The Challenges Of Adopting And Implementing Ifrs For Smes In Ghana: The Case Of Smes In The Kumasi Metropolis

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ABSTRACT

The study examined the challenges of adopting and implementing International Financial Reporting Standard (IFRS) among SMES in the Kumasi Metropolis. Specifically, the study explored the extent of IFRS for SMEs adoption and implementation among SMEs and the challenges of IFRS for SMEs adoption and implementation among SMEs in the Kumasi Metropolis. Based on survey, the study employed Simple random sampling and purposive sampling techniques in selecting 119 respondents for the study. Simple percentages and frequency tables were employed for the data analysis through the help of statistical package for social sciences (SPSS). The study discovered that IFRS for SMEs adoption and implementation among SMEs is very low in the Metropolis, most SMEs prepare financial records using the erstwhile Ghana National Accounting Standard (GNAS). The study also revealed that inadequate requisite skills to successfully implement the IFRS for SMEs, lack of support from regulatory and professional bodies, the complex nature of the IFRS which bars most users from
understanding statements prepared and the high implementation cost are the challenges being encountered by SMEs that have adopted the standard. The study recommends that the Government through the Ministry of Trade and Industry should collaborate with the Institute of Chartered Accountants-Ghana to give financial accounting education to SMEs owners who are mostly managers and their accounts clerks. The cost of the training should be shared among the owners of the SMEs and the Ministry of Trade and Industry.

**Keywords:** IFRS, SMEs, Kumasi Metropolis, Ghana

1. **INTRODUCTION**

The Kumasi Metropolis has one of the highest concentration of Small and Medium Scale Entities (SMEs) in Ghana, prompting the Kumasi Metropolitan Assembly to refer to the metropolis as the SMEs hub of Ghana (KMA, 2014). According to KMA (2014) more than 95% of the active labour force in the metropolis is engaged in the SMEs sector, making the sector the highest employer in the metropolis.

The Companies Code (Act 179, 1963) requires all registered companies in Ghana both private and public to prepare basic accounting report. The Companies Code provides the requirements for preparation and publication of financial statements, disclosures, and auditing, among other provisions.

Report from ROSC (2004) showed that the accounting and auditing practices in Ghana suffer from institutional weaknesses in regulation, compliance, and enforcement of standards and rules. Although Ghana Accounting and Auditing Standards have been based on International Accounting Standards and International Standards on Auditing, respectively, they are outdated and gaps exist in comparison with the international equivalents. To arrest this situation, the World Bank suggested to Ghana to fully adopt the IFRS without any changes. Subsequently, the country adopted the IFRS in January 2007 and fully implemented it in 2008, however private companies were given a deadline of 2009 to fully comply with the IFRS or the IFRS for SMEs. The World Bank Report on the Observance of Standards and Codes – Accounting and Auditing (ROSC A&A) in 2014, a follow up on the progress of ROSC 2004, revealed that IFRS has been adopted and implemented by institutions in the country which has largely improve financial reporting system.

Prior to the introduction of the IFRS, most companies including SMEs were reporting using the Ghana National Accounting Standard (GNAS) which research showed was simpler than that of the IFRS for SMEs (Bunea-Bontas *et al*., 2011; Onalo *et al*., 2014). Nonetheless empirical evidence showed that most SMEs in Ghana, chunk which is located in the Kumasi Metropolis were not keeping records even under the less sophisticated GNAS which negatively affected their prudent financial management, credit accessibility, profitability and growth (see Quartey & Abor 2010; Amoako *et al*., 2014).
Since the introduction of IFRS for SMEs, various researchers have argued to support its adoption since it can improve the quality of financial reporting, comparability of business results, financial management, access to capital, profitability and growth of businesses (Lungu et al., 2007: Alp & Ustundag, 2010: Bunea-Bontas et al., 2011). Ironically all these studies were conducted outside Ghana.

Previous studies on IFRS in Ghana were centered on listed companies (see Agyei-Mensah 2012; Ocansey & Enahoro 2014; Yiadom, & Atsunyo 2014, Appiah et al. 2016). It is expected that all SMEs in Ghana and for that matter in the Kumasi Metropolis will adopt and implement the IFRS for SMEs starting from 2009. However till date, it appears no study has been conducted in the Kumasi Metropolis to empirically establish the implementation challenges for those who have adopted it. Literature on SMEs’ adoption and implementation challenges of IFRS for SMEs in the Kumasi Metropolis is very scanty. Hence the attention of policy makers and development partners have not been drawn to the challenges SMEs encounter in the adoption and implementation processes in order to extend support for the sector. So as to argument growth and development.

These arching research gaps necessitated this study to the challenges of adopting and implementing International Financial Reporting Standard among SMES in the Kumasi Metropolis in order to come out with findings that will argument development in the SMEs sector of the country.

1.1 RESEARCH OBJECTIVE
The study specifically seeks to achieve the following objectives:
- To explore the extent of IFRS for SMEs adoption and implementation by SMEs in the Kumasi Metropolis.
- To ascertain and analyze the implementation challenges of IFRS for SMEs adoption by SMEs in the Kumasi Metropolis.

2. LITERATURE REVIEW
2.1 DEFINITION OF SMALL AND MEDIUM SCALE ENTITIES (SMES)
According to PricewaterhouseCoopers (2009) there is no generally accepted definition for SMEs. The authors argued that the concept SMEs is broad and too abstract, hence the definition of SMEs differs from country to country and organization to organization. Holt (2009) also reiterated the view point of PricewaterhouseCoopers (2009) by seeing ‘Small’ and ‘Medium’ as relative and varying from establishment to establishment and state to state. Hence, no one definition can replicate the variance among organizations, sectors and nations due to the changing rate of improvement.

The International Accounting Standard Committee Foundation (IASCF, 2009) refers to small and medium-sized entities (SMEs) as “entities that do not have public accountability, and do not publish general purpose financial statements for external users”. The IASCF (2009) further defined external users to consist of business owners who are not involved in the management of the business, present and would-be creditors, and credit
grading agencies. As part of their definition of SMEs, the IASCF (2009) detailed what it meant when an entity is termed as having public accountability, according to them, “an entity has public accountability if its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market, domestic or foreign stock exchange or an over-the-counter market, including local and regional markets or it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses”. By this definition banks, insurance companies, security brokers/dealers, mutual funds and investment banks, all government businesses and institutions are out of their scope of SMEs, hence their definition of SMEs excludes them. For the purpose of this study, IASCF (2009) definition of SMEs is adopted.

2.2 ACCOUNTING PRACTICES OF SMES IN GHANA
Maseko and Manyani (2011) believe that the issue of SMEs keeping incomplete accounting records in developed and developing economies have existed long ago and has therefore attracted attention from researchers, Professional Accountants, Professional Accounting Bodies, Investors, Financial Institutions, Economists and Policy makers. Report on the Observance of Standards and Codes (ROSC, 2004) revealed that Ghana has weak institutional capacity and regulatory framework leading to poor accounting by companies operating in the country. The report argued that institutions that claim to be preparing financial statements were either having incomplete records or their standards of reporting was comparatively poor irrespective of the standard they were using.

Just as the larger companies were having problems with financial reporting, SMEs had a bigger problem according to ROSC (2004). Most SMEs in the country do not keep proper record of their transactions. In fact empirical evidence was provided by Agyei-Mensah (2012) to buttress the point that most owners of SMEs in Ghana do not see the need to keep account of their transactions or to prepare financial statements.

Amoako (2013) found out in his study that most SMEs in Ghana that prepare financial statements only do so as a result of tax purposes and not because they wish to. The owners who are mostly the managers are of the opinion that if they prepare financial statements, the real worth of their businesses would be exposed which they perceive as injurious to their firms. The inability of managers of SMEs to properly keep record has led to the inability of most SMEs to accessing credit facilities in the country hence their eminent collapse due to lack of funds (Quartey & Abor, 2010). Amoako et al. (2014) observe that most SMEs do not keep complete accounting records due to the absence of book keeping skills on the part of owners/managers, high cost involved in adopting a good accounting system lack and ignorance of the need to keep proper accounting records.

Ismail and King (2007) assert that the implementation of a comprehensive accounting system in SMEs rest on owners level of accounting knowledge and skills. Lalin and Sabir (2010) are also of the opinion that the main reasons underpinning why SMEs prepare financial statements is pressure from regulatory authorities. Maseko and Manyami (2011) although agreed with Lalin and Sabir on the notion that most SMEs keep records due to
pressure from regulator, the authors argued that some SMEs keep records for the purposes of security and control, the authors vehemently dismissed the idea that SMEs may keep records to measure their performances.

2.3 IFRS FOR SMES

Immediately after the formation of IASB in 2001 the project of standards for SME was placed on their future agenda. Therefore in 2004 the first discussion paper with respect to the Accounting Standards for Small and Medium-sized Entities was published (Ankarath et al. 2010). The discussion paper was titled: Preliminary Views on Accounting Standards for Small and Medium-sized Entities. As a result of several responses IASB proposed in 2007 a separate IFRS for entities that were not accountable, formerly known as Small and Medium-sized Entities.

In 2007 IASB issued an exposure draft of International Financial Reporting Standard for Small and Medium-sized Entities. The IFRS for Small and Medium-Sized entities is purposed to be used for small and medium-sized entities that do not have public accountability and publish general purpose financial statements for external users (Holt, 2009).

The IFRS for SME includes many variances in comparison to existing IFRS. As stated in (Basis for conclusion on Exposure draft IFRS for Small and Medium-sized Entities, BC24) users of financial statements of SME may have little interest in some information in general purpose financial statement prepared in accordance with full IFRS as compared to users of financial statements of entities whose securities are listed for public trading. Users of accounts of SME are more concerned with liquidity, interest coverage, short-term cash flows, financial position strength and not in long-term cash flow, earning and value (Bunea-Bontas et al. 2011).

The definition given to Small and Medium Sized Entities exclude quantified size criteria, as the size is very relative among countries (Basis for conclusion on Exposure draft IFRS for Small and Medium-sized Entities, BC43). The size and criteria for entities which will be required to use this standard will hinge on on the jurisdiction that may recommend each country (Brochet, et al. 2011).

The amendment to complete IFRS was made on four major kinds grounded on the need of user of SME accounts (Exposure draft of a proposed IFRS for Small and Medium-sized Entities, 2007): topics omitted, only the simpler option included, recognition and measurement simplifications and disclosure reductions (Brochet, et al. 2011).

Nearly similar to the issuance of the Exposure draft, the European Parliament adopted a resolution on a simplified business environment for companies in the areas of company law, accounting and auditing in response to the European Commission’s communication on the subject. After the first examination, the European Commission is of the view that the IFRS for SME will not streamline the activity of reporting for small and medium sized entities. The first provision for simplifying their business environment would be the
elimination of micro companies. For this kind of companies (the smallest companies) the preparation of yearly accounts for wide-ranging purposes is the biggest challenge (Holt, 2009).

The IFRS for SMEs was published in the first quarter of 2009. IFRS for SME are going to present drastic changes in accounting for SME, as they used national standards which were simpler and did not need many requirements which will be introduced with the IFRS for SME. Although the aim of the new standards is to assure comparable financial statements for SME, they are going to intensify difficulties in financial reporting for SME (Bunea-Bontas et al. 2011).

2.4 ADOPTION OF IFRS IN GHANA

During the year 2004, the World Bank and the Ministry of Finance and Economic Planning (MOFEP) now Ministry of Finance lunched a Report on the Observance of Standards and Codes (ROSC) in Ghana (World Bank, 2005). Which reported on the accounting and auditing practices in Ghana, ROSC detected that Ghana was seriously affected by weak international regulation, compliance and enforcement of standards (ROSC, 2004). Again, many of the country’s weaknesses were found in the law and regulations authorizing financial reporting. Even though Ghana’s Accounting and Auditing Standards were based on International Accounting Standards and International Standards on Auditing, correspondingly, they were outmoded and conspicuous gaps existed in comparison with the international equivalents. Moreover, full compliance with Ghana National Accounting Standards (GNAS) was mostly not achieved; some publicly trading firms incorrectly claim compliance with International Accounting Standards. These were as a result of weak capacity and insufficient running of the Institute of Chartered Accountants-Ghana (ICAG). These also had negative effect on the monitoring and control of professional accountants’ training and practices in the country (ROSC, 2004).

ROSC hence suggested that the legal charter, implementation mechanisms, professional education and adoption of International Financial Reporting Standards (IFRSs) without any changes to replace the already existing Ghana National Accounting Standards (World Bank, 2005).

The ICAG, the country’s Accounting Standard Setter became members of the International Federation of Accountants (IFAC) in the year 2005. IFAC made a directive by demanding its member countries adopt IFRS. As a result, Ghana made preparation and effectively launched the International Financial Reporting Standards (IFRS) on January 27, 2007 (Antwi, 2010).

PricewaterhouseCoopers (n. d.) pronounced the conventionality to the international accounting standards as a key activity supported by all to meet the rising demands in the corporate reporting world. All entities with public interest such as the banks, insurance companies, listed companies on the stock exchange, security brokers, pension funds and all government institutions were afterwards demanded to publish their financial statements for the periods covering or after 1 January 2007 in accordance with IFRS. But due to challenges of companies fully implementing the IFRS, 2008 was set as the reporting date (Antwi, 2010).
Nevertheless, IFRS for Small and Medium Scale Enterprises (SMEs) were expected to be fully adopted in 2010. Though some sections of the public with divergent views postulated that the Institute of Chartered Accountants Ghana should not rush the process but should do more consultations, while some believed it was a step in the right direction. The adoption was facilitated because, many believed it was not a matter of convenience but convergence and that if it delayed, the world will continue to move ahead (PricewaterhouseCoopers, n.d.).

2.5 EFFECTS OF IFRS ADOPTION ON SMES

The adoption of IFRS as the global accounting standards has impacts on some aspects of financial reporting for the items measurement in various countries, such as those in the European Union. Deferred tax assets are able to predict future cash flows better until the next five years than compared to the EU GAAP according to Mary et al. (2010). Zeghal et al. (2012) posit that the adoption of IFRS can advance the quality of financial reporting, with the requirement that IFRS are able to lower earnings management, increase the timeliness, provisional conservatism and value relevance. Murni (2011) in his study also indicated that there was a rise in net profit, shareholders' equity, assets and liabilities after the implementation of IFRS standards.

Olatunji (2013) on his part agreed with other writers that the implementation of sound accounting practices would lead to profitability however the author did not see any significance improvements in the profitability of companies in Nigeria after switching to IFRS. Olango and Kerongo (2014) also supported Olatunji’s argument. According to the authors the adoption of IFRS would have negative effect on SMEs in Kenya, the authors were of the view that the IFRS for SMEs was a bit more complex than that of the Kenyan Standard and as a result may not allow SMEs to adopt it or even if they do, the lapses could produce incomplete and irrelevant information.

Abata (2015) however revealed that IFRS provides better information for regulators than the GAAP. The author also reported that IFRS adoption and implementation has direct effect on how earnings and other major components of the business are accounted and reported thereby helping the realization of higher profits. The author also argued that compliance with IFRS encourages cross border investment and access which can lead to small businesses form partnership with businesses outside their jurisdiction which can be positive for business growth. However, recent empirical study by Appiah et al. (2016) show the level of IFRS compliance is largely high among large firms rather than smaller businesses, hence these small businesses may not stand to benefit from the advantages that IFRS stand to offer to firms who have adopted it.

3. METHODOLOGY

3.1 RESEARCH DESIGN

Survey research design with a mixed method approach of data collection was employed for the study. This design was employed because cross-sectional data describing and interpreting current trend of issues, practices
that prevail, points of view that are held and trending procedures of accounting were collected from sampled respondents.

3.2 SAMPLE FRAME
The sample frame of the study consisted of all registered SMEs operating in the Kumasi Metropolis numbering 3085 according to the Kumasi Metropolitan Assembly (2016).

3.3 SAMPLE SIZE
One hundred and nineteen (119) SMEs were selected for the study. The sample size was gotten through the use of the sample size formulae

\[ n = \frac{N}{1 + N(e)^2} \]

where \( n \) = sample size; \( N \) = sample frame and \( e \) = error of acceptance which is 0.09 for this study, (Yamane, 1967).

3.4 SAMPLING TECHNIQUE
Simple random and purposive sampling techniques were employed in carrying out the study. Simple random sampling technique was used in selecting the entities that participated in the study. All the names of the entities were written on pieces of papers and mixed together in a bowl, the researcher randomly handpicked one after the other till it reached the total sampled size. Each of the handpicked entity was investigated, this is known as the lottery method. The technique was appropriate in selecting the entities because the population is homogeneous hence simple random becomes more convenience to use.

Purposive sampling technique was employed in selecting the managers, owners or accountants of the selected entities. These persons were selected based on their position, year of service and their ability to provide relevant information that were of interest to the study.

3.5 SURVEY INSTRUMENTS
Questionnaires were the instruments employed for data collection.

4. DATA ANALYSIS/FINDINGS
A total of 119 questionnaires were administered to randomly selected SMEs in the Kumasi Metropolis, out of which 117 were retrieved and used for the analysis, thereby giving the study a response rate of 98.3%.

4.1 EXTENT OF IFRS FOR SMES ADOPTION AND IMPLEMENTATION IN THE KUMASI METROPOLIS
Out of 117 SMEs surveyed, 73 (about 62%) prepare financial statements. However, only 9 (about 12%) out of the 73 have adopted the IFRS for SMEs while 64 (about 88%) have adopted other standards. The survey also revealed that only 2 (about 22%) of the SMEs have adopted IFRS for SMEs fully while 7 (about 78%) have adopted it partially. The survey also revealed that among the SMEs that have adopted the IFRS for SMEs, majority (about 56%) have used the IFRS only once in preparing financial statement. The finding suggests the
The adoption of IFRS for SMEs is very abysmal among SMEs. However, there is a probability that as time goes on SMEs will gradually embrace the standard since it is relatively new to most SMEs owners and account clerks except the qualified accountants (see Figure 4.1 & 4.2).

The survey however revealed the most patronized accounting standard among the SMEs is the Ghana National Accounting Standard (GNAS) (about 86%) whereas the Generally Accepted Accounting Standard (GAAP) is the least patronized (about 2%) (See Figure 4.1).

Field observation by the researcher also revealed that financial statements preparation among SMEs that have less than 10 employees (micro) is very low while those with employees above 15 are very high. Further analysis also revealed that financial statements preparation is very high among SMEs with foreign ownership as compared to those owned by Ghanaians. Majority of respondents claim the GNAS is less complex to prepare and easy to understand by users of the accounting information as compared to the IFRS. This finding is very surprising since GNAS which is still the preferred standard for SMEs was abolished in 2007. The finding may mean SMEs are either not ready for change or they may not have the requisite knowledge to implement the IFRS for SMEs. The finding is however consistent with the results of Appiah et al. (2016).

**4.2 IMPLEMENTATION CHALLENGES OF IFRS FOR SMES ADOPTION**

The survey show that inadequate requisite skills to successfully implement the IFRS for SMEs, lack of support from regulatory and professional bodies, the complex nature of the IFRS which bars most users from understanding statements prepared and the high implementation cost are the challenges being encountered by SMEs that have adopted the standard.

Majority of respondents (about 79%) agree they do not have the requisite skills to successfully implement IFRS for SMEs. The findings suggest SMEs are not given training on IFRS for SMEs, hence the inadequate skills. The findings however, confirms Olatunji (2013)’s observation that IFRS for SMEs implementation in developing countries will have a setback due to inadequate skills by SMEs. Unanimously, respondents agreed they lack support from regulatory and professional bodies. This finding shows regulatory and professional bodies do not support SMEs to implement IFRS for SMEs successfully. This finding is somehow worrying since the IFRS for SMEs was recommended to replace GNAS due to lack of regulatory and professional bodies support for the former’s enforcement and implementation (see ROSC, 2004). According to majority of the SMEs surveyed, the IFRS for SMEs is very complicated and too costly to adopt this has led most SMEs to adopt the standard partially. The high cost of implementation may further prevent micro and small firms from adopting and implementing it since the financial burden may be much more as compared to larger firms. This may also explain why financial statements preparation is very low among micro and small firms. The finding confirms Olango and Kerongo (2014)’s contention that IFRS for SMEs is too complex to implement due to the low level of technical knowledge among users. The survey results are presented in Table 4.1.
5. CONCLUSIONS

The study concludes that IFRS for SMEs adoption and implementation in the Kumasi Metropolis is abysmally very low, however financial records keeping among SMEs in the Metropolis is relatively high.

The study also concludes that inadequate skills and technical know-how on IFRS for SMEs as a result of lack of awareness creation and education by regulatory and professional bodies are the main implementation challenges being encountered by SMEs that have adopted the standard.

6. RECOMMENDATION

The Government through the Ministry of Trade and Industry should collaborate with the Institute of Chartered Accountants-Ghana to give financial accounting education to SMEs owners who are mostly managers and their accounts clerks. The professional body should be able to teach SMEs basic accounting reporting in IFRS for SMEs. The professional body must also educate SMEs on the need to keep financial records. This will help equip SMEs with the requisite knowledge and skills for preparing financial records in IFRS for SMEs. This will also help to reduce the extra cost of outsourcing professional accountants from consultancy firms, thereby helping to increase the adoption and implementation of IFRS for SMEs. The cost of the training should be shared between the ministry and the owners of the SMEs.

7. REFERENCES


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8. TABLES AND FIGURES

Table 4.1: Respondents’ Implementation Challenges of Adopting IFRS for SMEs

<table>
<thead>
<tr>
<th>Variable</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inadequate skills to implement it</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Completely agree</td>
<td>5</td>
<td>55.6</td>
</tr>
<tr>
<td>Somewhat agree</td>
<td>2</td>
<td>22.2</td>
</tr>
<tr>
<td>Uncertain</td>
<td>2</td>
<td>22.2</td>
</tr>
<tr>
<td>Sub-total</td>
<td>9</td>
<td>100.0</td>
</tr>
<tr>
<td>Lack of support from regulatory and professional bodies</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Completely agree</td>
<td>5</td>
<td>55.6</td>
</tr>
<tr>
<td>Somewhat agree</td>
<td>4</td>
<td>44.4</td>
</tr>
<tr>
<td>Sub-total</td>
<td>9</td>
<td>100.0</td>
</tr>
<tr>
<td>Too complicated for users of our financial statements</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Completely agree</td>
<td>6</td>
<td>66.7</td>
</tr>
<tr>
<td>Somewhat agree</td>
<td>2</td>
<td>22.2</td>
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<tr>
<td>Uncertain</td>
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<td>11.1</td>
</tr>
<tr>
<td>Sub-total</td>
<td>9</td>
<td>100.0</td>
</tr>
<tr>
<td>Implementation of IFRS for SMEs is too costly</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Completely agree</td>
<td>5</td>
<td>55.6</td>
</tr>
<tr>
<td>Somewhat agree</td>
<td>4</td>
<td>44.4</td>
</tr>
<tr>
<td>Sub-total</td>
<td>9</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Field survey (2016)

Figure 4.1: Do You Prepare Financial Statements?

Source: Field survey (2016)

Figure 4.2: Respondents' Adopted Financial Statements Preparation Standards

Source: Field survey (2016)