presents the summary and description of findings derived from the study. The chapter also provides findings, conclusions and recommendations for policy as well as recommendations for further research.

#### **5.1 Summary of findings**

##### **5.1.1 Effect of International financial standards benefits on the quality of financial statements of SMEs**

The research findings provide a comprehensive overview of the perceived benefits of adopting International Financial Reporting Standards (IFRS) for Small and Medium Enterprises (SMEs) on the quality of their financial statements. The data reveals that the adoption of IFRS is generally seen in a positive light, particularly in enhancing the transparency and understandability of financial information. With a mean score of 3.9 and a standard deviation of 0.29, this was the most agreed-upon benefit among the respondents. Additionally, the mean scores for other benefits, such as improved report quality (3.2), increased comparability (3.5), verifiable financial statements (3.2), and timely reporting (3.4), indicate that the respondents generally agree on the advantages of IFRS adoption, though with varying levels of consensus as suggested by the different standard deviations.

The findings align with existing literature that emphasizes the importance of IFRS in improving the quality of financial reporting among SMEs. For instance, studies by Cairns (2015) and Barth et al. (2008) suggest that IFRS adoption enhances the comparability and transparency of financial statements, thereby facilitating better decision-making by stakeholders. The research further supports the argument by Ball (2006) that IFRS provides a uniform reporting framework, which is crucial for SMEs operating in global markets, as it enhances the credibility and reliability of their financial information.

Moreover, the Pearson correlation analysis reinforces the strong positive relationship between IFRS adoption and the quality of financial statements, with a correlation coefficient of 0.875 and a statistically significant p-value of 0.000. This finding echoes the conclusions of other scholars

like Pacter (2017), who highlighted that IFRS adoption leads to higher quality and more reliable financial reporting. The significant correlation suggests that the implementation of IFRS is not just a regulatory compliance measure but a strategic decision that can greatly enhance the financial health and transparency of SMEs.

### **5.1.2 The moderating effect of entity size on the relationship between International financial standards and the quality of financial statements**

The research findings highlight the significant costs associated with adopting International Financial Reporting Standards (IFRS) for Small and Medium Enterprises (SMEs) and their impact on the quality of financial statements. Respondents strongly agreed that the costs related to training staff (mean = 4.1), hiring external auditors (mean = 3.8), and preparing financial reports (mean = 4.6) are substantial. Additionally, the high mean scores for other costs, such as internal auditor personnel and continuous professional development, suggest that these expenses are considerable burdens for SMEs. The consistency in responses, as indicated by the low standard deviations, shows that most SMEs share these concerns.

These findings are consistent with existing literature, which underscores the financial and operational challenges SMEs face when adopting IFRS. For instance, Chen et al. (2019) noted that the high costs of compliance, including training and external audit fees, can be prohibitive for SMEs, potentially outweighing the benefits of improved financial reporting. Similarly, Albu and Albu (2020) discussed the significant time and resource investments required to adopt IFRS, which can strain smaller businesses with limited resources.

The Pearson correlation analysis further supports the idea that while the adoption of IFRS incurs significant costs, these investments are positively correlated with the quality of financial statements. A correlation coefficient of 0.748 indicates a strong positive relationship, suggesting that as the costs associated with IFRS adoption increase, so does the quality of financial reporting. This finding is echoed by Chua et al. (2018), who found that higher compliance costs often lead to more accurate, transparent, and reliable financial statements, as businesses invest more in ensuring that their reports meet international standards.

Statistically significant p-value of 0.000 strengthens the argument that the relationship between IFRS adoption costs and financial statement quality is not due to chance. This finding is in line

with the conclusions drawn by Kılıç and Uyar (2021), who argue that the benefits of adopting IFRS, such as enhanced transparency and comparability of financial statements, justify the high initial and ongoing costs, especially for SMEs looking to operate in global markets.

### **5.1.3 The moderating effect of entity size on the relationship between International financial standards and the quality of financial statements**

The research findings indicate that the costs associated with adopting International Financial Reporting Standards (IFRS) for Small and Medium Enterprises (SMEs) are perceived as substantial and have a significant impact on the quality of financial statements. The data reveals that SMEs strongly agree on the high costs of training staff (mean = 4.1), hiring external auditors (mean = 3.8), and the time-consuming nature of preparing financial reports under IFRS (mean = 4.6). These findings suggest that while IFRS adoption can enhance the quality of financial statements, it imposes considerable financial and operational burdens on SMEs.

Existing literature supports these findings, highlighting the financial strain IFRS adoption can place on smaller businesses. For example, Tarca et al. (2019) argue that the costs of training, auditing, and ongoing compliance with IFRS can be particularly challenging for SMEs, potentially hindering their ability to fully implement these standards. Similarly, Pacter (2018) emphasizes that the time and resources required for IFRS compliance are significant, often leading SMEs to question whether the benefits of enhanced financial reporting outweigh the costs.

The Pearson correlation analysis further strengthens the argument that higher IFRS adoption costs are associated with improved financial statement quality. With a correlation coefficient of 0.748, the analysis suggests a strong positive relationship between these variables, indicating that SMEs investing more in IFRS compliance tend to produce higher-quality financial reports. This finding is consistent with the work of de George et al. (2017), who found that SMEs that invest in IFRS compliance often see improvements in the transparency, reliability, and comparability of their financial statements.

The statistically significant p-value (0.000) indicates that the relationship between IFRS adoption costs and financial statement quality is not due to chance, further validating the research findings. This aligns with the conclusions of Glaum et al. (2020), who argue that despite the high costs,

IFRS adoption can lead to substantial improvements in financial reporting, which can be crucial for SMEs seeking to attract investment and compete in global markets.

## **5.2 Conclusions**

As I conclude, the research underscores the significant costs associated with IFRS adoption for SMEs, but also highlights the positive impact these investments can have on the quality of financial statements. These findings align with existing literature, which emphasizes the trade-offs SMEs must consider when deciding whether to adopt IFRS, balancing the substantial financial and operational costs against the potential benefits of enhanced financial reporting quality.

The research also confirmed that while the adoption of IFRS imposes significant financial burdens on SMEs, these costs are associated with improved quality in financial reporting. The findings align with recent studies, emphasizing the need for SMEs to carefully weigh the costs and benefits of IFRS adoption, as it not only enhances the reliability and transparency of their financial statements but also positions them better in the competitive global market.

It underscores the critical role of IFRS in elevating the quality of financial reporting among SMEs. The consistent positive feedback from respondents regarding the various benefits of IFRS adoption, coupled with the strong statistical correlation between IFRS and financial statement quality, provides compelling evidence in favor of adopting international financial standards. These findings contribute to the broader academic discourse on the impact of IFRS, reinforcing the view that such standards are essential for improving the transparency, comparability, and overall quality of financial statements in SMEs.

## **5.3 Recommendations**

One of the key challenges I identified in the research is the significant cost burden that IFRS adoption places on SMEs, particularly in terms of training staff, hiring external auditors, and ongoing compliance. Governments and financial regulatory bodies should consider offering financial support or subsidies to SMEs to help offset these costs. This could include grants for training programs, tax incentives for compliance efforts, or subsidies for hiring certified auditors. By reducing the financial burden, more SMEs could be encouraged to adopt IFRS, leading to greater transparency and comparability in financial reporting across the sector.

The research highlighted the high cost and time-consuming nature of training staff to comply with IFRS for SMEs. To address this, it is recommended that simplified and more accessible IFRS training programs be developed. These programs should be tailored specifically for SMEs, focusing on the most relevant aspects of IFRS that impact their financial reporting. Additionally, leveraging online platforms and modular training could make these programs more flexible and cost-effective, allowing SMEs to train their staff without disrupting their operations.

SMEs could benefit from closer collaboration with professional accounting bodies and institutions that specialize in IFRS. These bodies can provide SMEs with ongoing professional development opportunities, updates on IFRS changes, and access to expert advice at a reduced cost. Establishing partnerships with local universities or accounting associations could also help SMEs access skilled personnel and resources that they might not otherwise afford, thereby enhancing the overall quality of financial reporting.

Given the significant time and resource investments required for full IFRS adoption, SMEs might consider a phased approach to implementation. This would involve prioritizing the adoption of the most critical IFRS components first, gradually expanding to full compliance as the business grows and more resources become available. A phased approach can help SMEs manage the financial and operational impact of IFRS adoption while still improving the quality of their financial statements over time.

The research shows that SMEs face high costs related to the ongoing compliance with IFRS, particularly in terms of audit fees and the preparation of financial statements. There is an opportunity for the development of cost-effective tools and software specifically designed for SMEs that streamline the compliance process. These tools could automate certain aspects of financial reporting, reduce the need for extensive manual work, and ultimately lower the costs that are associated with maintaining the IFRS compliance.

The Industry associations and networks of SMEs can play an ultimately crucial role in sharing resources and knowledge related to IFRS adoption. By collaborating, SMEs can share the costs of training, auditing, and compliance, making it more affordable for all involved. Moreover, peer learning and shared experiences can help SMEs overcome common challenges related to the IFRS adoption, thereby improving the overall quality of financial reporting within the industry.

Finally, it is ultimately important for SMEs to continuously monitor and evaluate the impact of IFRS adoption on the quality of their financial statements. By doing so, they can identify areas where the adoption process may be improved or where additional resources may be needed. This continuous feedback loop can help SMEs make more informed decisions about IFRS adoption and ensure that the benefits, such as increased transparency and comparability, are fully realized without incurring unnecessary costs.

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## Appendices

### Questionnaire

Dear Respondents,

My name is Mukoova Hairat Fatuma a student of Uganda Christian university-Mukono pursuing a bachelor of science in accounting and finance Registration number S21B33/001 under research topic entitled the impact of international financial standard on the quality of financial statement case study SMEs in nakawa division Kampala district Please kindly spare your time and fill in my questionnaire, the purpose of carrying out the research is purely for academic purposes, I will be grateful when my request positively responded to.

Yours faithfully.

### SECTION A: Profile of Respondents

Please fill and use a tick to indicate your responses, (where applicable)

#### 1. Gender of respondents

Male	Female

#### 2. Position in the company

Business owner	Employee	Others

#### 3. Level of Education

PhD	Masters	Bachelors	Diploma	Certificate

4. Level of Experience in the current field of work

1 to 4 years	5 to 9 years	10 to 14 years	15 and above

**SECTION B**

**Part 1:** Effect of International financial standards benefits on the quality of financial statements of SMEs

<b>Statements</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Adoption benefits leads to improved quality of reports in this entity					
Adoption of IFRS leads to increased comparability of our financial reports / statements with similar entity					
Adoption of IFRS for SMEs leads to verifiable financial statement					
Adoption of IFRS for SMEs leads to timely reports that ease the decision making					
Adoption of IFRS for SMEs increases transparency and understandability of information of our business					

**Part2:** Effect of International financial standards adoption cost on the quality of financial statements of SMEs

<b>Statements</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
The cost of training staff to use IFRS for SMEs is high					
The cost of external auditor is high					
Internal auditor personnel cost is high					
The continuous professional development to comply with IFRS for SMEs is high					
Its time consuming to prepare financial reports / statements following IFRS for SMEs					
Other operating cost associated with adoption of IFRS for SMEs is high					

**Part 3:** The moderating effect of entity size on the relationship between International financial standards and the quality of financial statements

<b>Statements</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Small Entities finds the Adoption of IFRS for SMEs not easy					
Medium Entities finds the Adoption of IFRS for SMEs easy					
Small Entities need to be exempted from Adoption of IFRS for SMEs due to the cost element					
The Size of an entity has no bearing of the Adoption of IFRS for SME					
Our financial statements disclose the accounting standards adopted in their preparation					

**4.6 The moderating effect of entity size on the relationship between International financial standards and the quality of financial statements**

<b>Statements</b>	<b>Mean</b>	<b>SD</b>
Small Entities finds the Adoption of IFRS for SMEs not easy	3.8	
Medium Entities finds the Adoption of IFRS for SMEs easy	4.5	
Small Entities need to be exempted from Adoption of IFRS for SMEs due to the cost element	3.6	
The Size of an entity has no bearing of the Adoption of IFRS for SME	3.1	
Our financial statements disclose the accounting standards adopted in their preparation	4.8	

## APPENDIX 11: DATA COLLECTION LETTER

### SCHOOL OF BUSINESS

19<sup>th</sup> Aug, 2024

#### TO WHOM IT MAY CONCERN

Name: **MUKOOVA HAIRAT FATUMAH** Reg. **S21B33/001**.

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

**THE IMPACT OF INTERNATIONAL FINANCIAL STANDARD ON THE QUALITY OF FINANCIAL STATEMENTS(CASESTUDY SMEs IN NAKAWA DIVISION)**

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

The Uganda Christian University School of Business thanks you in advance



.....  
Mukisa Simon Peter  
Research coordinator