THE COMPLIANCE AND NON COMPLIANCE OF TANZANIA SMALL AND MEDIUM ENTERPRISES (SMEs) TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs)
THE SURVEY MADE AT MOROGORO MUNICIPAL
THE COMPLIANCE AND NON COMPLIANCE OF TANZANIA SMALL AND MEDIUM ENTERPRISES (SMEs) TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs)

THE SURVEY MADE AT MOROGORO MUNICIPAL

By
Frank Wailod Nzunda

A Dissertation Submitted in Partial fulfillment of the requirements for the award of the Degree of Master of Science in Accounting and Finance (MSc A&F) of Mzumbe University

2013
CERTIFICATION

We, the undersigned, certify that we have read and hereby recommend for acceptance by the Mzumbe University, a dissertation entitled The compliance of Tanzania small and medium enterprises (SMEs) to International financial reporting standards (IFRSs) in partial fulfilment of the requirements for award of the degree of Master of Accounting and Finance (MSc.A&F) of Mzumbe University.

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I, Frank Wailod Nzunda, declare that this dissertation is my own original work and that it has not been presented and will not be presented to any other University for a similar or any other degree award.

Signature………………………….

Date ………………………………..

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Thank you very much all of you.
# List of Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Meaning</th>
</tr>
</thead>
<tbody>
<tr>
<td>FASB</td>
<td>Financial Accounting Standard Board</td>
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<tr>
<td>GAAP</td>
<td>Generally Accepted Accounting Principles</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>IAS</td>
<td>International Accounting Standards</td>
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<td>IASB</td>
<td>International Accounting Standard Board</td>
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<tr>
<td>ICC</td>
<td>The international Chamber of Commerce</td>
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<tr>
<td>ICPAK</td>
<td>Institute of Certified Public Accountants in Kenya</td>
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<tr>
<td>IFRS</td>
<td>International Financial Reporting Standards</td>
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<tr>
<td>ILO</td>
<td>International Labor Organization</td>
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<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
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<tr>
<td>MSME</td>
<td>Micro, Small and Medium Enterprises</td>
</tr>
<tr>
<td>NBAA</td>
<td>National Board of Accountants and Auditors</td>
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<tr>
<td>NGO’s</td>
<td>Non Governmental Organization</td>
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<tr>
<td>NNP</td>
<td>Net National Product</td>
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<tr>
<td>SME</td>
<td>Small and Medium Enterprises</td>
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<tr>
<td>SOHO</td>
<td>Small Office, Home office</td>
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<tr>
<td>TRA</td>
<td>Tanzania Revenue Authority</td>
</tr>
<tr>
<td>URT</td>
<td>United Republic of Tanzania</td>
</tr>
<tr>
<td>USD</td>
<td>United States Dollar</td>
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<tr>
<td>VAT</td>
<td>Value Added Tax</td>
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<tr>
<td>VETA</td>
<td>Vocational and Educational Training Act</td>
</tr>
</tbody>
</table>
ABSTRACT

International accounting standards are intended to create uniformity in financial reporting of all businesses in the world. However International financial reporting standards (IFRSs) cannot be utilised equally by all establishments due to several bottlenecks, ranging from lack of qualified personnel, cost of implementing IFRSs, Public accountabilities, need to undergo global and legal enforcement.

The IASB issued simpler version of IFRSs for SMEs in July 2009, as a stand-alone set of standards, to be used by SMEs in different economies. The SMEs can choose to report their business information either by using full IFRS or can report using IFRS for SMEs.

The gap required to be filled by this study is to establish whether Tanzania SMEs comply or do not comply to these IFRS for SMEs, after NBAA endorse the use of them in Tanzania, October 2009.

This is a descriptive study, which was conducted in a survey design in Morogoro Municipality. A sample of 50 SMEs were studied from various industries, including Manufacturers, Mechandizing business, Service providers and Consultants.

Primary data were collected using open and closed-ended questionnaires and interviews. The analysis of data using SPSS package, give the results which show that, there is no SME is using IFRSs for SMEs. Thus the proportion of SMEs complying with IFRS is 0%

The main problems hindering the SMEs in complying with IFRSs are as high cost of implementing IFRS arising from hire charges of qualified individuals and employing them. The second reason of failure to apply IFRSs for SMEs is ignorance of the availability of SMEs tailor made standards.

On the way forward, we advise the government to empower the local authorities in supervising the implementation of various international standards agreed by national bodies such as NBAA. However it is better to stick at local standards, if we find international standards jeopardise the country economy.
TABLE OF CONTENTS

CERTIFICATION ............................................................ i
DECLARATION AND COPYRIGHT ........................................ ii
ACKNOWLEDGEMENT ..................................................... iii
LIST OF ABBREVIATIONS ................................................ iv
ABSTRACT ........................................................................ v
TABLE OF CONTENTS .................................................... vi
LIST OF TABLES ........................................................... ix
LIST OF FIGURES ......................................................... x

CHAPTER ONE .................................................................... 1
INTRODUCTION ............................................................. 1
1.0 Background Information ............................................ 1
1.1. Statement of the problem .......................................... 4
1.2. Research objectives ................................................ 7
  1.2.1 General objectives .............................................. 7
  1.2.2. Specific objectives ............................................ 7
1.3. Research Questions ................................................ 7
1.4. Significance of the study .......................................... 7
1.5. Scope of the study .................................................. 10
1.6. Limitation of the Study ............................................ 10
1.7. Organization of the Study ........................................ 10

CHAPTER TWO ................................................................... 12
LITERATURE REVIEW .................................................... 12
2.0 Introduction ............................................................ 12
2.1. Definition of Key Terms ........................................... 12
  2.1.1. International Financial Reporting Standards (IFRS) .... 12
  2.1.2. Definition of SMEs ............................................ 13
  2.1.3. IFRS for SMEs .................................................. 14
  2.2.1. Categories of SMEs ........................................... 16
<table>
<thead>
<tr>
<th>Section</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.1.3.1</td>
<td>European Categories of SMEs</td>
<td>16</td>
</tr>
<tr>
<td>2.1.3.2</td>
<td>Categories of SMEs in Tanzania</td>
<td>16</td>
</tr>
<tr>
<td>2.1.4</td>
<td>Importance of Small and Medium Enterprises</td>
<td>16</td>
</tr>
<tr>
<td>2.4</td>
<td>Financial Reporting in SMEs</td>
<td>18</td>
</tr>
<tr>
<td>2.5</td>
<td>Advantages and Disadvantages of SMEs Complying to IFRSs for SMEs</td>
<td>20</td>
</tr>
<tr>
<td>2.5.1</td>
<td>Advantages</td>
<td>20</td>
</tr>
<tr>
<td>2.5.2</td>
<td>Disadvantages</td>
<td>21</td>
</tr>
<tr>
<td>2.6</td>
<td>Empirical Review</td>
<td>21</td>
</tr>
<tr>
<td>2.7</td>
<td>Conceptual framework and Research Model</td>
<td>24</td>
</tr>
<tr>
<td>2.7.1</td>
<td>Conceptual Framework</td>
<td>24</td>
</tr>
<tr>
<td>2.7.2</td>
<td>Research Model</td>
<td>25</td>
</tr>
</tbody>
</table>

**CHAPTER THREE**

**RESEARCH METHODOLOGY**

<table>
<thead>
<tr>
<th>Section</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.0</td>
<td>Introduction</td>
<td>26</td>
</tr>
<tr>
<td>3.1</td>
<td>Type of the Study</td>
<td>26</td>
</tr>
<tr>
<td>3.2</td>
<td>Research Approach</td>
<td>26</td>
</tr>
<tr>
<td>3.3</td>
<td>Study Area</td>
<td>26</td>
</tr>
<tr>
<td>3.4</td>
<td>Study Population</td>
<td>27</td>
</tr>
<tr>
<td>3.5</td>
<td>Sample size</td>
<td>27</td>
</tr>
<tr>
<td>3.6</td>
<td>Sampling Techniques</td>
<td>27</td>
</tr>
<tr>
<td>3.7</td>
<td>Type of Data</td>
<td>27</td>
</tr>
<tr>
<td>3.8</td>
<td>Data collection methods</td>
<td>28</td>
</tr>
<tr>
<td>3.8.1</td>
<td>Primary Data</td>
<td>28</td>
</tr>
<tr>
<td>3.8.2</td>
<td>Secondary Data</td>
<td>28</td>
</tr>
<tr>
<td>3.9</td>
<td>Validity of Data</td>
<td>29</td>
</tr>
<tr>
<td>3.10</td>
<td>Reliability of Data</td>
<td>29</td>
</tr>
<tr>
<td>3.11</td>
<td>Variable Measurements</td>
<td>29</td>
</tr>
<tr>
<td>3.12</td>
<td>Data Analysis Method</td>
<td>30</td>
</tr>
</tbody>
</table>
CHAPTER FOUR ................................................................. 31
PRESENTATION AND INTERPRETATION OF FINDINGS .......... 31
4.0. Introduction ........................................................................ 31
4.1. Interviewees profiles ......................................................... 31
4.2. The proportion of the SMEs which comply with IFRS for SMEs in Morogoro .. 36
4.3. To what extent do SMEs comply to IFRSs for SMEs. ................. 42
4.4. The burden of compliance with IFRSs for SMEs. ....................... 44
4.5. Other general findings ....................................................... 48

CHAPTER FIVE ................................................................. 51
DISCUSSION OF THE FINDINGS .............................................. 51
5.0. Introduction ........................................................................ 51
5.1. The proportion of SMEs which comply with IFRSs for SMEs. .......... 51
5.2. The extent to which SMEs comply to IFRSs. ............................. 55
5.3. Financial and Other perceived burden of SMEs compliance to IFRS for SMEs. 58

CHAPTER SIX ................................................................. 61
SUMMARY, CONCLUSION AND POLICY IMPLEMENTATION .... 61
6.0. Introduction ........................................................................ 61
6.1. Compliance of SMEs to IFRSs ............................................. 61
6.2. The extent of SMEs complying with IFRSs ............................... 62
6.3. The financial and other burden to SMEs. ................................. 62
6.4. General conclusion and Policy implementation .......................... 63
6.5. Areas of further study ....................................................... 64
REFERENCES ............................................................................. 65
APPENDIX: ............................................................................. 68
QUESTIONNAIRE ..................................................................... 68
LIST OF TABLES

Table 1: Categories of SMEs in EU........................................................................16
Table 2: Tanzania categories of SME ......................................................................16
Table 3: Sex of respondents ..................................................................................32
Table 4: Age of respondents ..................................................................................32
Table 5: Type of businesses of the respondents .....................................................33
Table 6: Level of education of the respondents .....................................................33
Table 7: Professional of the respondents ..............................................................34
Table 8: Are respondents Owner of the business? .................................................35
Table 9: Considering necessary the adoption of IFRSs for SMEs by the entity ......38
Table 10: Will application of IFRSs for SMEs cause problems to your companies function? ..................................................................................................................40
Table 11: IS The implementation of these standards required by SMEs in Tanzania? .........................................................................................................................40
Table 12: Considering if the implementation of IFRS for SMEs from the entity will help to raise new capital .......................................................................................41
Table 13: Should IFRS for SMEs be separate for very small, small and medium sized enterprises? ........................................................................................................43
Table 14: Believing that the existing IFRS correspond to the entity's needs ..........44
Table 15: Identification of main problems of implementing IFRSs for SMEs .......45
Table 16: Who is preparing financial statement of the business? .........................46
Table 17: Primary user of financial statements ......................................................47
Table 18: Consideration if the cost of applying IFRS exceeds the entity’s ability ....48
Table 19: Who is Responsible for adopting IFRSs for SMEs in an organization? ....48
Table 20: Believing that there is barriers during the application of IFRS for SMEs ....49
Table 21: Ability to overcome the probable predicaments that might appear during the application of IFRS .......................................................................................49
LIST OF FIGURES

Figure 1. Level of education of respondents .......................................................... 34

Figure 2. Profession of respondent .......................................................................... 35

Figure 3. Awareness that NBAA introduced the IFRSs for SMEs October 2009 ............. 37

Figure 4. The adoption of IFRSs for SMEs if they were not mandatory ....................... 39

Figure 5. Considering if the implementation of IFRS for SMEs from the entity will ....... 42

Figure 6. Volume of previous year sales .................................................................... 46
CHAPTER ONE
INTRODUCTION

1.0 Background Information

The world over, Small and Medium Enterprises (SMEs) contribute 90% of the private sector production and they are prime sources of new jobs in developing countries. SMEs play a crucial role in income generation, especially for the poor (SME Business Guide 2010).

For their progress, SMEs are required to keep books of accounts and several companies irrespective of their size are bound by the statutory rules of a particular country in which they operate to prepare financial reports that conform to specified set of accounting principles.

In order to bring uniformity in reporting financial statements and enhance comparability world-wide, The International Accounting Standard Board (IASB) introduced the International Financial Reporting Standards (IFRSs) to be used by SMEs in preparing their financial statements by July 2009.

The IFRSs for SMEs was prepared in order to reduce the compliance burden of SMEs to full IFRS which were prepared mainly for big enterprises with public interests. It is the option of the SME to report using either full IFRSs or IFRSSs for SMEs. Countries are free to choose whether to abide to the IFRSs or use their Local General Accepted Accounting Principles (GAAP). United States of America (USA) for example still use the USA GAAPs.

In the EU, the use of International Financial Reporting Standards (IFRS) is intended mainly for the consolidated financial statements of "Public interest Entities" (PIEs). Complying with the requirement of the full IFRS involves significant costs, which would be an excessive burden on smaller firms. As a result, small and medium-sized entities (SMEs), which are estimated to make up more than 95% of all business entities, are generally subject to a less complex set of reporting requirements.

The IASB, which produces the full IFRS, published an International Financial Reporting Standard for Small- and Medium-Sized Entities (known as the "IFRS for
SMEs”) in July 2009. Economies can adopt IFRS for SMEs independently of whether they have adopted the full IFRS and can also set their own size thresholds for SMEs.

However, even the simplified IFRS for SMEs still imposes a significant reporting burden, making the IFRS for SMEs a relevant option mainly for medium-sized firms and for rapidly-growing enterprises that expect to adopt full IFRS in the future.

In addition, many multinationals and other large entities around the world asked themselves whether one of the benefits of global harmonisation of reporting might be a single standard suitable for all subsidiaries instead of a flavour of local GAAPs?

Like all ready-made solutions, the SME standards may not be usable straight out of the box in some circumstances. The UK, for example, is considering adopting the SME standard but has run into issues regarding compliance with EU Directives.

In order to be applied within EU Countries, IFRS for SMEs has to be compatible with the EU Accounting standards directives, and be adopted by member states as national standard.

Ultimately, the decision regarding which entities should use the IFRS for SMEs stays with national regulatory authorities and standard setters. These bodies will often specify more detailed eligibility criteria. If an entity opts to use the IFRS for SMEs, it must follow the standard in its entirety – it cannot cherry pick between the requirements of the IFRS for SMEs and those of full IFRSs.

The main argument for separate SME accounting standard is the undue cost burden of reporting, which is proportionately heavier for smaller firms. The cost burden of applying the full set of IFRSs may not be justified on the basis of user needs. Further, much of the current reporting framework is based on the needs of large business, so SMEs perceive that the full statutory financial statements are less relevant to the users of SME accounts.
SMEs also use financial statements for a narrower range of decisions, as they have less complex transactions and therefore less need for a sophisticated analysis of financial statements. Thus, the disclosure requirements in the IFRS for SMEs are also substantially reduced when compared with those in full IFRSs partly because they are not considered appropriate for users’ needs and for cost-benefit.

Where financial statements are prepared using the standard, the basis of presentation note and the auditor’s report will refer to compliance with the IFRS for SMEs. This reference may improve access to capital. The standard also contains simplified language and explanations of the standards Businesses will also need to evaluate carefully the tax impact of transitioning to IFRS for SMEs.

There will be some important tax issues arising from adopting IFRS for SMEs. Tax has been one of the reasons why some SMEs have not switched to IFRS. Since 2005, listed groups in the UK have been required to prepare their consolidated financial statements in accordance with IFRS. Almost all other groups and companies have had a choice to follow IFRS or UK GAAP. From 2012, it seems that the options will change with UK GAAP being replaced by IFRS for SMEs.

The IFRS for SMEs is a response to international demand from developed and emerging economies for a rigorous and common set of accounting standards for smaller and medium-sized businesses that is much simpler than full IFRSs. The IFRS for SMEs should provide improved comparability for users of accounts while enhancing the overall confidence in the accounts of SMEs, and reducing the significant costs involved of maintaining standards on a national basis.

In Tanzania where SME’s are core economic builders, with significant contribution to Gross Domestic Production (GDP), government, through National Board of Accountants and Auditors (NBAA) pronounced adoption of IFRS for SMEs, with effective from October 2009. To easy the compliance burden by SMEs to full IFRS.

The International Monetary Fund (IMF) and World Bank report (2005) show the huge compliance gap with IFRSs by SME’s in Tanzania. The report even urged to IASB projects and suggest the need to simplify accounting standard to be used by
SME’s and to identify The International Accounting Standards (IAS) not to be necessarily used by SME’s, unless the owners of SME’s are technically and financially proved to be able to adhere to IAS. This resulted to IASB prepare IFRSs for SMEs by July 2009.

This study investigates the compliance of SMEs to IFRSs in preparing income statements, as one of the important reports to Tax authorities and loans providers in assessing the eligibility of SMEs to loans, since SMEs rely heavily to financial institutions as their source of income, unlike Big listed companies, which issue shares in stock markets to get capital.

1.1. Statement of the problem
The IFRS for SMEs complexity especially for Small entities and the benefits that the standard may bring to companies operating only locally and having a limited number of shareholders, is the foundation for compliance gap of IFRS for SMEs by enterprises. Also the linkage between taxation, accounting and capital maintenance are cited as problems of IFRS for SMEs application in different countries. That is the reason why European Commission rejected the Mandatory use of IFRS for SMEs.

Levy (1993), observed that in Tanzania, regulatory and tax constraint, appear largest for the smallest firms, declining accordingly as firms grow: because enforcement is non-selective, the bureaucratic burden of negotiating with government officials is greatest for small firms. The high cost of compliance to regulations may discourage potential entrepreneurs from formally setting up their own businesses while driving some existing enterprises out of business and those working for them into unemployment (URT, 2002).

In Tanzania, IMF and World Bank report (2005) show the huge compliance gap with IFRSs by SME’s. The report even urged to IASB projects and suggest the need to simplify accounting standard to be used by SME’s and to identify IAS not to be necessarily used by SME’s, unless the owners of SME’s are technically and financially proved to be able to adhere to IAS. This resulted to IASB prepare IFRSs for SMEs by July 2009.
Kitindi (2000), also argued that compliance testing of accounting controls is important in an audit but not possibly in audit of SME’s. This point out that non-compliance of accounting standards in SME’s is a usual phenomenon in Tanzania and suggests that, SMEs will shift that habit to IFRSs for SMEs.

In Taxation perspectives, large businesses pay income taxes on their profits while small businesses has to pay tax whether they make profit or not. This is the case in VAT where large listed businesses has chance to claim for the tax they paid back from TRA, while SME’s are tax payers and a major door for collecting taxes from consumers. That is why SMEs refrain from compliance to IFRS to hide their performance, which will in turn lower their TAX burden.

Thus big businesses listed for TAX act as tax collecting agents and not tax payers. Too many taxes are cumbersome to SME’s e.g. Tax policies relating to investment and tax incentives, taxes applying to starting and operating a business, capital – based and income-based taxes. All these regulations and policies are burden to SME’s and hence they affect their performance. The four ways in which taxation affects SME’s can be analyzed as follows:-

SME’s fund it difficult to comply with the big number of taxes, records keeping, timing of taxes reporting and payment, the tax bases and exemptions. In Tanzania there over 27 taxes and levies to be adhered by SME’s, which brings complexity in compliance, and forces the SME’s to hire expensive external accountants to prepare their tax returns (Olomi, 2003).

Where enforcement is strong transactions costs are unavoidable and when weak rules are applied, the tax avoidance opportunities can be observed. However, tax avoidance introduces implied costs and contingent liabilities by promoting corruption, bribing, and informalities. Business environments are continuously in changing state. These changes promote tax authorities e.g. TRA to device new taxes and tax collection methods which forces the SME’s to fallow- suit regardless of the costs involved in such changes.
Taxes act as consumption stimulus since they play a role in pricing of commodities produced by SME’s. Hence tax can make goods to be consumed or refrained by customers due to their prices, which in turn SMEs shut down operations.

In order to meet the needs of different users of accounting information, SME’s are forced to comply with IFRSs. Working out of these standards, leads to jeopardizing decisions made by different users of such statements as follows:

Shareholders of the SME’s in assessing the performance of their investment and the management. In stewardship environment, investors in trust of management, they need to see how management is performing in their business.

Managers of SME’s in assessing performance to make financial decision, assessing budgetary controls and devising new operative strategies. Current and potential shareholders in deciding whether to hold, dispose or buy shares of the company. Investors assess the risk of holding shares and where to buy new shares by using financial statements.

Lenders such as bank to decide whether to offer loan, reduce or deny providing loans. Banks and other financial institution use these financial statements prepared by SMEs for making lending decisions.

Employees of SME’s assess the ability of their employers to pay them and furnish their pension schemes. The employment security is assured when employing entities are making profits from their operations.

Customers to assess whether they will continue to purchase goods form their supplier. If suppliers make profits, then it is feasible that, they maintain their production. Government, General public, insolvency practitioners and other users, have their distinct need to these financial statements. Hence-forth, the need to assess the compliance to the IFRS by these SME’s is of increasing importance.
Accounting information should be useful for decision-making. For such information to be consumable by well informed decision makers, it must be prepared according to generally acceptable committing standards (GAAP). Reliability and validity of accounting information is being guided by accounting standards observed while preparing such information and presenting it to the public.

This study then is intended to review if the financial statements of SMEs in Morogoro adhere to IFRSs for SMEs as were established by IASB and accepted to be used in Tanzania by October 2009 through NBAA Pronouncement issued to be followed by SMEs in Tanzania.

1.2. Research objectives

1.2.1 General objectives

To examine financial reporting of SMEs in Tanzania in terms of compliance and non-compliance with IFRSs for SMEs since adoption of them October 2009.

1.2.2. Specific objectives

1. To establish relative proportion of SMEs which comply with IFRSs for SMEs in reporting their performance.
2. To identify the extent of applicability of IFRSs for SMEs in preparing and reporting the performance of SMEs.
3. To measures the financial burden and other perceived burden of compliance with IFRSs For SMEs.

1.3. Research Questions

1. What relative proportion of SME’s, prepare statements of comprehensive income in accordance with the IFRSs for SMEs?
2. To what extent do SMEs apply IFRSs for SMEs in reporting their income?
3. What are the perceived burdens of the compliance with the IFRSs by SMEs?

1.4 Significance of the study

The results of this study, will suggest to NBAA think of preparing reporting standards suitable for Tanzania SMEs, without compromising IFRS. The separate
IFRSs for Micro, Small, Medium and Multinational corporation will be introduced. This will contribute to increased compliance rate to IFRS.

This study may result into useful suggestions for future improvement concerning SMEs financial accounting reporting and will encourage discussion at different levels within the accounting and auditing profession.

The TRA through this study will be in a position to device the possible ways of estimating SMEs income and taxes hence collect adequate Tax without spoiling further the operating environment of SMEs to enhance growth of SMEs and new established enterprises.

The government of Tanzania may use this study on the improvement of its policies regulations, companies Act and Accounting and Auditors Act on issues concerning SMEs addressed by this study.

The NBAA may use this investigation findings to assess whether it is useful to adopt IFRS and IAS in a whole sale for SMEs reporting cases. If NBAA will find it not useful then it will consider Tanzania environment and adjust the IFRS accordingly to suit the SMEs in Tanzania.

Banks may devise alternative procedures for assessing liquidity and sustainability of SMEs in order to provide Loans instead of basing on the same standards used in appraising the big companies.

The research findings of this study will increase bank of knowledge to various users since the reliability and validity of data to be used in this study will quarantine consistency of the same results to all other enterprises operating under similar conditions like Tanzania. Moreover these findings will lay a foundation for further research concerning SMEs and compliance to IFRSs, as well as contribution of SMEs to the economy.

Tanzania being a third world country, whose citizen’s average income is below 1 USD, is in serious reliance on SME’s as a major part of its enterprises. The contribution of SME’s towards economic development is potential, such that most
disadvantaged groups in Tanzania gain access to productive, sustainable and equity employment through SME’s (ILO, 1993). SME’s is the alternative way of poor Tanzanians to earn their daily living apart from agriculture (Wangwe, 1999).

SME’s in East African contribute material in the manufacturing sector in both in puts and out puts to the consumers. Big industries in Agriculture and manufacturing industries of marine, forest, agriculture and bio-products depends on SME’s for raw materials and operative equipments in their daily activities.

In Tanzania, it is estimated that approximately 50% of the industrial output originates from SME’s (United Republic of Tanzania, 2001). Macro-economic data show that SME’s contribute 35% to GDP and 20% of the total labor-force (Wangwe, 1999).

Still reviewing the contribution of SME’s in the economy, we find that SME’s promote innovations, entrepreneurial skills, economic competitions and challenges among citizens, since SME’s are in close supervision by owners and they can adapt to changes and become the engine in the economy and society (Szabo, 2002).

SME’s serve as training centers for entrepreneurial ability and managerial experience. SME’s contribute a lot to the government. Over half of NNP comes from SME’s and a third of urban labor force is engaged in SME’s (Tume ya Mipango, 1999).

It is these benefits which attract attention from various stakeholder to examine the performance of SME’s and revise various rules and regulations, in order to help SME’s maximize their contribution in economic development in Tanzania. It is easy for police makers and regulators to over-sea the SME’s and consider only large businesses. Existing policies and regulations favors larger business and if these policies could tightly been implemented, many SME’s would have been closed down (ILO, 2001). In Tanzania, deregulation on various economic activities adopted in the second phase of the government enhanced greater achievement in SME’s.
1.5 Scope of the study

Challenges facing SMEs are unlimited but this research intends to address those concerning the compliance with IFRS for SMEs in preparing the statements of comprehensive income only. The study is conducted from preparing firms perspective only, while other stakeholders perspectives on the same matter, is left for further studies. The concept of IFRSs for SMEs is attracting attention from various stakeholders, especially Financial institutions, Tax authorities and others, with exclusion of share holders. Respondents from these areas could be thought important as well, but considering time and other resources, we limit our discussion within reporting entities parameters. IASB established IFRSs for SMEs July 2009, and Tanzania in a whole sale, adopted IFRSs for SMEs October 2009.

1.6 Limitation of the Study.

The success of this study will depend on respondent answers and the capacity of responding interviews in understanding the language and questions asked in this study. The perception of respondents to this study will be influencing their answers, since some business owners might think that, the results of this study, will change their taxation status and some might find their business secrets are being exposed to their competitors. This will lead them give force answers to questions. The employed respondents might pose the barrier of not being business spokesperson, and deny responding from questions. Due to scarcity of time and money not all businesses are going to be investigated, but only few sampled entities shall be located.

1.7 Organization of the Study.

The study will be organized in six chapters, which will be sequenced from Introduction of the problem, literature reviews, research methodology, research results and findings, discussion research findings and conclusion of the study. Chapter one of this study will cover will introduce the background of the research problem and statement of the research problem. The research objectives and the specific research questions to be answered by this research will be presented in this chapter. Chapter two will cover literature reviews. In this chapter we will be reviewing different theories about the research problem and what other researchers
have found on the same or related problem. The definition of key terms in the problem according to this problem and some empirical reviews from other researchers will be covered. The conceptual framework of the concepts and the research model will be presented. Chapter three will show the methodology to be used in this study. It will first state the type of the study, the sample size required and the sampling techniques. The methodology for data collection and analysis will be stated in this chapter. Chapter four will be presentation and analysis of the findings. The data obtained from the study will be organized and analyzed to find the meaning of such data to the research questions. Chapter five will cover discussion of the research findings. The meaning of the findings and the findings in light of the research objectives and questions is presented. The positive and negative sides of such findings to the research problem will be explained. Chapter six will summarized and give conclusion of the analysis and discussion of the finds, before it can propose the policy implication and recommendation. The areas of further study will be proposed by the researcher.
CHAPTER TWO
LITERATURE REVIEW

2.0 Introduction
This chapter will cover the definitions of key terms in this study, SMEs overview and their categories, the importance of SMEs in the economy and the introduction of IFRS for SMEs Financial reporting in SME. The compliance advantages and disadvantages is addressed in this chapter as well as the empirical studies of how SMEs comply to IFRS for SMEs world-wide.

2.1. Definition of Key Terms
2.1.1. International Financial Reporting Standards (IFRS)
International Financial Reporting Standards (IFRS) is a set of accounting standards developed by an independent, not-for-profit organization called the International Accounting Standards Board (IASB). The goal of IFRS is to provide a global framework for how public companies prepare and disclose their financial statements. IFRS provides general guidance for the preparation of financial statements, rather than setting rules for industry-specific reporting.

Having an international standard is especially important for large companies that have subsidiaries in different countries. Adopting a single set of world-wide standards will simplify accounting procedures by allowing a company to use one reporting language throughout. A single standard will also provide investors and auditors with a cohesive view of finances.

Currently, over 100 countries, including Tanzania, permit or require IFRS for public companies, with more countries expected to adopt IFRS by 2015. Proponents of IFRS as an international standard maintain that the cost of implementing IFRS could be offset by the potential for compliance to improve credit ratings. IFRS is sometimes confused with IAS (International Accounting Standards), which are older standards that IFRS has replaced.
2.1.2. Definition of SMEs

SME is the business segment term used differently in different countries, sometimes differently in different Industries in the same country. IASB defines small and medium-sized entities as entities that:

Do not have public accountability. 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 (a 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. This is typically the case for banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks. (IASC Foundation: Training Material for the IFRS for SMEs (version 2010-1) 9)

In the United states of America (USA), from small office, home office (SOHO) to a large corporation may be called SME. In European Union, a firm with 50 to 250 employees, annual turnover of Euro 7 to 40 million, total assets of less than Euro 27million and not more than 25% ownership by a large corporation, may be classified as a SME.

The international chamber of commerce (ICC) defines an SME as having 100 to 2000 employees. In the Small and Medium Enterprises policy issued by ministry of Trade and Industries, and signed by Honorable Juma Ngasongwa November 2002, The SME definition, Classification, policies and advantages of SMEs in Tanzania have been addressed in detailed and somewhat exhaustive according to Tanzania economic, strategic and cultural arenas.

The SMEs nomenclature is used to mean micro, small and medium enterprises. It is sometimes referred to as micro, small and medium enterprises (MSMEs). The SMEs cover non-farm economic activities mainly manufacturing, mining, commerce and services.
An SME in Kenyan context is an entity that does not have public accountability; that publishes general purpose financial statements for external users; whose debt and equity instruments are not traded in the public market; and that does not hold funds in a fiduciary capacity for a broad group of outsiders as one of its primary businesses.

The Council of the Institute of Certified Public Accountants of Kenya (ICPAK) has designated companies whose debt or equity instruments are traded in a public market or are in the process of issuing such instruments for trading in a public market; banks and building societies; savings and credit unions including SACCOs; insurance companies; retirement benefit schemes; state owned entities including state funded parastatals; mutual funds; investment banks; and stock brokers as publicly accountable and therefore cannot use IFRS for SMEs as a framework for external reporting. All other entities not listed above and preparing general purpose financial statements for external users may opt whether to comply with full IFRS or IFRS for SMEs.

In the context of Tanzania, the Council of the National Board of Accountants and Auditors, an SME is as an entity that is not publicly accountable or a Government Business Entity, and which has less than 100 employees or capital investment in non-current assets of less than Tsh.800 million.

2.1.3. IFRS for SMEs

According to International Accounting Standards Board (IASB), the IFRS for SMEs is a self-contained standard of fewer than 230 pages, designed to meet the needs and capabilities of small and medium-sized entities (SMEs), which are estimated to account for over 95 per cent of all companies around the world.

IFRS for SMEs is about good financial reporting made simple. It is simplified IFRSs, but built on an IFRS foundation. It is designed specifically for SMEs and is internationally recognised. The IASB took six years to develop it. The final standard was issued by the IASB on 9th July 2009.
The standard is available for any jurisdiction to adopt, whether or not it has adopted full IFRSs. Each jurisdiction must determine which entities should use the standard. The IASB’s only restriction is that listed companies and financial institutions should not use it. N.B. Over 99% of private entities around the world are expected to be eligible to use the standard. The definition is therefore based on the nature of an entity rather than on its size. Where a transaction is not addressed by the IFRS for SMEs, management is expected to use judgment to determine its accounting policy. If such a transaction is covered in full IFRS, management may refer to the appropriate international standard if it wishes but is not required to do so by the IFRS for SMEs.

IFRS is a completely stand-alone (self contained) and differs from full IFRSs in a number of ways such as; Is much smaller (230 pages against 2855 in full IFRSs), Where IFRSs have options, include only simpler option, Recognition and measurement simplifications, Reduced and simplified disclosures, Simplified drafting .

SMEs dominate the business world. In virtually, every business jurisdiction from the largest economies to the smallest, over 90% of companies have fewer than 50 employees. There are 21 million SMEs in the European Union and 21 Million in the US alone.

There is no universally accepted definition of SME. Different countries use various measures of size depending on their level of development. The commonly used yardsticks are total number of employees, total investment and sales turnover. In the context of Tanzania, micro enterprises are those engaging up to 4 people, in most cases family members or employing capital amounting up to Tshs.5.0 million. The majority of micro enterprises fall under the informal sector. Small enterprises are mostly formalized undertakings engaging between 5 and 49 employees or with capital investment from Tshs.5 million to Tshs.200 million. Medium enterprises employ between 50 and 99 people or use capital investment from Tshs.200 million to Tshs.800 million. This is illustrated in the table below.
2.2.1. Categories of SMEs.

2.1.3.1. European Categories of SMEs.

According to the European Union (EU), SMEs are supposed to be categorized according to size as follows:

Table 1: Categories of SMEs in EU.

<table>
<thead>
<tr>
<th>Category</th>
<th>Employees</th>
<th>Turn Over</th>
<th>Balance Sheet (Total Assets)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medium</td>
<td>250</td>
<td>50 million Euro</td>
<td>43 million Euro</td>
</tr>
<tr>
<td>Small</td>
<td>50</td>
<td>10 million Euro</td>
<td>10 million Euro</td>
</tr>
<tr>
<td>Micro</td>
<td>10</td>
<td>2 million Euro</td>
<td>2 million Euro</td>
</tr>
</tbody>
</table>

Source: Rolf & Joachim (2010)

2.1.3.2. Categories of SMEs in Tanzania

Table 2. Tanzania categories of SME

<table>
<thead>
<tr>
<th>Category</th>
<th>Employees</th>
<th>Capital Investment in Machinery (Tshs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Micro enterprise</td>
<td>1 – 4</td>
<td>Up to 5 mill.</td>
</tr>
<tr>
<td>2. Small enterprise</td>
<td>5—49</td>
<td>Above 5mill to 200mill</td>
</tr>
<tr>
<td>3. Medium enterprise</td>
<td>50—99</td>
<td>Above 200mill to 800mill</td>
</tr>
<tr>
<td>4. Large enterprise</td>
<td>100+</td>
<td>Above 800 mill</td>
</tr>
</tbody>
</table>

Source: Tanzania SMEs Development Policy, 2003

N.B. In the event of an enterprise falling under more than one category, then the level of investment will be the deciding factor.

2.1.4. Importance of Small and Medium Enterprises

It is estimated that about a third of the GDP originates from the SME sector. According to the Informal Sector Survey of 1991, micro enterprises operating in the informal sector alone consisted of more than 1.7 million businesses engaging about 3 million persons that was, about 20% of the Tanzanian labour force. Though data on the SME sector are rather sketchy and unreliable, it is reflected already in the above data that SME sector plays a crucial role in the economy.

Since SMEs tend to be labour-intensive, they create employment at relatively low levels of investment per job created. At present, unemployment is a significant problem that Tanzania has to deal with. Estimates show that there are about 700,000 new entrants into the labor force every year. About 500,000 of these are school
leavers with few marketable skills. The public sector employs only about 40,000 of the new entrants into the labor market, leaving about 660,000 to join the unemployed or the underemployed reserve. Most of these persons end up in the SME sector, and especially in the informal sector. Given that situation and the fact that Tanzania is characterized by low rate of capital formation, SMEs are the best option to address this problem.

SMEs tend to be more effective in the utilization of local resources using simple and affordable technology. SMEs play a fundamental role in utilizing and adding value to local resources. In addition, development of SMEs facilitates distribution of economic activities within the economy and thus fosters equitable income distribution. Furthermore, SMEs technologies are easier to acquire, transfer and adopt. Also, SMEs are better positioned to satisfy limited demands brought about by small and localized markets due to their lower overheads and fixed costs. Moreover, SME owners tend to show greater resilience in the face of recessions by holding on to their businesses, as they are prepared to temporarily accept lower compensation.

Through business linkages, partnerships and subcontracting relationships, SMEs have great potential to complement large industries requirements. A strong and productive industrial structure can only be achieved where SMEs and large enterprises not only coexist but also function in a symbiotic relationship. However, the linkages between SMEs and large enterprises are very weak in Tanzania. SME development Policy, therefore, creates the potential for enhancing linkages within the economy. In addition, SMEs serve as a training ground for entrepreneurship and managerial development and enable motivated individuals to find new avenues for investment and expanding their operations.

There are also opportunities indicating a bright future for SME sector development in Tanzania. This includes the various on-going reforms that are oriented towards private sector development and, thus, lay the ground for SMEs development. In addition, the recognition of SME sector that it has higher potential for employment generation per capital invested attracts key actors to support SME development program. Since SME development does contribute significantly to poverty
alleviation, resources earmarked for poverty alleviation will also be availed to the SME sector.

Various initiatives towards improving the infrastructures and especially roads do provide an added opportunity for SME development. Furthermore, there are several ongoing schemes aimed at strengthening SME service providers such as Small Industries Development Organization (SIDO), Vocational Education Training Authority (VETA), Micro Finance Bank (NMB) and various Industrial Support Organizations. These interventions do provide opportunities for growth of the SME sector.

Given the fact that Tanzania is endowed with abundant natural resources, the creation of standards enabling business environment will facilitate exploitation of these resources through SMEs. This is again an opportunity for SMEs development.

2.4. **Financial Reporting in SMEs**

The study will not be able to review the whole standard, due to time, financial and technical constraints. It will address some major changes included in IFRSs for SMEs as opposed to full IFRSs. Although not exhaustive, a pocket guide prepared by Price Waterhouse Coopers, 2009, the financial reporting in SMEs include the following changes:

i. Removal of all cross references to standards applicable under full IFRS (except IAS 39).

ii. Restructuring of approach to financial instruments.

iii. Removal of requirement for measurement of non-current assets or disposal group held for sale (presentation similar to IFRS 5); disclosures about disposals are still required.

iv. Removal of revaluation option for intangible assets.

v. Presumption that all intangible assets (including goodwill) have an estimated useful life of 10 years, unless there is evidence to the contrary.
vi. Borrowing costs are recognised as expenses.

vii. Financial performance is reported either as one statement of comprehensive income or as two statements - an income statement and a statement of comprehensive income that starts with profit or loss for the period.

viii. All deferred tax is presented as non-current.

ix. Removal of requirement to disclose externally imposed capital every effort has been made to ensure accuracy, some information that may be relevant to a particular reader may not be comprehensive or may have been omitted.

To these 9 changes highlighted, this study will concentrate on how SMEs report their performance in the statement of comprehensive income, since it could be very difficult to examine all financial statements reported by SMEs due to the shortage of resources.

The IFRSs for SMEs require that, the performance of SMEs to be presented in any of the two options available. On first option, the IFRS for SMEs allows the management to combine items of income and expense in the profit and loss statement and items of comprehensive income’ For example exchange gains and losses arising from translating the financial statements of a foreign operation, Revaluation gains and losses in a single combined statement called “Statement of Comprehensive Income”

Alternatively, management may choose to adopt the two statement approach and present:

- An income statement displaying components of profit or loss
- A statement of comprehensive income which begins with profit or loss and then displays items of other comprehensive income
If the reporting organization has no items of other comprehensive income to present, it can presented only an income statement or a statement of comprehensive income in which the bottom line is labelled ‘profit or loss’

2.5. **Advantages and Disadvantages of SMEs Complying to IFRSs for SMEs**

2.5.1. **Advantages**

In order to be useful for decision making, financial statements should have qualitative characteristics which are understandability, relevance, Reliability, and comparability. These characteristics cannot be achieved without SMEs complying to IFRSs for SMEs. It is infallible saying that, compliance to IFRSs for SMEs is making decision makers confident.

Compliance to IFRSs for SMEs enable in promoting greater transparency and good governance in financial reporting. This compliance will help banks develop uniform business evaluating modules before they can offer credits to SMEs, to help SMEs acquire dept capital in an attempt of solving the number one problem of lack of adequate capital in running their business.

Compliance to IFRSs for SMEs leads to reduction of burden of compliance to Full IFRS, which was the case before establishment of IFRSs for SMEs by IASB late 2009. Improved management information for decision making. The IFRSs will enable the availability of systematic financial information for managerial decision making in the organization. Ease of using one consistent reporting standard in subsidiaries from different countries. Multinational businesses which has to consolidate their financial statements, will find it simple to combine information prepared in the same format.

Facilitated mergers and acquisitions. Take over agreements are easily achieved to business prepared under the same IFRSs. Enhanced competitiveness. Since comparison is possible when businesses report using the same IFRSs, then competition among business is enhanced to those entities operating in the same industry.
International mobility of professionals throughout the word. When IFRS for SMEs are applied, the experts from one country can be hired to work in another country, to solve the problem of shortage of professional staff in organization.

Investors will have better understanding of risk and return when considering where to invest, or when it is necessary to sell securities of poorly performing businesses. The national regulatory bodies, such as NBAA will have a higher standard of financial disclosure and improved regulatory oversight and enforcement at lower cost, than if they could develop their local standards.

2.5.2. Disadvantages
Since IFRSs for SMEs have been fully adopted by NBAA, with effect from October 2009, SMEs have option to report either using full IFRS or IFRSs for SMEs. However we are all aware of the complexity and tediousness SMEs experience from complying to these standards. Some observed demerits of applying IFRSs for SMEs are as follows:

SMEs are forced to hire technical consultants for preparing financial statement and are required to keep records which are rarely used by few users. Especially tax authorities, as they have no public responsibilities. Training costs are incurred by SMEs to equip employees with knowledge of new changes in these standard, since evolution of business environment is inevitable and users are forced to up-date themselves accordingly.

2.6. Empirical Review
Research conducted in various European countries, to study the attitudes of SMEs towards the application of IFRSs for SMEs in preparing and reporting their financial statements. The survey in these countries show that, reluctance of enterprises in adopting Full IFRSs has fully been transferred to SMEs in utilizing IFRSs for SMEs. This is supported by IASB assumption that, the concepts and pervasive principles between full IFRSs and IFRSs for SMEs does not differ in accounting.
Evangelos and George (2011), Conducted a survey in four countries, Greece, Turkey, UK, and Lithuania to evaluate the adoption of IFRSs for SMEs. They sent questionnaires to 100 SMEs of each country (400 total) and they received 143 (35.7% response rate on average). The research took place between June and September 2011 in all aforementioned countries.

They collected primary data through a short questionnaire directly from accountants and financial experts working in the accounting department of SMEs in 4 countries participating into a EU program called Transfer of Innovation in the context of Leonardo DaVinci 2010 call. The overall results were as follows:

The majority of the respondents belong to small entities with annual sales up to €2.5 millions. In the UK however the percentage of larger firms is higher. In Greece, UK and Turkey the primary users of financial statements are the lenders while in Lithuania are the shareholders. It was noted that in all countries the percentage of the employees shown is rather significant and higher than one would probably expected.

The awareness of the preparers concerning the introduction of the IFRS for SMEs is found in all sample firms high. The lower percentage presented in Greece the unaware accounting experts are more than those who are consider themselves as aware.

The majority of the respondents consider that the new international accounting standards should not be obligatory for all SMEs. As far as the difficulties that the new standards are anticipated to bring the correspondents in three countries agree that the situation will be rather problematic especially in the light of the current economic crisis. In the contrary the UK experts are more optimistic in general arguing that any difficulties or barriers could not be severe with damaging effects for the operation of the firms.

The most common problem for the adoption and implementation of the new standards is said to be the high incurred costs. Surprisingly in the UK the absence of qualified people expressed as bigger issue.
Majority of respondents in all countries express the opinion that the IFRS should be different for very small and medium enterprises taking into account the specificities of each firm according to its size and nature.

They concluded that from the viewpoint of the preparers IFRS for SMEs can be characterized as a big step on the development and existence of Small and medium sized entities. However, IFRS for SMEs is quite complex in specific areas and its really probable that the preparers of the financial statements can face a lot of problems when they have to prepare them. As a main inference we can conclude that practitioners have expressed concerns about the undue cost in actually implementing the new standard and therefore they are rather skeptical at least for the existing macro economic conditions.

Mages (2009), made a survey on adoption of IFRSs for SMEs in German. He examined 2,767 private commercial partnerships, with annual sales of more than 40million euros, and respondents answered by 10%. The results showed that only 19.3% adopted IFRSs for SMEs.

Kathiriya (2009), studied the challenges in IFRSs Convergence by SMEs in India. The findings of this study, portrays the compliance level of Indian SMEs to IFRS. The results were as follows:

Awareness of IFRS among SMEs are comparatively less so they are not ready for the adoption of IFRS.

Most of SMEs are working in local market so there is no need for the IFRS for the representation of their financial data. However SMEs who want to go globally in future are thinking about this aspect but who just want their business in local market they are not thinking about it in detail.

As in India professional people who have knowledge about the IFRS are less available so charges for that professional fees are higher and increase the cost of SMEs.
If IFRS will be compulsory then SMEs face difficulties in various aspect like financial planning, tax planning etc. and in India most hurdle of implementing IFRS even in giant corporation legal and regulatory frame work affect a lot. Still IFRS for SMEs are under process so it will take too much time for implementing it fully in India as well as in another country.

Mage (2010) conducted a research on adoption of IFRS for SMEs in financial reporting among SMEs in Tourism Industry. She collected data from 50 SMEs which were selected from a population of 90 SMEs in Kenya. It was determined that, there were zero implementation of IFRS for SMEs in Kenya. A number of reasons were brought-forth for this state of compliance, including, lack of information on the existence and importance of IFRSs for SMEs, cost constraints, poor and inadequate professional and legal regulations and government taxation policies.

2.7. Conceptual framework and Research Model

2.7.1. Conceptual Framework

After a serious review of IFRS by IASB, it was revealed; generally IFRS were introduced to cater for needs of big corporation only, while SMEs were being dragged to comply with these common standards. Noting the categories of SMEs, the burden for compliance and compliance complexity by small SMEs was even more serious compared to Medium, and medium to Large SMEs. To easy compliance challenges, IASB issued the alternative standard for SMEs worldwide, although it is undeniable that, accounting objectives are different from one SME to another, and country-wide. IFRSs for SMEs are considered to comprise universal standards, which have been prepared to cater for reporting needs of all SMEs in the universe. However, it is inevitable to say that, IASB cold do fair, had it specify certain standards to be complied with Small, some for Medium and Large SMEs respectively.

Now we have a set of IFRSs for SMEs on one side, and a group of SMEs on the other side of the pray ground. This study will be describing the extent to which, the SMEs are preparing their financial statements according to IFRSs.
Different SMEs face different intensity of compliance challenges, such as Cost of compliance, level of technology, employees skills, convention costs, legal enforcement by governing board and ability of the business entity to hire professional accountants when preparing financial statements.

The compliance challenges act as stimulus towards compliance. The SME which face low challenges is in better compliance level compared to the one with high level of challenges. The adjustment of the challenges will in turn adjust the compliance level, if the reporting entity did not change the its reporting capacity.

2.7.2. Research Model

The compliance of SMEs in preparing financial statements according to IFRSs depends on the ability to overcome the compliance constraints mentioned before. These will include the compliance cost, Technology level, Technical staff, Business objectives and legal enforcement by Government agencies. This can be illustrated in the equation as follows:

\[ C = f(CC+S+O+G) \]

Where:
- \( C \) = SME compliance to IFRSs
- \( CC \) = Cost of compliance to IFRS
- \( S \) = Technical staff employed by SMEs
- \( O \) = The business objective to become the Multinational operating business
- \( G \) = The Government enforcement towards IFRS compliance

This means business compliance to IFRSs is a function of all these factors addressed in the compliance equation.

The study in assessing the compliance levels to IFRSs were at the same time be exploring the reason for failure to comply or successful compliance of some SMEs as opposed to the other.
CHAPTER THREE
RESEARCH METHODOLOGY

3.0 Introduction
In this methodology part, research plan is addressed. Different research designs are considered, form research approach, population to be studied and sampling techniques, data collection techniques, type of data and data analysis Methods. Finally data presentation techniques will be considered.

3.1: Type of the Study
A descriptive research will be applied in this study. The topic to be researched is one of the primary drivers in the choice of methodology (Remenyi et al., 1998). The descriptive research field is to portray an accurate profile of persons, events or situation” (Robson, 1993). During the research the events of SMEs compliance and non-compliance to IFRSs for SMEs will be investigated from the preparer perspective only. Remnyi et al. (1998) argued that descriptive research is characterized by the purpose “to document the phenomenon of interest”. The phenomenon of compliance and non-compliance with IFRs for SEMs will be documented in this study.

3.2: Research Approach
The research approach in this very study will be deductive one, since we are optimistic to the IFRSs for SMEs issued by IASB July 2009 that, they comply to our Tanzania business environment and NBAA endorsed them by October 2009. The existing gap in knowledge is the level of SMEs Complying to IFRSs, so we just need to deduce the degree of applying IFRSs for SMEs provisions when preparing financial statements.

3.3: Study Area
The research will be conducted at Morogoro Municipality, where the number of SMEs seem to be growing rapidly, perhaps because of technical training institutions located at Morogoro Municipality e.g. VETA and other entrepreneurial skills provided by different institution ranging from Universities, SUA, Mzumbe, Islamic
University, Jordan University and general infrastructures, supported by good weather of the town and its geographical position being at the junction of all major roads in this country.

3.4: Study Population
This study will consider fifty SMEs Operating in Morogoro. These SMEs will be obtained from different economic sectors, including Manufacturers, Service providers, Distributers and transporters, Security firms, Mechandising business, Legal firms and Consultants.

3.5: Sample size
To acquire representativeness of the studied population, the study is going to use the sample which covers at least 50% of the SMEs categories based in Morogoro, and we are confident that the IFRSs sustain the Morogoro SMEs environment by 95%, as a matter of assumption. Therefore we shall use 25 SMEs in this study.

3.6: Sampling Techniques
A population of SMEs will be clustered to their industry and min-samples will be obtained from different industries. Thus, samples from manufacturing, transportation and distribution, hotels and food vendors, dispensaries and medical stores (Health services) etc will produce min-samples at random, which together will form one sample for the entire study.

Noting that SMEs are heterogeneous, stratified random sampling will also be used to make sure those homogeneous SMEs are sampled first, before ending up with the major sample for the study. Therefore, the SME in manufacturing portrays different and distinct characteristics to the SME in clothes vending shop, and the later to the Health services etc.

3.7: Type of Data
This study will be using secondary and primary data, with quantitative and qualitative nature. The objective nature of primary data, since they have not been interpreted by any researcher before, are given the first priority in this research,
without ignoring the importance of secondary data in accomplishing the study. The novelty of information gathered from primary data gives the researcher confidence in covering the gap, using the most recent information. However the advantage of using secondary data in serving time and money will be taken as well, when reviewing entities policies, financial regulations and annual audited statement

3.8. **Data collection methods**

3.8.1. **Primary Data.**

Data were collected in writing and orally. Some supplementary questions were asked orally and responses noted in writings. Therefore both methods, Interview and Questionnaire were used in this research as a method of collecting primary data in this survey study. However, because of the wide geographical location of SMEs which are under investigation, Questionnaire will be the prominent data collection technique compared to interview or focus group, although in some instance they will apply. A questionnaire is deemed to be the most practical and effective mechanisms with a combination of open and closed – ended questions. Questionnaires are not particularly good for exploratory or other research that requires large numbers of open-ended questions. They work best with standardized questions (Robson, 1993). This shows that questionnaire is better used in descriptive or explanatory as used in this study.

Questionnaires are expected to be hand dispatched to respondents in SMEs. Responses will be encouraged by physical follow up by researcher, as well as telephone calls will occasionally be done for adequate responses.

3.8.2. **Secondary Data**

Different documents from SMEs will be studied investigate if they comply to IFRSs. The Financial statements, especially the statement of comprehensive income will be used in this study. Tax invoices and assessments, books of accounts, and financial regulations and policies guiding the daily activities in SMEs will be reviewed in assessing the compliance of SMEs to IFRSs.
3.9. Validity of Data

To make sure we get a range valid qualitative and quantitative data, which can be measuring the applicability of IFRSs in SMEs, the questionnaire will include many closed ended and objective questions, which will solicit answers from respondents which can be assigned numerical values in figures, percentages or intervals. Otherwise, the data will not be measuring objectively, what the study intends to describe.

3.10. Reliability of Data

In attaining the reliability of this research results, the random sampling and objective questionnaires are going to be used in collecting data. By so doing data collected and analyzed are expected to give results, which will mean the same to the majority of SEMs in Tanzania.

3.11. Variable Measurements

IFRSs for SMEs are the independent variables of this study. These independent variables are counted according to the number of rules applied in the preparation of financial statements. Each financial statement is prepared depending on the nature of the business and disclosure requirements from such a business. In case of a Statement of a comprehensive income, businesses with other comprehensive income will choose type of reporting suitable to their exposure, as the standard permits two alternatives to be used. First alternative is to combine operating profit and the comprehensive in one statement. The second alternative allows separation of the operating profit and comprehensive income in different pages. The compliance of the SMEs to IFRSs in reporting their Cash flows, Financial positions, performance and Changes of Owners equities, stand as a dependent variable, which is measured by the number of rules applied by a business in preparing financial statements. This is guided by the ability of an SME in overcoming compliance challenges, as highlighted in the compliance equation. Thus the compliance to IFRSs will depend on Cost of compliance, Technical staff, Business objectives and Legal enforcement to compliance. Such compliance will be measured in percentage of business compliance to IFRSs.
A precursor to analysis is coding, entry and checking of data (Burgess, 2001). Data expected to be coded, entered and checked before the analysis. The study is to employ both quantitative and qualitative analysis of data. In this case, data are going to be analyzed using SPSS. For into this package will obtain percentages of SMEs compliance to IFRSs and tabulation, charts and graphs are easily developed during analysis using SPSS. The qualitative data we expect to collect via open-ended questions and interview will be used for comparison, explanation building and matching data pattern on the analysis.
CHAPTER FOUR

PRESENTATION AND INTERPRETATION OF FINDINGS

4.0. Introduction

In this chapter we will be presenting the empirical findings based on the data collected from respondents. The empirical findings are based on the tools used to acquire the opinions and feedback of the SMEs and their accountants in the real market regarding their perceptions and practical approach towards adoption of IFRS for SMEs. All the interviews were conducted face-to-face with the respondents as per their permission and convenience. The secondary data were difficult to be obtained since respondents were not ready to show their books of accounts, and majority of them do not keep any records apart from receipt books. In several cases, I had to interpret the meaning of the words used in Swahili, since the majority of respondents claimed not to know English. Basing on these empirical findings, analysis, discussions and conclusions will be made.

4.1. Interviewees profiles.

The key interviewees were accountants of the entities where they have them. However SMEs are being operated with owners without employing accountants. I had to deal with owners irrespective of their poor knowledge of terminologies and concepts being investigated such as IFRS, SMEs and IAS.

Respondents were both male and female, although male gender seem to dominate the SMEs. However the small proportion of female interviewed give the opinion of their gender in businesses and the responsible authorities will be in a position to device rules and standards which can help SMEs owned by female and males, to make sure no one side will dominate in operating SMEs than the other.
14 respondents were Men, making 70% and 6 respondents or 30% of them were Wemen. This composition show that in order to achieve total compliance sensitization of IFRSs for SMEs must be done to all kinds of people. Respondents were found to fall between 20 years and 76 years of age. Those who are below 40 years are just employees, and owners of businesses are mostly more than 40 years of age. This is on one side because of difficulties in accumulating capital and on the other side is ability to get loans from lenders, who often require security to extend loans to SMEs.

**Table 3: Sex of respondents**

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>14</td>
<td>70.0</td>
</tr>
<tr>
<td>Female</td>
<td>6</td>
<td>30.0</td>
</tr>
<tr>
<td>Total</td>
<td>20</td>
<td>100.0</td>
</tr>
</tbody>
</table>

**Source.** Researchers findings 2013.

Most of respondents are over 30 years. Perhaps below that age are still in schools or have no capital to run businesses.

The study gathered data from various types of businesses, but most SMEs are dealing with buying and selling goods than manufacturing. Some service proving businesses such as accommodation, food and health service were considered. These SMEs are summarized in the following table.

**Table 4: Age of respondents**

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>20 - 25</td>
<td>10.0</td>
</tr>
<tr>
<td>26 - 30</td>
<td>10.0</td>
</tr>
<tr>
<td>31 - 40</td>
<td>30.0</td>
</tr>
<tr>
<td>Above 40</td>
<td>50.0</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
</tr>
</tbody>
</table>

**Source.** Researchers findings 2013
### Table 5: Type of businesses of the respondents

<table>
<thead>
<tr>
<th>Business Type</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing business eg. Furniture, welding, building, and construction</td>
<td>3</td>
<td>15.0</td>
</tr>
<tr>
<td>Buying and selling of goods ie. hard wares and soft wares</td>
<td>5</td>
<td>25.0</td>
</tr>
<tr>
<td>Services, like education, health, mechanical</td>
<td>4</td>
<td>20.0</td>
</tr>
<tr>
<td>Food vending and hotels</td>
<td>2</td>
<td>10.0</td>
</tr>
<tr>
<td>Selling drinks (bars and Restaurant)</td>
<td>1</td>
<td>5.0</td>
</tr>
<tr>
<td>Accommodation (lodging and guest house)</td>
<td>2</td>
<td>10.0</td>
</tr>
<tr>
<td>Transportation (buses and lories)</td>
<td>2</td>
<td>10.0</td>
</tr>
<tr>
<td>Food vending and hotels, Selling drinks and Accommodation</td>
<td>1</td>
<td>5.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>20</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

**Source:** Researchers findings 2013

Business of buying and selling goods leads by 25%, followed by Services provision of dispensaries, education and medical laboratories by 20%. Manufactures from small factories of furniture, welding and building contractors make a third type of business by 15% of interviewed respondents. Hotels, bars and restaurants make a proportion of 10% each of the respondents. Very few data were obtained from accommodation providers only making a proportion of 5%.

Education of respondent is found to contribute significantly in obtaining enough and reliable data from respondents. Those who at least reached secondary education seem to understand easily the language used in this research. However all efforts were made to make sure we get information from various respondents by interpreting some area in Swahili, simply to make sure we get reliable data for analysis. The level of education of the respondents contributed their views in this study were classified as follows:-
Table 6: Level of education of the respondents.

<table>
<thead>
<tr>
<th>Level of Education</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard seven</td>
<td>1</td>
<td>5.0</td>
</tr>
<tr>
<td>Form four</td>
<td>5</td>
<td>25.0</td>
</tr>
<tr>
<td>Form six</td>
<td>1</td>
<td>5.0</td>
</tr>
<tr>
<td>Certificate</td>
<td>7</td>
<td>35.0</td>
</tr>
<tr>
<td>Diploma</td>
<td>4</td>
<td>20.0</td>
</tr>
<tr>
<td>University</td>
<td>2</td>
<td>10.0</td>
</tr>
<tr>
<td>Total</td>
<td>20</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source. Researchers findings 2013

Data were easily obtained from respondents who have at least form four education, and only 1 Standard seven respondent was ready to give information about the performance of the business was dealing with. Above certificates are ready to respond.

Figure 1. Level of education of respondents.

Source. Researchers findings 2013

Respondents with college education were from different professionals, which made it difficult to gather data than if we could deal with accountants and only those who have at least book keeping knowledge in business. The key concepts of this study, IFRSs and SMEs are not familiar to these other professions.
This made the respondents to be sceptical and with fear of Tax officials during the entire course of interviewing them.

### Table 7: Professional of the respondents

<table>
<thead>
<tr>
<th>Professional</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>An accountant</td>
<td>4</td>
<td>20.0</td>
</tr>
<tr>
<td>A mechanics</td>
<td>3</td>
<td>15.0</td>
</tr>
<tr>
<td>An Electrician</td>
<td>1</td>
<td>5.0</td>
</tr>
<tr>
<td>A teacher</td>
<td>2</td>
<td>10.0</td>
</tr>
<tr>
<td>A medical doctor</td>
<td>1</td>
<td>5.0</td>
</tr>
<tr>
<td>No profession</td>
<td>5</td>
<td>25.0</td>
</tr>
<tr>
<td>Carpenter</td>
<td>1</td>
<td>5.0</td>
</tr>
<tr>
<td>Record assistant</td>
<td>1</td>
<td>5.0</td>
</tr>
<tr>
<td>Hotel management</td>
<td>1</td>
<td>5.0</td>
</tr>
<tr>
<td>computer operator</td>
<td>1</td>
<td>5.0</td>
</tr>
<tr>
<td>Total</td>
<td>20</td>
<td>100.0</td>
</tr>
</tbody>
</table>

**Source.** Researchers findings 2013

Majority of respondents have no profession (25%). Only 4 businesses have accountants controlling them, making 20%, while other profession run their businesses on their own. This contributed to ignoring use of IFRSs.

**Figure 2 . Profession of respondent**

![Graph showing professional distribution](chart.png)

**Source.** Researchers findings 2013
The ownership status of respondents show that, a good number of them are simply owners or wife of the SMEs owners. This contributed to not receiving all required responses from respondent, they could quickly rush to thinking of the possible ways they can hide the information to avoid tax issues. In some cases they said, I tell you this but don’t quote me. They tended to hide the information. I had to spend the precious minutes I had begging the respondent answers. That is the reason of receiving below 50% responses from interviewees.

The table below portrays the ownership status of respondents of SMEs.

<table>
<thead>
<tr>
<th>Table 8: Are respondents Owner of the business?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequency</td>
</tr>
<tr>
<td>---</td>
</tr>
<tr>
<td>Yes</td>
</tr>
<tr>
<td>No</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

Source. Researchers findings 2013

This shows SMEs are rarely employing workers, rather the owners are the one who control the businesses. There is rare stewardship in SMEs. Linking this scenario with the education of SMEs owners and ability of the owners to hire qualified accountants in preparing financial statements, it reflects that, the ability of SMEs complying to IFRSs to be almost zero.

4.2. The proportion of the SMEs which comply with IFRS for SMEs in Morogoro

The results show that there is no SME in Morogoro which comply to IFRS. Just as was the case in our literatures reviewed, which show zero level of applying IFRSs by SMEs in Europe countries considering the survey made in UK, Greece, Turkey and Lithuania. The same case is found in India for Asian countries, USA, South Africa, Kenya and Uganda. This call for the immediate research on why they don’t comply at all?

Several reasons are found to support this non compliance status of SMEs in Morogoro. The first reason for not complying to IFRSs although IASB have
simplified them is that, the SMEs owners or hired accountants for preparing financial statement for SMEs have no knowledge or very little literacy on IFRSs. The following table summarises the knowledge of respondents in IFRS.

Table 9. Knowledge of respondents to IFRSs for SMEs

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very little</td>
<td>12</td>
</tr>
<tr>
<td>Little</td>
<td>1</td>
</tr>
<tr>
<td>Moderate</td>
<td>2</td>
</tr>
<tr>
<td>No opinion</td>
<td>5</td>
</tr>
<tr>
<td>Total</td>
<td>20</td>
</tr>
</tbody>
</table>

Source. Researchers findings 2013

Among the interviewees, 60% of them have no or very little knowledge of IFRSs for SMEs. Only 1 (5%) have little knowledge and 10% with moderate knowledge. 20% have nothing to say about IFRS for SMEs.

Among the few with little knowledge in IFRS, they don’t know if there is IFRSs for SMEs and they cannot understand if NBAA has adopted the use of IFRs for SMEs since October 2009. This support the findings of this study, which show no compliance to IFRSs by SMEs in Morogoro. The awareness of respondents to adoption of IFRSs for SMEs by NBAA given in the following chart.

Figure 3. Awareness that NBAA introduced the IFRSs for SMEs October 2009

Source. Researchers findings 2013

85% of SMEs are not aware of IFRSs for SMEs. Only 15% have little knowledge of their existence.
This finding supports the situation of not using IFRS when preparing financial statements. If they are not aware of them, we don’t expect them adopt the standards.

The third reason of non compliance is that, all SMEs surveyed operate their businesses locally, which conveys them not to discover the importance of knowing these IFRSs. If they could be dealing with multinational businesses they could be compelled to adhere to these IFRSs in order to create uniformity of reporting and meeting the desires of the economies in their functional currencies.

During the interviews, they were required to show the importance of these IFRSs and these were the data collected.

Table 9. Considering necessary the adoption of IFRSs for SMEs by the entity

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very little</td>
<td>10</td>
<td>50.0</td>
</tr>
<tr>
<td>Moderate</td>
<td>2</td>
<td>10.0</td>
</tr>
<tr>
<td>Much</td>
<td>2</td>
<td>10.0</td>
</tr>
<tr>
<td>Very much</td>
<td>1</td>
<td>5.0</td>
</tr>
<tr>
<td>No opinion</td>
<td>5</td>
<td>25.0</td>
</tr>
<tr>
<td>Total</td>
<td>20</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source. Researchers findings 2013

50% of respondents find very little necessity of adopting IFRS for SMEs. 10% find moderate and Much need. 25% have no opinion.

This trend has no where to stay in the future, since we are getting into East Africa Community economic integration, where there will be stiff competition among businesses and free movement of capital from one member country to another, Tanzania SMEs will be forced to find the necessity of these standards if they want to prevail in the market.

The fourth reason for non compliance is that, although NBAA adopted the IFRSs for SMEs October 2009, the application of them still remains voluntary.
There is no legal enforcement for compliance to IFRSs in Tanzania, just as observed in literatures from different countries. The respondents were inquired if they can adopt the IFRSs if they were not mandatory, and these were the answers.

Figure 4. The adoption of IFRSs for SMEs if they were not mandatory

Source. Researchers findings 2013

The fifth reason for zero compliance of IFRS for SMEs is that owners believe strongly that, this will bring problems to their businesses, since these standard adopted by elite members of NBAA are not in agreement with Tanzania business atmosphere, where the running cost and profits gained by SMEs are not in equilibrium. They insist further that, the use of IFRSs will increase their operational costs of hiring professional accountants and paying salaries to employed professional employees. After asking them if they believe the IFRSs will bring any problems to their businesses, these were their responses
Table 10: Will application of IFRSs for SMEs cause problems to your companies function?

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>8</td>
<td>40.0</td>
</tr>
<tr>
<td>No</td>
<td>4</td>
<td>20.0</td>
</tr>
<tr>
<td>No opinion/Don't Know</td>
<td>8</td>
<td>40.0</td>
</tr>
<tr>
<td>Total</td>
<td>20</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source. Researchers findings 2013

8 respondents (40%) believe that application of IFRSs for SMEs will cause problems in their business. While 8 (40) respondents have no opinion. Only 4(20%) find no problem if IFRSs are sed.

If the 60% of these who responded they don’t know or they don’t find any clear cut problem were to be given education of the significance of applying IFRSs in their business reporting, it could increase the proportion of SMEs complying with IFRSs.

Similar to this question, respondents were required to air their views if at all IFRSs have any significance or problems if applied in Tanzania. Some responses to these question were as follows.

Table 11. Is the implementation of these standards required by SMEs in Tanzania?

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>3</td>
<td>15.0</td>
</tr>
<tr>
<td>No</td>
<td>4</td>
<td>20.0</td>
</tr>
<tr>
<td>No opinion/Do not know</td>
<td>13</td>
<td>65.0</td>
</tr>
<tr>
<td>Total</td>
<td>20</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source. Researchers findings 2013

To the respondents, 65% have no opinion of whether these standards are useful or not. 20% of them responded with confidence that, no need for these standards in Morogoro. Only 3 (15%) seem to recognize the need to adopt IFRSs in Morogoro Under such condition they cannot adopt the standard s which they don’t find the need for them. These results could be altered if education and sensitization seminars on
IFRSs could be provided to SMEs stakeholders, and it could improve the reporting standards of performance of SMEs and their current financial position.

Although capital is the big problem to SMEs, they don’t understand that if they can prepare their financial statements according to IFRSs, they can secure loans from Banks and other financial institutions which, which will add their ability of expanding capital base in their businesses. We know that SMEs are not issuing shares and other securities to acquire equity capital. Loans and grants to SMEs are the major source of supplementing personal saving endured by owners of SMEs. Respondents were asked if they do believe that preparing financial statements in accordance to IFRSs can make them raise capital, and the following were their reaction.

Table 12 Considering if the implementation of IFRS for SMEs from the entity will help to raise new capital

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very little</td>
<td>8</td>
</tr>
<tr>
<td>Little</td>
<td>5</td>
</tr>
<tr>
<td>Much</td>
<td>1</td>
</tr>
<tr>
<td>Very Much</td>
<td>1</td>
</tr>
<tr>
<td>No opinion</td>
<td>5</td>
</tr>
<tr>
<td>Total</td>
<td>20</td>
</tr>
</tbody>
</table>

Source. Researchers findings 2013

Capital is a problem to Majority of SMEs. However 8 respondents (40%) find applying IFRSs for SMEs will very little help raise capital in SMEs. 5 respondents (25%) of them say there is little ability of raising capital by applying IFRSs. 1 respondent(5%) find there is much ability of raising capital in SMEs by applying IFRSs. 1 respondent(5%) it is very much required to apply IFRS in order to raise capital in SMEs. As well, 25% remained silent.

This result can be presented graphically to show the how far SMEs owners are not in agreement with the use of well prepared financial statements in securing capital from lenders.
Figure 5. Considering if the implementation of IFRS for SMEs from the entity will help to raise new capital

Since more than three-quarters of the graph is covered by those who don’t believe, then there is no compliance to IFRS for SMEs.

4.3. To what extent do SMEs comply to IFRSs for SMEs.

The data collected from respondents show zero level of compliance to IFRSs. So we even think of shifting the discussion to the one which can answer the question, Why there is no compliance to IFRSs for SMEs in Morogoro, despite of the whole endorsement of them by NBAA late October 2009.

This must be answered first, before we conduct a research to describe the way SMEs comply to IFRS. The SMEs have not complied at all to SMEs, simply because they find it difficult applying the IFRSs for SMEs, and they suggest that, apart from all other problems mentioned in the objective number one, IFRSs must be further simplified for Tanzania SMEs, and where possible more than three stand-alone standards should be established, to cater for the needs of Micro, Small and Medium enterprises separately and to consider different industries separately. When respondents were required to give their opinions on separating IFRSs for SMEs, these were the responses.
Table 13: Should IFRS for SMEs be separate for very small, small and medium sized enterprises?

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>8</td>
<td>40.0</td>
</tr>
<tr>
<td>No</td>
<td>2</td>
<td>10.0</td>
</tr>
<tr>
<td>No opinion/Do not Know</td>
<td>10</td>
<td>50.0</td>
</tr>
<tr>
<td>Total</td>
<td>20</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source. Researchers findings 2013

Only 8 of the respondents (40%) say IFRSs for SMEs must be different from Micro, Small and Medium sized entities. Majority (50%) of them still have no opinion on this. 10% Say the standards should be uniform. The big proportion of business owners are very far from IFRSs knowledge. That is why they do not apply IFRS.

The second reason on this, is the attitude of Owners of SMEs towards needs of required factors in propelling their businesses. Among all the infrastructures they need, they don’t find IFRSs that will contribute to uplifting their business performance.

They went further saying; only simple bookkeeping knowledge is required to run SMEs and not using IFRSs which by the way were intended for big corporations only. The following table represents the responses from SMEs surveyed.
Table 14: Believing that the existing IFRS correspond to the entity's needs

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very little</td>
<td>8</td>
</tr>
<tr>
<td>Little</td>
<td>3</td>
</tr>
<tr>
<td>Moderate</td>
<td>3</td>
</tr>
<tr>
<td>Much</td>
<td>1</td>
</tr>
<tr>
<td>No opinion</td>
<td>5</td>
</tr>
<tr>
<td>Total</td>
<td>20</td>
</tr>
</tbody>
</table>

Source. Researchers findings 2013

Majority (40%) of respondents believe that IFRSs does not correspond to SMEs needs. 15% say there is little correlation to SMEs needs. 15% say it is moderate. Only 1(5%) find a much needs of IFRSs. Likewise 25% have no opinion.

4.4. The burden of compliance with IFRSs for SMEs.

The study aimed at asking the stakeholders holders in SMEs, to inquire what the find is the burden for implementing IFRSs for SMEs, including both financial and non-financial difficulties, thus government policies, legal parameters and thresholds of being categorised as Micro, Small or Medium enterprise.

The questions were set which could help the respondents give their opinion, as to what was the major problem they faced or expected to encounter in course of applying IFRSs when reporting their business performance and financial position. Once they could give the problems for implementing these standards, we then find out that, these are also a burden to owners of SMEs in implementing the IFRSs. Consider the following table bellow, which show the burden of complying with IFRSs by SMEs.
Table 15: Identification of main problems of implementing IFRSs for SMEs

<table>
<thead>
<tr>
<th>Problem</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>The high cost of Implementation</td>
<td>6</td>
<td>30.0</td>
</tr>
<tr>
<td>Absence of qualified people on the new standards</td>
<td>9</td>
<td>45.0</td>
</tr>
<tr>
<td>Lack of appropriate software</td>
<td>1</td>
<td>5.0</td>
</tr>
<tr>
<td>No opinion</td>
<td>3</td>
<td>15.0</td>
</tr>
<tr>
<td>I don't know</td>
<td>1</td>
<td>5.0</td>
</tr>
<tr>
<td>Total</td>
<td>20</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source. Researchers findings 2013

The respondents said lack of qualified people in preparing financial statements carry 45% of the problems toward implementing IFRS and high cost of hiring the few qualified accountants add the burden to SMEs by 30%. The remain portion is covered by accounting software and some had nothing to say.

There is high cost of implementing IFRSs for SMEs. Since is emanating from the cost of hiring qualified accountants in finalizing their financial reporting reports. Hired accountants are normally from audit firms, where the cost of hiring these firms to help in preparing financial statements is very high compared to the profits earned by SMEs. It is understood that, most SMEs cannot employees highly qualified people who can understand on the use of IFRS.

Since the universe is in constant changing state, the business challenges also are changing accordingly. The IASB normally reviews these standards every year to accommodate new changes. SMEs if are to use IFRSs have to use a lot of money in hiring the qualified personnel with such updates or sending the employees for in job training courses every time these changes are observed.

The following table show the people who are normally preparing financial statements in SMEs.
Table 16: Who is preparing financial statement of the business?

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>The owner of the business</td>
<td>1</td>
<td>5.0</td>
</tr>
<tr>
<td>The hired accountant</td>
<td>14</td>
<td>70.0</td>
</tr>
<tr>
<td>No one</td>
<td>5</td>
<td>25.0</td>
</tr>
<tr>
<td>Total</td>
<td>20</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source. Researchers findings 2013

Most businesses depend on hired accountants in preparing their financial statements by 70%. However, 25% of the businesses do not even prepare financial statements. Only 5% are preparing financial statements in their own businesses.

Considering the volume of sales of SMEs, it is obvious they cannot bear such a burden of either employing or hiring accountants for closing the books of accounts. The respondents were asked on the volume of previous sales of the business which could help determine the ability of these businesses in baring the cost of hire and employing. Consider the table of results presented below.

**Figure 6: Volume of previous year sales**

Source. Researchers findings 2013
75% of SMEs are selling above 5million in a year and not exceeding 200million. Only 10% can sell above 200million in a year. 15% are below 5million.

The primary users of financial statements from SMEs are money lenders. The information they require in order to extend loans to SMEs are very simple, ranging from the existence of the geographical location of the SMEs, permanent offices, type of the business, annual sales and immovable assets owned by these businesses. Such information does not need very sophisticated standards as required by IFRSs. This make SMEs find it unnecessary burden of complying to these standards, while users of those information are less demanding. The following table shows the primary users of financial statements from SMEs

**Table 17: Primary user of financial statements**

<table>
<thead>
<tr>
<th>Primary User</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lenders</td>
<td>12</td>
<td>60.0</td>
</tr>
<tr>
<td>No one</td>
<td>4</td>
<td>20.0</td>
</tr>
<tr>
<td>Employee and vendors</td>
<td>1</td>
<td>5.0</td>
</tr>
<tr>
<td>TRA</td>
<td>1</td>
<td>5.0</td>
</tr>
<tr>
<td>Lenders and vendors</td>
<td>2</td>
<td>10.0</td>
</tr>
<tr>
<td>Total</td>
<td>20</td>
<td>100.0</td>
</tr>
</tbody>
</table>

**Source.** Researchers findings 2013

60% of SMEs prepare financial statements in order to get loans from lenders e.g Banks and other financial institutions. TRA sets Tax to SMEs basing on average estimates of income of the industry, and not assessing individual businesses statements.

The majority of the inquired respondents believe that the cost of complying with IFRS exceeds the ability of SMEs in complying with IFRS. The same reasons were obtained when such a question was asked to respondents.
Table 18: Consideration if the cost of applying IFRS exceeds the entity’s ability

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very little</td>
<td>1</td>
<td>5.0</td>
</tr>
<tr>
<td>Little</td>
<td>3</td>
<td>15.0</td>
</tr>
<tr>
<td>Moderate</td>
<td>1</td>
<td>5.0</td>
</tr>
<tr>
<td>Much</td>
<td>1</td>
<td>5.0</td>
</tr>
<tr>
<td>Very much</td>
<td>9</td>
<td>45.0</td>
</tr>
<tr>
<td>No opinion</td>
<td>5</td>
<td>25.0</td>
</tr>
<tr>
<td>Total</td>
<td>20</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source. Researchers’ findings 2013

9 respondents (45%) believe the cost of applying IFRSs for SMEs exceeds the entities ability. However, 3 respondents (15%) find it little exceeding. Only 1 respondent (5%) said it is moderate and 1 (5%) said Much exceeds. Still 25% of them had nothing to comment.

4.5. Other general findings
SMEs cross cutting issues were also asked which gathered data for the general objective of examining SMEs in terms of compliance and non compliance to IFRSs. The results obtained are also presented in tabular forms as follows

Table 19: Who is Responsible for adopting IFRSs for SMEs in an organization?

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Staff within organization</td>
<td>1</td>
<td>5.0</td>
</tr>
<tr>
<td>Other accounting firm</td>
<td>1</td>
<td>5.0</td>
</tr>
<tr>
<td>External consultant</td>
<td>9</td>
<td>45.0</td>
</tr>
<tr>
<td>No opinion/Do not know</td>
<td>9</td>
<td>45.0</td>
</tr>
<tr>
<td>Total</td>
<td>20</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source. Researchers’ findings 2013

9 respondents (45%) believe that external consultants are the one to be responsible in adopting IFRS for SMEs and not owners of the business. Only 1% of respondents agree that organization staff members should struggle to know IFRSs, While 1% say
it is the duty of accounting firms (auditors). However 45% did not propose nor oppose. This situation supports them not adopting IFRSs.

Table 20: Believing that there is barriers during the application of IFRS for SMEs

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Moderate</td>
<td>2</td>
<td>10.0</td>
</tr>
<tr>
<td>Much</td>
<td>4</td>
<td>20.0</td>
</tr>
<tr>
<td>Very much</td>
<td>8</td>
<td>40.0</td>
</tr>
<tr>
<td>No opinion</td>
<td>6</td>
<td>30.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>20</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

**Source.** Researchers’ findings 2013

Barriers when applying IFRSs for SMEs were predicted by 8 respondents (40%) by high extent, while 30% of the respondents agree there is a problem. 30% have nothing to say. They suspect problems of high cost and lack of qualified personels in preparing financial statements to be the acute problems towards applying IFRS.

Table 21: Ability to overcome the probable predicaments that might appear during the application of IFRS

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very little</td>
<td>11</td>
<td>55.0</td>
</tr>
<tr>
<td>Little</td>
<td>2</td>
<td>10.0</td>
</tr>
<tr>
<td>Moderate</td>
<td>1</td>
<td>5.0</td>
</tr>
<tr>
<td>Much</td>
<td>1</td>
<td>5.0</td>
</tr>
<tr>
<td>No opinion</td>
<td>5</td>
<td>25.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>20</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

**Source.** Researchers’ findings 2013
Respondents (55%) showed very little ability to overcome probable predicaments in applying IFRS. The remaining portion show little (10%), Moderate (5%), Much (5%) and 25% had no opinion. Because respondents from SMEs in Morogoro believe there will be problems in using IFRSs for SMEs, and they have very little ability to overcome these problems. That is the reason the SMEs in Morogoro do not apply the IFRSs for SMEs.
CHAPTER FIVE

DISCUSSION OF THE FINDINGS

5.0. Introduction
This chapter will cover discussion of empirical findings in relation to literature review. The discussion will be sequenced according to the specific objectives of the study, and summarised focusing the general objective.

5.1. The proportion of SMEs which comply with IFRSs for SMEs.
Since most of owners of SMEs are not accountants and have a level of education which does not exceed a diploma it is difficult for them to prepare financial statements according to IFRSs. The study shows to the inquired respondents, 25% of them are form four leavers and those with certificates are 35%, while only 20% were found to be holders of diploma. Form six and university level are covering 15%. This signifies the results which show there no SME complying to IFRSs in Morogoro.

To those who have at least college education, very few has accountancy and finance knowledge. Thus they cannot prepare financial statements according to international financial reporting standards. We have only four respondents with accountancy background, but they are diploma holders who have no expertise of preparing financial standards according to IFRS, majority of them completed their diplomas even before Tanzania could adopt IFRSs July 2004.

Even if SMEs use external accountants in preparing financial statements, they are not preparing them according to IFRSs. This may be partly because of lack of knowledge or there is no legal enforcement towards the compliance for IFRSs for SMEs. 70% of SMEs use hired accountants for preparing the financial statements. But they are not preparing the financial statements tailored to IFRS, may be low fees paid by SMEs to these accountants make them end up using local financial accounting standards.
The primary users of the financial statements from SMEs are financial lenders. These local financial lenders need very few and simple information. The use of IFRS will not make any changes to this aspect. Probably this is among of the reasons which make SMEs not to comply with IFRS when preparing financial statements. Financial lenders are the one who uses the SMEs financial statements by 60%.

Since the data show that, among SMEs only 15% have information that NBAA has introduced IFRSs for SMEs since October 2009, this incline them to prepare financial statements out of IFRSs. This proportion is only from those who responded from the questionnaires, which we know is a very small proportion of all SMEs in Morogoro. If all SMEs could respond to the questions the results could be more worse.

The majority of respondents have shown no need of using IFRS in reporting their businesses performance, financial position and cash flows. If 65% of respondents say they don’t know if the implementation of IFRSs is required in Tanzania. Thus they don’t apply them when preparing financial statements. Only 15% agree to know the needs for these IFRS, but they don’t apply them simply because the SMEs are given option whether to use IFRSs for SMEs or not. Because of a combination of bottlenecks towards applying IFRSs they decide not to use them.

The compliance of IFRS are not mandatory. SMEs can or cannot use them. This loop hall is well utilised by owners of SMEs to avoid using IFRSs in preparing financial statements. This move help the SMEs cut down the expenses of hiring qualified accountants and/or employing technical staff. As it seems to be, avoiding IFRS for SMEs reduce the cost, all SMEs have taken that advantage. Which leads the SMEs not to apply IFRSs in their totality.

The main problems of implementing IFRS for SMEs are mentioned to be high cost of implementing them, lack of qualified personnel, lack of appropriate software for closing accounts and prepare final accounts. The shortage of qualified personnel is the source of all problems in the SMEs. They have to spend a lot of money hiring qualified accountants, which in turn increases the cost of running businesses. When standards changes, the SMEs have to incur more cost if they wish to capture new
knowledge. The SMEs are very poorly earning profit, which lead them to be not using IFRSs.

The findings show that 85% of the respondents are not aware that NBAA approved the application of IFRSs for SMEs since October 2009. When respondents were asked, if IFRSs are required by SMEs, only 15% responded yes. The rest said no or did not reply to the question. This show no entity is ready to apply IFRS for SMEs currently, unless regulatory bodies are given power to enforce the application of these standards and make sure they mandatory.

When respondents were required to air their views as to whether IFRSs correspond to SMEs needs, only 5% seemed to agree that they do correspond, while 40% said they are very little corresponding to SMEs needs. The rest 40% said they do not correspond at all.

The cost of applying IFRSs for SMEs seems to exceed the ability of SMEs, according to 40% of respondents. Further only 5% of respondent seemed to understand the advantages and disadvantages of using IFRSs for SMEs. These signify that, there is no application of these standards when preparing financial statements.

When respondents were required to say their knowledge of IFRSs for SMEs, only 5% of them said they have little knowledge. The rest have very little, or no knowledge at all. When asking them on the necessity of applying IFRSs for SMEs by the entity, only 5% of respondents seemed to show the vital need of applying them. The rest disregarded them. All these indication show the zero level of applying IFRSs in SMEs.

The respondents were asked if they adopt IFRSs for SMEs if they are not mandatory, 55% of them said no. 30% had no opinion and only 15% said can apply them. Since IFRSs for SMEs are not mandatory as well, SMEs are not applying them. This open the door to the Government agencies to think about the way the enforcement of the application of these standards can be initialized. If you create a room for owners of
the business to decide on their own, they will never adopt the financial standards. The proportion of those who apply IFRSs for SMEs constantly remaining zero.

The proportion of SMEs which comply to IFRSs is zero because the owners of businesses think, the responsibility of adopting the IFRSs is vested in hired accountants, and not owners. In the SMEs the employees find no reason for them to know IFRSs. As a result of this nature of SMEs, the financial statements are being prepared without complying to IFRS.

When they were responding to the question which asked, who is responsible for adopting IFRSs for SMEs in the organization, 45% said external accountants are the one who are responsible for adopting IFRS. Only 5% answered the responsibility remain in hands of employees. 45% Said they don’t know. However if these external accountants were knowledgeable enough, and owners finds the need for adopting financial statements, and the government enforces the use of them, we could not such amazing state of adoption in Morogoro.

The SMEs were prepared as if all SMEs are operating at the same level. However the businesses are at various levels. It could be wise to simplify further these standards, so that we can increase the SMEs base which can apply those standards. But at this state of disarray, it is almost difficult to get SMEs apply IFRSs. Thus the compliance of business is not enhanced, and all we find is non compliance to IFRSs. It is at this juncture where we find it better simplify further the IFRSs for Micro, Small and Medium enterprises, to avoid over burden some of the SMEs at the expense of the other.

Only 25% of the asked respondents said there is the need of preparing financial statements according to international financial reporting standards. They simply find this because they only operate domestically. If they could be operating international, they could find the need to comply to IFRSs in order to create uniformity and be able to penetrate in different countries applying the same standards.
The compliance to IFRSs are not sustained because the owners of SMEs and employees have no knowledge on IFRSs. To the asked respondents, only 25% have a very little knowledge of IFRSs and 60% have confessed not to know the IFRSs. You cannot expect them comply to IFRSs if they don’t know them, even if they could all of them find the need of adopting them. The first stage of making sure the compliance is obtained is by proving education on IFRSs. The government through NBAA has not done enough in making sure the standards are well known by users before they could adopt them.

The compliance of these SMEs to IFRSs is not reached simply because they don’t know the advantages and disadvantages of complying to them. If the results show only 5% of the respondents have a little knowledge of those merits and demerits of complying to those standards. This is among of the reasons which are backing the poor compliance of SMEs to IFRSs. Knowing the advantages would provide internal efforts of the organization towards knowing IFRS and complying to them without any external forces in the form of legal enforcement by government agencies such as NBAA the controller and auditor general office.

The compliance to IFRSs can help businesses raise capital from lenders such as banks and other financial institutions. This zero compliance we observe in this study is also being contributed by SMEs not knowing that, if they comply to IFRSs, banks and other financial institutions will be in a position to support them financially, since financial position and cash flows will be easily trace in financial statements prepared by SMEs while complying to IFRSs.

5.2. The extent to which SMEs comply to IFRSs.

The research findings were that in all the establishments in study, none of them had adopted IFRSs for SMEs. In this regard, a number of explanations were brought forth which included;

Unwillingness to work and accept a more principles-based set of accounting standards compared to the more rules-based TFAS. SMEs find out that IFRSs for SMEs are complicated compared to what they used to TFAS and Most of them used
not to prepare financial statements of all. Although they some agree that using IFRSs will a huge leap forward in business but they find out that it very costing and complicated to them, if they can decide to adopt IFRSs.

Not prepared to make amendments across their businesses and test their processes prior to full adoption of IFRSs for SMEs. They even fear of making amendments to their reporting systems in scaring for ruining their businesses and their lenders. They say they need time to test these IFRSs for SMEs before they can adopt them in a whole sale.

Ignorance on the existence of a simpler standard tailored for SMEs. Most SMEs owners do not know that, IASB prepared the more simplified IFRSs which is suitable to their needs and compared to full IFRSs which they used to fear that it is very complicated to them and require use of highly qualified personnel, which in turn become a big burden to SMEs.

Complacency—they are comfortable with the full IFRS. Very few of them have already adopted full IFRSs and are confident with them. So bringing changes to them is a disturbance and will change the daily recording systems of their transactions.

Not ready for change, in that, they are not aware of the consequences of the change. The SMEs owners are not ready for changes, simply because they don’t know the advantages of shifting to IFRSs.

May not meet the cost of change in terms of time, money and effort. In several cases, SMEs are not able to meet the cost of utilizing IFRSs. They cannot hire qualified accountants for closing their books of accounts and prepare financial statements. Even if they opt to employ the qualified personnel they can pay them. Education and awareness training is required before the adoption is not within their mandate. They felt that NBAA is not doing much in terms of creating awareness.

A feeling of unwillingness by private companies and financial statement users to accept financial statements prepared under IFRS for SMEs.
Have not had a platform and adequate time to plan for change. The respondents laid down that government could give them time to prepare for such changes. No matter to what extent the changes are required, if the time and education about such changes is not given, the adoption of such changes will be not successful.

The respondents were of the feeling that there will be adverse tax impact on adopting IFRSs for SMEs. Bill Ddwell, tax partner at Deloitte, says: “There will be some important tax issues arising from the change – indeed, tax has been one of the reasons that not many companies have switched to IFRS. However, not everything is the same in IFRS for SMEs as it is in full IFRS. Before adoption, advance planning will be essential.”

There were concerns from some respondents that we shall end up with two systems of financial reporting which will subject different establishments to different accounting rules.

Around 60% of the respondents did not seem to understand that the intention of IFRSs for SMEs is to enable countries around the world to “speak the same language.” This will support the required competition in the business and movement of resources from one country to another in our East Africa Community will be possible, since all countries will be using the same standards.

Although NBAA has welcomed the adoption of the standard, many SMEs under the study were of the idea that the inconsistencies in reporting may never be solved. Thus SMEs are not able to follow the IFRSs consistently, due to local nature of their businesses and inability to adopt to changes of IFRSs provisions, since it is observed that IFRSs are changing every year and the SMEs have no enough funds for tracking those changes to amended in their standards.

The initial objective of the study was to establish the extent of implementation of IFRS for SMEs and as to whether there existed any difficulties towards the implementation and any benefits that may have accrued to those who had successfully implemented.
However, the study indicated that of the firms used for this study, none had implemented. This shifted the focus to finding out the reasons for failing to implement.

The study revealed the existing bottlenecks to implementation which range from lack of information on existence and importance of IFRS for SMEs, cost constraints, poor and inadequate professional and legal regulations and the government taxation policies.

These results are in consistency with the literatures which show, even in developed countries like UK, USA, Greece, German, India and South Africa implementation of IFRSs for SMEs has been the problem, which is the case in India and East Africa and Tanzania in particular.

5.3. Financial and Other perceived burden of SMEs compliance to IFRS for SMEs

The financial cost is very high which arises from hiring accountants in closing books of accounts and employing professional accountants is very costing compared to SMEs ability to generate income. If majority of them range between 5 to 200 million sales, this is a very low income compared to cost of hiring firms in preparing financial statements.

The needs of the SMEs users of information are not requiring very sophisticated reports. It is a burden spending a lot of resources preparing information which will not be used by financial institutions and government. Lenders are the main users of SMEs information. The information they require is to find out the liquidity and security level of SMEs before they offer loans. So you can find that no need for SMEs use IFRSs which are very complicated and costing a lot of money, while SMEs are not in need of such information, even majority of stakeholders are not in need of such information.

In considering Tax issues, SMEs are suffering heavy tax which is a burden to their growth, so that micro will move to small, small to medium enterprise. Using IFRSs
will enable Tax authority device rules to set up Tax which will be heavier to SMEs than before they could start using them. This is because financial statements prepared using IFRSs will overstate incomes of SMEs by including comprehensive incomes in the trading and profit and loss statements.

In Taxation perspectives, large businesses pay income taxes on their profits while small businesses has to pay tax whether they make profit or not. This is the case in VAT where large listed businesses has chance to claim for the tax they paid back from TRA, while SME’s are tax payers and a major door for collecting taxes from consumers. That is why SMEs refrain from compliance to IFRS to hide their performance, which will in turn lower their tax burden.

Thus big businesses listed for tax act as tax collecting agents and not tax payers. Too many taxes are cumbersome to SME’s e.g. Tax policies relating to investment and tax incentives, taxes applying to starting and operating a business, capital – based and income-based taxes. All these regulations and policies are burden to SME’s and hence they affect their performance. The four ways in which taxation affects SME’s can be analyzed as follows:-

SME’s fund it difficult to comply with the big number of taxes, records keeping, timing of taxes reporting and payment, the tax bases and exemptions. In Tanzania there over 27 taxes and levies to be adhered by SME’s, which brings complexity in compliance, and forces the SME’s to hire expensive external accountants to prepare their tax returns.

Where enforcement is strong transactions costs are unavoidable and when weak rules are applied, the tax avoidance opportunities can be observed. However, tax avoidance introduces implied costs and contingent liabilities by promoting corruption, bribing, and informalities. Business environments are continuously in changing state. These changes promote tax authorities e.g. TRA to device new taxes and tax collection methods which forces the SME’s to follow- suit regardless of the costs involved in such changes.
IFRSs for SMEs are designed to meet the enterprises which are equal which is not the case in practical perspectives. Using of standards which does not segregate Micro, Small and Medium enterprise, is a burden to the micro compared to small, and small compared to medium. The burden increases as the level of the business decreases. There is a need to simplify further the IFRSs for SMEs, so that we get a separate set of standards for Micro, Small and Medium enterprises.

Lack of appropriate software which could help SMEs prepare financial statements easily is a burden to SMEs. The NBAA could introduce software to use by all SMEs in recording their transactions and finally prepare financial statements automatically. This could help in creating uniformity in reporting and reduce cost of hiring professional accountants for closing financial statements.

There is no designed place for educating SMEs owners on various business issues and other international up dates which subsidized by government, to allow owners of SMEs contribute a small amount of money for attending such trainings. This could reduce the non compliance level and reduce the burden of compliance to IFRSs by SMEs.
CHAPTER SIX

SUMMARY, CONCLUSION AND POLICY IMPLEMENTATION

6.0. Introduction
This chapter will summarize the entire work and give conclusion in the light of objectives of the entire study. The recommendation and areas of further study during policy implication will be suggested

6.1. Compliance of SMEs to IFRSs
The objective of this research paper was to find out if SMEs have applied International Financial Reporting Standards (IFRS) for Small and Medium Entrepreneurs (SMEs) while preparing financial statements.

SMEs are not required by the law to prepare financial reports in accordance with IFRS. This leads to inconsistencies in the manner in which SMEs prepare their financial reports which makes inter-firm comparisons and comparisons of SMEs performance over the periods intricate. In some instances, SMEs which make an effort to conform to GAAPs (IFRS) face various challenges owing to increased scope and complexity of the issues covered due to impossible implementation guidance. Others do not prepare any financial reports at all.

In other cases, some SMEs prepare financial reports using their own approach which is outside the principles of IFRS. Owing to the above preceding, there is stern call for a solution to mitigate the above mentioned challenges / bottlenecks.

The current financial reporting practices are inappropriate for small businesses or may require levels of technical expertise that are seldom available to small business owners. To allow equitable and sustainable growth, it is necessary to tailor best practices and practical solutions to meet the unique needs of small businesses.
Considering the SMEs involved in this study none of them comply to IFRSs for SMEs. Some SMEs are just keeping simple records books such as sales receipts and journals, but are not preparing financial statements. Those which prepare financial statements are still using local standards. There is no legal enforcement to SMEs which can force them use IFRS. This make SMEs consider the financial cost and inability of hiring or employing qualified personnel as a reason for them not to apply IFRSs.

However the primary users of their business information are not demanding very sophisticated reports for making them extend loans to SMEs. The Tax authorities too, are rarely in need of financial statements of these SMEs when setting taxes for them. These tend to be disincentives for SMEs prepare financial statement according to IFRSs.

6.2. The extent of SMEs complying with IFRSs
Since the study show that none of the studied SMEs comply to IFRS for SMEs, we can summarize that the prevailing unenforceable compliance, financial burden while using IFRSs and cost of employing and/or hiring technical staffs, Make the SMEs not to comply with IFRSs. There is zero compliance level of SMEs towards IFRSs. The government has not enforced the compliance of SMEs towards IFRSs for SMEs.

6.3. The financial and other burden to SMEs.
Several cases are considered as a burden to SMEs in complying with IFRSs. The absence of more simplifies IFRSs for Micro, Small and Medium enterprises makes it difficult for SMEs comply with IFRSs. The cost of hiring qualified personnel and inability to employ technical staff by SMEs contribute to SMEs not complying with IFRSs.

With these bottlenecks prevailing and lack of legal enforcement to SMEs complying with IFRS, we cannot find currently the SMEs are using IFRSs in reporting their business performance, financial position or cash flows.
6.4. **General conclusion and Policy implementation**

Since the general objective of this study was to examine financial reporting of SMEs in Tanzania in terms of compliance and non-compliance with IFRSs for SMEs since adoption of them October 2009. The research problem, and the research questions were set so that they will provoke answers which will fulfil my general objective of the research.

Specifically I wanted to find out the proportion of SMEs preparing financial statements according to IFRSs and the extent of their compliance to IFRSs. Further we wanted to establish the financial and other perceived burden in implementing IFRSs, the study has shown none of the SMEs investigated in Morogoro are preparing financial statements according to IFRSs.

This zero level of applying IFRSs is perpetuated by a number of bottlenecks to implementation, which range from poor and inadequate professionals, cost constraints, government taxation policies, Lack of need to undergo global by SMEs, Ignorance on the advantages of using IFRSs and availability of SMEs tailored standards and lack of legal enforcement from the government.

Government should be ready to provide incentives to SMEs especially those that can reduce their tax burdens, increased accessibility to capital and provide them with an opportunity for growth.

Creating awareness among SMEs on IFRSs should be the starting point for those who have no information. And with the rest training needs to be strengthened. Regulatory bodies should take up their role and formulate an all-encompassing IFRS with local bodies utilizing the existing business conditions to recommend suitable financial reporting standards for SMEs within their jurisdiction.

We urge the local accounting bodies to prepare separate financial standards for Micro, Small and Medium entities, since the study shows respondents need separate
standard to these levels of businesses and there is the need to empower local
governments in enforcing the application of these standards.

6.5. **Areas of further study**
Research should be conducted on the establishment of thresholds of entities being
either small, medium or big enterprises.

Further research is required to investigate which standard of IFRS agree with our
Tanzania business environment. Those unwanted provisions must be highlighted and
set aside when preparing the standards suitable for our case.

We encourage the similar research to be conducted all over Tanzania, and investigate
if the results will be the same to this study
Since the research findings and literatures show that, IFRSs for SMEs are voluntary,
the study must be conducted on how to make IFRS for SMEs mandatory, without
spoiling the business growing atmosphere in Tanzania.

The similar research should conducted from other perspectives ranging from users of
financial statements, consultants, auditing firms and legal firms

The tax burden to SMEs should be investigated and establish the impact of it in
growth of Small to medium and medium to large entities in the country.
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APPENDIX:

QUESTIONNAIRE

The following questionnaire is aimed at small and medium enterprises that operating in Morogoro Municipality. Please mark a circle or tick to the letter of the correct answer where multiple choices are provided. The results for this study are for academic purposes only and not otherwise.

QUESTIONS:

(A) PERSONAL PARTICULARS:

Date…………………………………………

Full Name of the respondent ……………………………………………………………

Respondent gender (Male/Female) …………………………………………………

Respondent Age…………………………Years Old

(1) What type of business are you dealing with?

(a) Manufacturing business (e.g. furniture, Welding, Building and construction e.t.c)

(b) Buying and selling goods (i.e. Hard-wares and soft-wares. )

(c) Services, like education, health, mechanical, e.t.c.

(d) Food vending and hotels

(e) Selling drinks (Bars and Restaurants)

(f) Accommodation (Lodging and guest houses)

(g) Transportation (Buses and lories)

(h) Other business, please specify

……………………………………………………………..

……………………………………………………………..

(2) What is the level of your education?

(a) Did not complete standard seven.

(b) Standard seven

(c) Form Four

(d) Form Six
(3) If you have any college education, what is your profession? Mention if any
   (a) An accountant
   (b) A Lawyer
   (c) A Mechanics
   (d) An Electrician
   (e) A Teacher
   (f) A Medical doctor
   (g) A veterinary doctor
   (h) Others please specify………………………………………………………………

(4) Is the respondent the owner of the business?
   (a) Yes
   (b) No.

(1) Who is preparing the financial statements of the business
   (a) The owner of the business
   (b) The hired accountant
   (c) No one

(B) BUSINESS INFORMATION:
(1) What is the volume of your previous year sales?
   (a) Up to 5 mil.
   (b) Above 5mill to 200mill
   (c) Above 200mill to 800mill
   (d) Above 800 mill
2. Who are the primary users of your financial statements?
(a) Shareholders
(b) Employees
(c) Lenders
(d) Vendors
(e) Others please specify:

3. Are you aware that NBAA introduced the IFRS for SMEs in October 2009?
(a) Yes
(b) No

4. If yes in number 3 above, do you believe that, the implementation of these standards is required by SMEs in Tanzania?
(a) Yes
(b) No
(c) No opinion / Do not know

5. Would you adopt IFRS for SMEs if they were not mandatory?
(a) Yes
(b) No
(c) No opinion / Do not know

6. Do you believe that the application of IFRS for SME will cause problems to your company’s function?
(a) Yes
(b) No
(c) No opinion / Do not know
7. Where do you identify the main problem of the implementation of IFRSs for SMEs?
   (a) The high cost of implementation
   (b) Absence of qualified people on the new standards
   (c) Lack of relative literature
   (d) Lack of appropriate software
   (e) Other, Please specify:

   …………………………………………………………………………………………………
   ………………………………………………………………………………………………

8. Who do you think will be responsible for adapting to IFRS for SMEs in your organization?
   (a) Staff within your organization
   (b) Other accounting firm
   (c) External consultant
   (d) No opinion / Do not know
   (e) Other, Please specify:

   ……………………………………………………………………………………………
   ……………………………………………………………………………………………

9. Do you believe that IFRS should be different for very small, small and medium sized enterprises?
   (a) Yes
   (b) No
   (c) No opinion / Do not know

10. For each question from the list, tick the answer that best responds to your opinion about the importance of the issue.
Questions:

I. Do you believe that you will meet barriers during the application of IFRS for SMEs?
   (a) Very Little 
   (b) Little 
   (c) Moderate 
   (d) Much 
   (f) Very Much 

II. Do you believe that you have the ability to overcome the probable predicaments that might appear during the application of IFRS?
   (a) Very Little 
   (b) Little 
   (c) Moderate 
   (d) Much 
   (f) Very Much 

III. Do you consider necessary the adoption of IFRS for SMEs by your entity?
   (a) Very Little 
   (b) Little 
   (c) Moderate 
   (d) Much 
   (f) Very Much 

IV. How would you describe your knowledge on IFRS for SMEs?
   (a) Very Little 
   (b) Little 
   (c) Moderate 
   (d) Much 
   (f) Very Much
V. Are you aware of the advantages / disadvantages of applying IFRS for SMEs?
   (a) Very Little
   (b) Little
   (c) Moderate
   (d) Much
   (f) Very Much

VI. Do you consider that the cost of applying IFRS exceeds your entity’s abilities?
   (a) Very Little
   (b) Little
   (c) Moderate
   (d) Much
   (f) Very Much

VII. Do you believe that the existing IFRS correspond to your entity’s needs?
   (a) Very Little
   (b) Little
   (c) Moderate
   (d) Much
   (f) Very Much

VIII. Do you consider that the implementation of IFRS for SMEs from your entity will help you to raise new capital?
   (a) Very Little
   (b) Little
   (c) Moderate
   (d) Much
   (f) Very Much

IX. Do you use to prepare financial statements?
   (a) Yes
   (b) No
   (c) I don’t know anything about this.
X. If Yes in (IX) above, who prepares financial statements for your business?
   (a) Our accountant
   (b) Hired professional accountants
   (c) The owner of the business
   (d) Any employee.

XI. What are the things you consider, the most burden for you adopting the IFRSs for SMEs. Please specify them

XI1. Is there any government agency, e.g. TRA, NBAA, BOT, Court of law checking your financial statements?
   (a) Yes
   (b) No
   (c) I don’t know.

THANK YOU FOR ANSWERING.
Morogoro Business LTD
Statement of comprehensive income for the year ended 31 December 20xx

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>xxxxx</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>xxxxx</td>
</tr>
<tr>
<td><strong>Gross profit</strong></td>
<td>xxxxx</td>
</tr>
<tr>
<td>Other income</td>
<td>xxxxx</td>
</tr>
<tr>
<td>Distribution costs</td>
<td>-(xxx)</td>
</tr>
<tr>
<td>Administrative expenses</td>
<td>-(xxx)</td>
</tr>
<tr>
<td>Change in fair value of investment property</td>
<td>-(xxx)</td>
</tr>
<tr>
<td>Other expenses</td>
<td>-(xxx)</td>
</tr>
<tr>
<td><strong>Operating profit</strong></td>
<td>xxxxx</td>
</tr>
<tr>
<td>Finance costs</td>
<td>-(xxx)</td>
</tr>
<tr>
<td>Finance income</td>
<td>xxx</td>
</tr>
<tr>
<td>Other financial items</td>
<td>xxx</td>
</tr>
<tr>
<td><strong>Profit before tax</strong></td>
<td>xxxxx</td>
</tr>
<tr>
<td>Tax expense</td>
<td>-(xxx)</td>
</tr>
<tr>
<td><strong>Profit for the year</strong></td>
<td>xxxxx</td>
</tr>
<tr>
<td><strong>Other comprehensive income:</strong></td>
<td>xxxxx</td>
</tr>
<tr>
<td>Exchange differences on translating foreign operations</td>
<td>xxx</td>
</tr>
<tr>
<td>Revaluation gain or losses</td>
<td>xxx</td>
</tr>
<tr>
<td><strong>Total comprehensive income for the year</strong></td>
<td>xxxxx</td>
</tr>
<tr>
<td><strong>Profit for the year attributable to:</strong></td>
<td>xxxxx</td>
</tr>
<tr>
<td>Non-controlling interest</td>
<td>xxxxx</td>
</tr>
<tr>
<td>Owners of the parent</td>
<td>xxxxx</td>
</tr>
<tr>
<td><strong>Total comprehensive income attributable to:</strong></td>
<td>xxxxx</td>
</tr>
<tr>
<td>Non-controlling interest</td>
<td>xxxxx</td>
</tr>
<tr>
<td>Owners of the parent</td>
<td>xxxxx</td>
</tr>
</tbody>
</table>

This study will investigate if SMEs are reporting their performance in this format, as per IFRSs for SMEs.