UNIVERSITY OF CAPE COAST

INTERNATIONAL FINANCIAL REPORTING STANDARDS FOR SMALL AND MEDIUM-SIZED ENTERPRISES ADOPTION AND THE FINANCIAL REPORTING QUALITY OF SMALL AND MEDIUM-SIZED ENTERPRISES IN THE ACCRA METROPOLITAN AREA

BY

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DECLARATION

Candidate's declaration

I hereby declare that this thesis is the result of my own original research and that no part of it has been presented for another degree in this university or elsewhere.

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Supervisors' Declaration

We hereby declare that the preparation and presentation of the thesis were supervised in accordance with the guidelines on supervision of thesis laid down by the University of Cape Coast.

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ABSTRACT

Small and medium-sized enterprises (SMEs) are regarded as the drivers of economic development across the world. Their reporting needs which were neglected for so long a time were finally given attention with the introduction of a simplified accounting standards (*IFRS for SMEs*). The introduction of this standalone accounting standards for SMEs was geared towards the objective of addressing SMEs financial reporting needs and improving the quality of their financial reporting. To this end, a quasi-experimental study was set up to examine whether the adoption of the *IFRS for SMEs* has improved the financial reporting quality of SMEs in Ghana. A six-year time series analysis was performed on twenty randomly selected SMEs resulting in 120 years of observation. Three years (2011, 2012 and 2013) represented the pre-adoption period while years 2014, 2015 and 2016 represented post adoption period. Using the current model for assessing financial reporting quality (decision usefulness model), total quality indexes were derived for each qualitative characteristic under study. The one-way analysis of variances (ANOVA) was employed separately for the hypotheses formulated for the study. The study concluded that, the decision usefulness of SMEs financial reporting has improved with regards to relevance, verifiability, understandability and comparability subsequent to the adoption of the *IFRS for SMEs*. The adoption of the standard however had no significant effect on the faithful representation quality of SMEs financial reporting. Policy makers should therefore promote the firm level adoption of the standard and put in place measures to increase the level of compliance of the standard so as to increase the quality of financial reporting of this important sector.

KEY WORDS

IFRS for SMEs

International Financial Reporting Standards

SMEs financial Reporting Quality

Qualitative Characteristics Measurement

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DEDICATION

I dedicate this to my husband (Ricky Kyei- Baffour) and my children (Abenaa Frimpomaa, Kofi Sarpong and Abenaa Achiaa Kyei- Baffour)

TABLE OF CONTENTS

	Page
DECLARATION	ii
ABSTRACT	iii
KEY WORDS	iv
ACKNOWLEDGEMENTS	v
DEDICATION	vi
TABLE OF CONTENTS	vii
LIST OF TABLES	x
LIST OF FIGURES	xi
LIST OF ACRONYMS	xii
CHAPTER ONE: INTRODUCTION	
Background of the Study	1
Statement of the Problem	7
Purpose of the Study	10
Research Objectives	10
Hypotheses	11
Significance of the Study	12
Organisation of the Study	13
CHAPTER TWO: LITERATURE REVIEW	
The International Financial Reporting Standards for Small and Medium-Sized Enterprises (IFRS for SMEs)	15
Theoretical Review	16
Normative accounting theory (NAT)	16
Application of the theory to the study	18
Models in normative accounting theory	19
Hypotheses Development	22

Relevance quality 22

Faithful representation quality 25

Verifiability quality 27

Understandability quality 28

Comparability quality 29

Empirical Review 30

Lessons learnt from empirical reviews 35

Conceptual Framework of the Study 36

CHAPTER THREE: RESEARCH METHODS

Research Paradigm 40

Research Approach 41

Research Design 42

Study Area 42

Data Sources 44

Measurement Tool 46

Validity and Reliability 47

Data Collection Procedures 48

Ethical Consideration 50

Data Processing and Analysis 51

Chapter Summary 53

CHAPTER FOUR: RESULTS AND DISCUSSION

Introduction 54

Test of Homogeneity of Variances 54

Relevance Quality Assessment 55

Faithful Representation Quality Assessment 60

Verifiability Quality Assessment 63

Understandability Quality Assessment 67

Comparability Quality Assessment 71

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Introduction 80

Summary of the Study 80

Key Findings of the Study 82

Relevance Quality of SMEs Financial Report Pre and Post Adoption of the IFRS for SMEs. 82

Faithful Representation Quality of SMEs Financial Reporting Pre and Post Adoption of the IFRS for SMEs. 82

Verifiability Quality of SMEs Financial Reporting Pre and Post Adoption of the IFRS for SMEs. 83

Understandability Quality of SME Financial Reporting Pre and Post Adoption of the IFRS for SMEs 83

Comparability Quality of SMEs Financial Reporting Pre and Post Adoption of IFRS for SMEs. 84

Conclusions 84

Recommendations 86

Research Contribution 87

Suggestions for Further Studies 87

REFERENCES 89

APPENDICES 99

APPENDIX A: Sections of the IFRS for SMEs 99

APPENDIX B: Measurement Tool for Assessing Qualitative Characteristics of Smes' Financial Reporting 100

APPENDIX C: Introductory Letter 105

LIST OF TABLES

		Page
1	Summary of financial statements obtained by Accounting Standards and Years	45
2	Summary of financial statements used by the Study per Accounting Standards and Years	46
3	Results of Test of Homogeneity of Variances	54
4	Descriptive Statistics on Relevance Quality	57
5	Results for Robust Tests of Equality of Means (Relevance Quality)	57
6	Multiple Comparisons Games-Howell (Relevance Quality)	58
7	Descriptive Statistics on Faithful Representation Quality	62
8	ANOVA Faithful Representation	62
9	Descriptive Statistics on Verifiability Quality	64
10	Result for Robust Tests of Equality of Means (Verifiability)	65
11	Multiple Comparisons Games-Howell (Verifiability Quality)	66
12	Descriptive Statistics on Understandability Quality	68
13	Robust Tests of Equality of Means (Understandability Quality)	69
14	Multiple Comparisons Games-Howell (Understandability)	70
15	Descriptive Statistics on Comparability Quality	72
16	ANOVA (Comparability Quality)	72
17	Multiple Comparisons Tukey HSD (Comparability Quality)	74
18	Summary Statistics from One Way Analysis of Variances-Test for the Five Hypotheses of the Study	77

LIST OF FIGURES

		Page
1	Conceptual Framework of SMEs Financial Reporting Quality Pre and Post the Adoption of *IFRS for SMEs*	38
2	Map of Accra Metropolitan Area	43

LIST OF ACRONYMS

AICPA	American Institute of Certified Public Accountants
AMA	Accra Metropolitan Area
FASB	Financial Accounting Standards Board
FRQ	Financial Reporting Quality
GAX	Ghana Alternative Market
GAAP	Generally Accepted Accounting Principles
GRA	Ghana Revenue Authority
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IASCF	International Accounting Standards Committee Foundation
ICAG	Institute of Chartered Accountants – Ghana
IFRS	International Financial Reporting Standards
NAT	Normative Accounting Theory
NBSSI	National Board for Small Scale Industries
NiCE	Nijmegen Center for Economics
PAT	Positive Accounting Theory
PIE	Public Interest Entities
SMEs	Small and Medium-Sized Enterprises
RGD	Registrar General's Department

CHAPTER ONE

INTRODUCTION

Financial reporting should have the potential of providing users with quality information that will aid them in making economic decisions. Financial reporting is therefore said to be of a high quality only if it can be useful to its users in taking decisions as suggested by the International Accounting Standards Board (IASB). However, Ploybut (2012) posits that SMEs' financial statements do not meet their user needs, thereby rendering these SMEs' financial statements decision unusable. The IASB's intention of developing the International Financial Reporting Standards for SMEs (*IFRS for SMEs*) in 2009 was to issue a high quality, understandable, enforceable and globally accepted standard based on clearly articulated principles (IASB, 2015) which will improve the quality of SMEs financial reporting and also advance their transparency and comparability. It is expected that the use of this standard by SMEs would improve the quality of SMEs financial reporting for the ultimate benefit of investors and lenders (capital providers) who are the primary users of financial reporting (IASB, 2010).

Background of the Study

The concept of international convergence of accounting standards dates back to 1950s when economic integration and cross-border trading began to thrive post-World War II (Efobi, 2017). In 2001, the International Financial Reporting Standards (IFRS) was issued by the International Accounting Standards Board (IASB), successors of International Accounting Standards Committee (issuers of IAS) to flush out differences in financial reporting internationally so as to foster cross border trading and investments. Prior to the release of international accounting standards, companies followed a variety of country-specific Generally Accepted Accounting Principles (GAAP). This posed comparability problem to users thereby increasing information cost to those who had to translate such statements to their local GAAPs to aid comparability. The Institute of Chartered Accountants England and Wales (ICAEW) reported in 2010 that the long awaited globally accepted accounting Standard has become a success since over 120 countries have converged their standards into IFRS. This makes IFRS the most popular international accounting standards in the world.

The International Financial Reporting Standards (IFRS) was primarily developed for use by listed companies. While the IASB argued that full IFRSs are suitable for all entities, the complexity of the set of accounting standards made the adoption difficult for many small and medium-sized entities; therefore, publicly traded entities were the primary users of full IFRS. Pacter (2009) attributed IFRS implementation difficulty by small entities to the "pushing down" of public capital market accounting standards to private entities.

Small and Medium-sized Entities (SMEs) play a very important role in the world's economy especially in developing countries. According to the World Bank (2015), formal SMEs contribute up to 60% of total employment and 40% of GDP in emerging economies. In Ghana, SMEs represent the majority of registered companies and they contribute greatly towards employment offer and GDP share. According to Oppong, Owiredu and Churchill (2014), SMEs represent 70% of all industrial establishments, contribute about 22% to GDP, and account for about 92% of all businesses in Ghana. The sector was estimated to contribute 85% of manufacturing employment and to a larger extent overall employment growth in the country.

Although SMEs contribute immensely to the development of the world's economy, their reporting needs were neglected for a long time. The IASB contends that global SME financial reporting standards are needed because the benefits of internationally comparable accounting information are not limited to large businesses whose debt or equity instruments are traded in public capital markets (IASB 2009). Hence, in July 2009, IASB published a simpler version of the full IFRS named the International Financial Reporting Standard for Small and Medium-sized Entities *(IFRS for SMEs)* as a means of addressing the financial reporting needs of private entities.

The description of SMEs that are permitted to use the standard included entities that do not have public accountability and therefore do not publish general purpose financial statements for external users (IASB, 2015). SMEs that have their debt or equity instrument traded in public capital markets are precluded from the use of this standard. They are to comply with full IFRS. With 95% of the world's companies falling within the IASB's definition of an SME, the goal is to provide internationally comparable financial statements in which an investor will have confidence as well as reduce the cost in producing these financial statements (Tackie, 2017). This standalone standard provides relief from the complexity of full IFRS accounting procedures and reduction in disclosure requirements, which should lead to improvement in the overall quality of private entity reporting in many jurisdictions (Pacter, 2009).

The new standard of IASB is gradually gaining acceptance although steadily. According to IFRS Foundations (2018), 86 countries have currently adopted the use of the *IFRS for SMEs*. The Institute of Chartered Accountants – Ghana (ICAG) also in its quest of improving the quality of SMEs' financial reporting in Ghana and bringing these reports to internationally comparable status, adopted the *IFRS for SMEs* in 2012. This was done wholesale, that is, without making any amendments. The standard was to be used mainly by non-public interest entities (non-PIEs), private entities and non-listed companies. These three categories of entities were expected to be *IFRS for SMEs* compliant by the end of 2013 financial year. However, due to implementation challenges, the date was extended to 2015 financial year. Thus, for financial periods ending on or after 31 December 2015, Public Interest Entities (PIEs) were to apply full IFRSs; Non-PIEs who have the capacity to adopt full IFRSs were encouraged to do so; and all other SMEs should apply *IFRS for SMEs*.

It is expected that compliance with *IFRS for SMEs* should lead to high quality financial statements since the IASB's objective of promulgating the IFRS was geared towards improving the quality of general-purpose financial reporting in its decision usefulness. The IASB's Conceptual Framework for Financial Reporting (2010) outlined some qualitative characteristics of financial reporting that improves its decision usefulness. These characteristics are classified into fundamental and enhancing characteristics depending on how they affect the usefulness of the financial statements. Regardless of its classification, each qualitative characteristic contributes to the usefulness of financial reporting information (IASB, 2010). Quality is therefore measured based on decision usefulness of the information.

The fundamental qualitative characteristics are relevance and faithful representation. These qualitative characteristics distinguish useful financial reporting information from information that is not useful or is misleading. Relevant information is capable of making a difference in decision making by virtue of its predictive or confirmatory value. Financial reporting information is of faithful representation if it depicts the substance of an economic phenomenon completely, neutrally and without material error (IASB, 2010).

The enhancing qualitative characteristics as enshrined in IASB's conceptual framework are comparability, verifiability, timeliness and understandability. They differentiate more useful information from less useful information. Comparability as an enhancing qualitative characteristic is the quality of information that enables users to identify similarities in and differences between two sets of financial statements. For information to be comparable, preparers need to be consistent in the usage of accounting policies and procedures. The framework therefore put it as comparability being the goal and consistency helps to achieve that goal (IASB, 2010).

Verifiability is a quality of information that helps assure users that information faithfully represents the economic phenomena that it purports to represent. Verifiability implies that different knowledgeable and independent observers could reach general consensus, although not necessarily complete agreement, that a specific depiction is a faithful representation (IASB, 2010).

Another enhancing qualitative characteristic is timeliness. Timeliness means making information available to decision makers before it loses its capacity to influence decisions. In effect, the older the financial information is, the less useful it is (IASB, 2010). Understandability is the quality of information that enables users to comprehend its meaning. Understandability is enhanced when information is classified, characterised and presented clearly and concisely. Most financial statements' users are expected to have reasonable knowledge in business and be able to read financial reports – such people should not find it difficulty in understanding financial statements which is of good quality. The conceptual framework however suggests that in real cases well-informed and diligent users may need to seek the aid of an adviser to understand information about complex economic phenomena (IASB, 2010).

All these enhancing qualitative characteristics augment the decision-usefulness of financial reporting information that is relevant and faithfully represented and should be exploited to the extent possible. However, the enhancing qualitative characteristics, either individually or collectively, cannot make information useful for decisions if that information is irrelevant or not faithfully represented as suggested by the framework.

Literature provides lots of information on the positive impact of full IFRS on the quality of financial statements of listed entities around the world (Agyei-Mensah, 2013; Alfaraih, 2009; Herath & Albarqi, 2017; Onuorah, & Friday, 2016; Yurisandi & Puspitasari, 2015). Decision usefulness of financial information has consequently improved with the advent of full IFRS. As agreed by both the IASB and the FASB, financial statements have the primary objective of providing high-quality financial reporting information concerning economic entities, primarily financial in nature, useful for economic decision making (IASB, 2008). To accomplish the objective, the IASB suggested that financial reports should communicate information about an entity's economic resources, claims on those resources, and the transactions and other events and circumstances that change them. The objective of financial reporting does not differ from one entity to the other irrespective of the size of the entity nor the listing status. Users of SMEs' financial reports therefore require quality financial statements for decision making. This is so because as elaborated in the IASB and the FASB joint conceptual framework (2008), SMEs also have external users of their financial reports, and the objective of the reports issued to them is the same as that of large entities because the information needs of capital providers generally are the same.

Modifications made to the full IFRS to reflect the needs of users of SMEs' financial report should not in any way dilute the quality one may have obtained in using full IFRS. Quality financial reporting is of essence to both the users of large entity financial reports and that of small entities. To be able to meet the needs of the users, the financial reporting of SMEs must not only comply with the IFRS, but its compliance should also lead to producing high quality reporting.

Statement of the Problem

The IASB in its quest of improving the quality of financial reporting for SMEs and advance the transparency and comparability of SMEs' financial statements published the *IFRS for SMEs*. The IASB argued that global SMEs financial reporting standards are needed because the benefits of internationally comparable accounting information are not limited to large businesses whose debt or equity instruments are traded in public capital markets (Feltham, 2011). Users of SMEs' financial statements also require financial statements that are of high quality to enable them make informed economic decisions. Kantudu and Tanko (2008) suggested that the extent to which investors depend on disclosed or reported financial information to predict future cash flows is a function of the quality of information contained in those financial statements. The financial reporting of SMEs should therefore be of high quality for it to be decision useful to users.

However, several works on SMEs financial reporting conclude that financial information in SMEs financial statements are unable to meet the needs of its users (Ploybut, 2012). Similarly, the 2014 report on the Observance of Standards and Codes in Accounting and Auditing undertaken by the World Bank stated that a wide range of stakeholders view the quality of financial reporting of the SMEs and micro sector in Ghana as poor. The report nevertheless classified the financial reporting of listed companies and that of State Corporations as of good and satisfactory quality respectively (World Bank, 2014).

This poses credibility problem to the country so far as financial statements of SMEs in Ghana are concerned. Consequential to this problem also is the challenge that SMEs faced in assessing credit facilities due to their poor financial reporting which adversely affects their performance in general. Amoako, Marfo, Gyabaah, and Gyamfi (2014) established that although the never-ending poor performance of small and medium scale entities in Ghana can be attributed to a host of factors, poor accounting record keeping cannot be over emphasized. There is therefore the need for SMEs to be committed to producing financial statements that are of high quality which would aid in boosting their operational activities.

To curb this problem, the World Bank recommended that the option of the use of the Ghana National Accounting Standards (GNAS) should not be extended beyond 2015. This is because, the GNAS is outdated since it has never witnessed any revision since its inception in the late 1990s. It was imperative to ensure that all financial reporting in the country should be under the umbrella of IFRS by the end of 2015. The Institute of Chartered Accountants – Ghana (ICAG) now endorses only two reporting frameworks in the country thus, Full IFRS and *IFRS for SMEs*. To the best of the researcher's knowledge, whether this move has improved the quality of SMEs financial reporting in Ghana is unknown in the literature.

Extant literature reveals a positive impact on the adoption of full IFRS on the quality of financial statements of listed companies (Agyei- Mensah, 2013; Abedana, Omane-Antwi, & Oppong, 2016; Alfaraih, 2009; Herath & Albarqi, 2017; Onuorah, & Friday, 2016; Yurisandi & Puspitasari, 2015). However, less is known of how *IFRS for SMEs* has impacted on the quality of SMEs financial statements. Limited study on the subject matter in other jurisdictions (Liu & Skerratt, 2014; Kreip, Hane & Mueller, 2014) assessed the quality of SMEs' financial reporting based on only the financial aspect of the statement excluding disclosures and other non-financial items. Disclosures and non-financial information are also integral in financial reporting, hence must not be abandoned in financial reporting quality assessment. As posited by Beest, Braam and Boelens (2009), financial reporting quality is a broader concept which does not only refer to financial information, but also to disclosures, and other non-financial information useful for decision making included in the report.

In Ghana, to the best of the researcher's knowledge quality assessment of SMEs financial reporting is yet to be empirically determined after the full adoption of the standard by the ICAG. Resent study in this jurisdiction was concentrated on the extent of compliance with regards to the presentation and disclosure requirement of the standard (Tackie, 2017). It appears therefore that, there is a dearth in literature with regards to the state of the qualitative characteristics of SMEs financial reporting pre-and post-adoption of the *IFRS for SMEs*. It is against this background that the current study intends adding to literature evidence on the quality of SMEs financial reporting in Ghana pre- and post-adoption of *IFRS for SMEs* based on the qualitative characteristics of financial reporting as defined in the *IASB* Conceptual Framework. The study therefore assessed the effect of *IFRS for SMEs* adoption on the quality of SMEs' financial statements.

Purpose of the Study

The purpose of the study is to determine the effect of *IFRS for SMEs* adoption on the quality of SMEs financial reporting based on the qualitative characteristics.

Research Objectives

Specifically, the study seeks to:

1. Assess the relevance quality of SMEs financial reporting pre and post adoption of *IFRS for SMEs.*
2. Assess the faithful representation quality of SMEs financial reporting pre and post adoption of the *IFRS for SMEs.*

3. Examine the verifiability quality of SMEs financial reporting pre and post adoption of *IFRS for SMEs*.
4. Evaluate the understandability quality of SMEs financial reporting pre and post adoption of *IFRS for SMEs*.
5. Analyse the comparability quality of SMEs financial reporting pre and post adoption of the *IFRS for SMEs*.

Hypotheses

Based on the underpinning theories of the study, prior literature, provisions in the *IFRS for SMEs* as well as IASB's conceptual framework's stand on the characteristics of a quality financial statement, the following hypotheses were formulated to be tested by the study:

***H*₁**: *There is a statistically significant difference between relevance quality of SMEs financial reporting pre and post adoption of IFRS for SMEs*

***H*₂**: *There is a statistically significant difference between faithful representation quality of SMEs' financial reporting pre and post adoption of IFRS for SMEs.*

***H*₃**: *There is a statistically significant difference between verifiability quality of SMEs' financial reporting pre and post adoption of IFRS for SMEs.*

***H*₄**: *There is a statistically significant difference between understandability quality of SMEs' financial reporting pre and post adoption of IFRS for SMEs.*

***H*₅**: *There is a statistically significant difference between comparability quality of SMEs' financial reporting pre and post adoption of the IFRS for SMEs.*

Significance of the Study

This research aimed at assessing the effect of the adoption of the *IFRS for SMEs* on the quality of SMEs' financial reporting. Conducting this study is crucial since the country is currently faced with detrimental report from the World Bank with respect to quality of SMEs' financial report (World Bank, 2014). To get rid of this standard gap in the country's reporting system and also improve the quality of SMEs' financial reporting, the use of *IFRS for SMEs* was encouraged instead of GNAS. While SMEs in Ghana are currently adopting the standard and at a significant compliance level with respect to presentation and disclosure requirements (Tackie, 2017), there has been no determination as to the impact of the adoption on the quality of SMEs financial reporting in Ghana. Findings from this study would satisfy the curiosity of the research world.

It is expected that findings from this study would help law enforcement bodies in Ghana such as the Securities and Exchange Commission, Bank of Ghana and the Institute of Chartered Accountants – Ghana, since they would be much interested in knowing how the adopted standard (*IFRS for SMEs)* has impacted on the quality of financial reporting for SMEs. The study would also serve a need to the accounting standard setters, including the IASB, since it will aid them in knowing whether the objectives of developing a high-quality standard to improve SMEs financial reporting across the world have been achieved.

The study would also help inform users and prospective users of the *IFRS for SMEs* about how the entity level adoption of the standard can impact on the decision usefulness of their financial statements. This is imperative because the benefits of providing financial reporting information should justify the costs of providing that information (IASB, 2010).

Overall, this study would broaden the extremely limited scope of SMEs financial reporting quality literature in accounting, especially within the Ghanaian context.

Delimitations

The study focused on the quality of the financial reporting of SMEs in the Accra Metropolitan Area pre and post adoption of *IFRS for SMEs*. Therefore, financial statements of SMEs outside the jurisdiction of the Accra Metropolis are excluded from the study. The 2011, 2012 and 2013 financial statements of SMEs were used to measure the quality of SMEs financial reporting pre-adoption whereas, the 2014, 2015 and 2016 financial statements represented post adoption years. The study covered the differences between the IASB's qualitative characteristics that decision useful financial statements should possess. These characteristics are faithful representation, relevance, understandability, verifiability, comparability and timeliness. However, this study excluded timeliness which is an enhancing qualitative characteristic owing to the medium used for data collection.

Organisation of the Study

This study is divided into five chapters. Chapter One is the introduction to the study. It spells out the background to the study, statement of the problem, the purpose of the study, objectives of the study, hypotheses, significance of the study and delimitation. Chapter Two presents the theories underpinning the study, the adopted model, empirical review and the conceptual framework of the study.

Chapter Three deals with the methodology of the study. This includes the research design, study area, study population, sample and sampling procedures, data collection instruments, fieldwork, data analysis and a chapter summary of the methodology. Chapter Four presents the results and discussion of the data collected from the field, while Chapter Five gives the summary, conclusions and recommendations.

CHAPTER TWO

LITERATURE REVIEW

Introduction

The study was set out to find out whether the advent of *IFRS for SMEs* has improved the quality of financial reporting for SMEs based on the qualitative characteristics delineated by International Accounting Standards Board. This chapter presents brief description of the standard in question and reviews the theoretical considerations. The chapter also presents the various models that have emerged from the theoretical backing of the research and then narrows it down to the study's model. Some empirical reviews were made and finally the section presents the conceptual framework designed for the study.

The International Financial Reporting Standards for Small and Medium-Sized Enterprises *(IFRS for SMEs)*

The *IFRS for SMEs* is a simplified, accounting standards intended to apply to the general-purpose financial statement and other financial reporting by SMEs, private entities and non-publicly accountable entities. It is based on full IFRS with modifications to reflect the needs of users of SMEs financial statement and cost-benefit consideration (IASB, 2015).

It is a standalone accounting standard meaning, all guidance relevant to SMEs are contained within the standard, there is no cross-reference to full IFRS. IASB's definition of SMEs did not include quantity size criteria. SMEs that are permitted to use the standard included entities that do not have public accountability and publish general purpose financial statement for external users (IASB, 2015). IASB maintained that individual jurisdiction has the sole prerogative in deciding which entity should be required or permitted to use the

IFRS for SMEs, jurisdictions may choose to recommend quantified size criteria. Again, jurisdictions may decide that certain categories of SMEs should be required to use full IFRS rather than *IFRS for SMEs*.

The IASB outlined five main types of simplification made to the full IFRS in coming out with the *IFRS for SMEs* as follows:

- Some topics in full IFRS Standards were omitted because they are not relevant to typical SMEs;
- Some accounting policy options in full IFRS Standards are not allowed because a more simplified method is available to SMEs;
- Many of the recognition and measurement principles that are in full IFRS Standards have been simplified;
- Substantially fewer disclosures are required; and
- The text of full IFRS Standards has been redrafted in 'plain English' for easier understandability and translation.

The standard is divided into 35 sections, plus a preface and a glossary. See Appendix A for sections of the *IFRS for SMEs*.

Theoretical Review

The study adopted the normative accounting theory which is at one extreme end of the continuum of accounting theories to help study the effect of the adoption of the *IFRS for SMEs* on SMEs financial reporting.

Normative accounting theory (NAT)

The normative accounting theory (NAT) approach is seen as the conceptual framework approach to financial reporting (Booth, 2003). The theory seeks to prescribe some basis of accounting measurement with particular reference to accounting procedures and the content of financial reporting. Normative accounting theorists have their focus on developing accounting principles. According to Kabir (2011) the primary concern of these researchers had been recognition and measurement issues in accounting. Accounting questions asked and answered by normative accounting theorists include whether to recognize changes in market prices if the entity is not a party to the transaction, and what basis (e.g., historical cost, market value, etc.) to use in preparing financial statements.

Normative accounting theorists have criticized positive accounting theorist (which is at the other extreme end) on the grounds that positive accounting theory does not provide practitioners with guidelines with respect to reporting even though it attempts to explain the economic implication that might result from the selection of a particular accounting policy. NAT theorists make use of their past experiences and analyses and based on that, they explain and define the things that should go into financial reporting.

Kabir (2005) stated in his work that, there are two important elements of a normative theory: (a) goal assumption, and (b) deduction. The same report operationalized three categories of theorists under normative and gave specific examples. The first are those that set their own goals that are not inherent to current accounting practices. The second category he referred to are those that inductively derive goals from accounting practices and use those goals to suggest improvements in current practices. He cautioned that not every theorist is explicit on goal statement. Consequently, the final category was stated as those that state the basic assumptions and deduce accounting measurement from these. NAT is not the preferred theory for self-seeking accountants. While individuals want a theory which prescribes procedures conducive to their interest, Watts and Zimmerman (1979) suggest that they do not want normative theory which has their self- interest as their objective.

In summary, normative accounting theories are strict to rule, not giving accountants the latitude to devise their own ways of treating accounting transactions. Normative is more of a deductive process than positive accounting theory. Normative starts with the theory and deduce to specific policies, while positive starts with specific policies, and generalizes to the higher-level principles. This principled backing theory is hunched to increase comparability. As there are bases for the treatment of each economic phenomenon which 'certeris paribus' the same treatment should run through all accounting practitioners irrespective of one's jurisdiction. This they believe will help promote the decision usefulness of financial reporting and get accounting back to its function of reporting economic truth.

Application of the theory to the study

Normative accounting theory is the theory that aided the study to determine whether the adoption of *IFRS for SMEs* has improved the quality of SMEs financial reporting overtime. The normative accounting theory (NAT) which is viewed as the conceptual framework approach to financial reporting is the dominant theoretical base for the study. The NAT tends to restrict accounting practitioners as to how economic phenomenon is to be represented in the financial reporting. It does not give accountants the freedom to decide how to treat financial transactions.

The conceptual framework being the fundamental document from which all accounting standards flow (Booth ,2003) is the bedrock of *IFRS for SMEs*. The conceptual framework outlines the qualitative characteristics which improve the decision usefulness of accounting information which are the study variables of this research. NAT will help determine how *IFRS for SMEs* has improved the quality of SMEs financial reporting by assessing whether what is expected with respect to relevance quality, faithful representation quality, understandability quality, comparability quality and verifiability quality as defined in IASB's conceptual framework are in existence with respect to SMEs' financial reporting. If those measures are present, then Normative Theory can suggest that *IFRS for SMEs* has increased the quality of financial information. On the other hand, if proxies for the said qualities are not present, then the reverse suggestion would hold.

Models in normative accounting theory

Kabir (2005) in reviewing five important works in normative accounting theory came up with three models applicable in NAT. These are (a) inductive model, (b) deductive model, and (c) the decision usefulness approach. In induction he explained that a general statement (X) is induced from some empirical observations, hypothetical phenomena, or non-empirical concepts (O). The implications of X include and go beyond O. It may be noted that many Xs may be induced from O. The contribution of an inductive model is in coming up with an X as an explanation of O. On the other hand, the opposite process is followed in deductive models. Where O is deduced from X. X is a set of theories, or assumptions that have already been accepted. In a deductive model, O is a special case of X.

(Decision usefulness model -DUM)

The decision usefulness model is the most recent model for assessing the quality of financial reporting (Mbobo & Ekpo, 2016). This would be made functional in the study. This model has received varying degrees of emphasis in the accounting literature since the 1950s. According to the American Accounting Association (1977) in the decision usefulness model, information relevant to a decision criterion is isolated and various accounting alternatives are compared to the data presumably necessary for implementing these decision model.

The DUM explicitly explains the usefulness of accounting information in making various decisions. It recognizes that different decisions may require different information. According to Kabir (2005) the decision usefulness model emphasises the output of accounting system, that is, the financial statements. Thus, how well these statements can satisfy the needs of various users. Shagari and Dandago (2013) maintained that the decision usefulness model is essentially a market-based model, which assumes that the making of rational decisions facilitated by the availability of appropriate information will result in efficient allocation of resources.

The conceptual framework for financial reporting is an example of the decision usefulness model approach as the framework outlines qualitative characteristics which improve the decision usefulness of accounting information. As opined by Booth (2003) the conceptual framework is the fundamental documents from which all accounting standards flow.

The IASB's conceptual framework laid emphasis on two categories of qualitative characteristics thus the fundamental (Relevance, Faithful Representation) and the enhancing qualitative characteristics (Understandability, Verifiability, Comparability and timeliness). The fundamental qualitative characteristics are perceived to be the qualities that actually make financial information useful. The enhancing qualitative characteristics augment the usefulness of the financial statement when the fundamental qualitative characteristics are already in play. The decision usefulness model can be expressed in the following equation.

$$FR_{ifrs} = R(pv + cv) + FRep(c + n + fm) + U + V + C + T$$

Where:

FR_{ifrs} = Financial Reporting based on IFRS

R= Relevance of Information

pv= Predictive Value

cv= Confirmatory Value

FRep= Faithful Representation

c= Complete Information

n= Neutral Information

fm= Free from material Error

U = Understandability

V= Verifiability

C = Comparability

T = Timelines

Hypotheses Development

The rationale behind the necessity for financial accounting can be traced back to information asymmetries between managers and capital providers. These information asymmetries can be overcome by standardized information about firms' financial situations (Jensen & Meckling, 1976). The normative accounting theory makes room for this standardized presentation of financial reporting of which the study hypothesizes to improve financial reporting. The conceptual framework which the normative accounting theory has its base (Booth, 2003) believes that information asymmetry can be reduced when financial reporting possesses some qualitative characteristics including relevance, faithful representation, understandability, comparability and verifiability.

Relevance quality

Relevance information according to the IASB are information that are capable of making differences in decisions made by users in their capacity as capital providers. Literature produces some factors that improve relevance quality which are based on IASB's notion (Beest et al., 2009). These factors are forward looking information, non- financial information disclosures, fair value accounting and provision of feedback to users of the annual reports. The assertion that these factors advance the relevance quality was supported by the resulting reviews:

Forward looking information and relevance quality

According to American Institute of Certified Public Accountants (AICPA) (1994) users need forward- looking information because their goal is to predict a company's financial future. They identified three major ways in which forward-looking information can be obtained: 1. Obtaining information about the past and the present 2. Search for leading indicators in historical data which consist of existing conditions that provide insight into the future and finally any other information that aids prediction. Section 8.7 of the standard enjoins preparers to provide information about key sources of estimation uncertainty. This is a clear indication of an attempt to provide forward looking information for *IFRS for SMEs* prepared financial statements. Beretta and Bozzolan (2008) opined forward-looking information is considered an important topic to the quality of financial information because of its capability to convey value-relevant information to external users. They found association between forward- looking information and the validity and reliability of financial statements.

Non- financial information and relevance quality

The American Institute of Certified Public Accountants Special Committee on Financial Reporting (AICPA, 1994) suggested that corporate annual reports should include more forward-looking information and discussions of the non-financial that create longer-term value. According to Canibano (2017) in his Accounting and Intangibles work maintained that the use of non-financial factors is the order of the day among financial analysts. He further added that shareholders rely on a broader range of non-financial information and they do appreciate investment in employee development, process quality and corporate innovation. This helps in obtaining knowledge of business opportunities and risks, since it provides insight into possible future scenarios for the company.

Fair value accounting and relevance quality

Chea (2011) defined fair value as an estimate of the price an entity would realise if it had sold an asset or paid if it had been relieved of a liability on the reporting date in an arm's–length exchange motivated by normal business consideration. There is continuous debate in literature about the use of fair value measurement basis and the relevance of financial statements. Critics of fair value accounting trust that fair value accounting gives managers the opportunity to manipulate values (Palea, 2014). The other side of the debate holds that the use of fair value accounting produces more relevant financial information than historical cost measurement. MacNeal as cited in Kabir (2005) argued that the historical cost principle and the conservatism convention prevent financial statements from presenting true financial position and the operating results of the firm. Several studies confirm a strong relationship between fair value and accounting information's appropriateness in decision making (Elfaki & Hammad, 2015; Maines & Wahlen, 2006; Schipper & Vincent, 2003).

According to Tasio and Bakiaris (2012) when information in the annual report provides feedback to the users about previous transactions or events, it will help them to confirm or change their expectations. Accordingly, the study hypothesized that financial reporting prepared based on the conceptual framework mindset *(IFRS for SMEs)* would improve the relevance quality of financial reporting leading us to the first hypothesis of the study:

H₁: *There is statistically a significant difference between relevance quality of SMEs financial reporting pre and post adoption of IFRS for SMEs*

Faithful representation quality

Aside the relevance quality another fundamental qualitative characteristic is faithful representation. IASB's conceptual framework of financial reporting (IASB, 2010) argued that for information to be useful in financial reporting, it must be a faithful representation of the economic phenomena that it purports to represent. It further stated that faithfully represented information is one that is complete, neutral and free from material error. Although complete lack of bias cannot be achieved, IASB argued that a certain level of accuracy is necessary for financial reporting information to be decision useful. Three aspects of financial reporting that literature suggest they improve faithful representation quality are presented below:

Positive and negative event disclosures and faithful representation quality

The first aspect of faithful representation of financial reporting is the reporting of both positive and negative events in a balanced way. In the view of AICPA (1994), users are very concerned about the reliability of information in business reporting. They believe that many companies' managements are not forthright in reporting problems and poor company performance, that much of the information they disseminate is too promotional, and that troubled companies take great pains to convey the impression that they are not seriously troubled. Jonas and Blanchet (2000) opined that "neutrality is about objectivity and balance". Neutrality refers to the intent of the preparer; the preparer should strive for an objective presentation of events rather than focusing solely on the positive events that occur without mentioning negative events

Auditors report and faithful representation quality

Users need audited financial information because it provides independent assurance of the reliability of amounts reported and disclosed in financial statements. Most users rely heavily on information that has been verified by auditors independent of management. Auditor involvement in financial reporting provides a discipline for management to adhere to established requirements (AICPA, 1994). Gray, Turner, Coram, and Mock (2011) in eliciting stakeholders' perceptions regarding the auditor's report, found out that users look to see if the report includes an unqualified opinion before such financial information can be relied upon. Their work further revealed that users are even particular about the credibility of the audit firm that performed the audit. If a Big 4 conducted the audit, then it is perfect by them and if not, the user may do some research to determine the reputation of the firm signing the auditor's report. Other previous studies had the same stand (Kim, Simunic, Stein & Yi, 2011; Willekens, 2008).

Corporate governance information and faithful representation quality

A progressively important aspect in the annual report related to faithful representation is the corporate governance statement. Corporate governance can be defined as the mechanisms by which a business is directed and controlled. Mohamad, Chek and Norwani, (2011) in coming out with the relationship between Corporate Governance and Financial Reporting Quality explained that financial reporting connects the people involved in corporate governance such as the management including the board of directors, auditors, information distributors, analysts and shareholders. They further stated that it is the bridge that communicates the company with the external parties and will be the measurement to determine the performance or outcome of the company.

According to Sloan (2001) the financial information is the first source of independent and true communication about the performance of company managers. This bearing makes the financial reporting as the main attraction to management influence. The integrity of financial reporting is highly dependent on the performance and conduct of those involved in the financial reporting ecosystems, particularly directors, management and auditors (Mohamad et al., 2011). Hence the integrity of financial reporting relies on corporate governance. Several researchers also confirmed the association between financial reporting quality and corporate governance (Klai, & Omri, 2011; Holland, 1999; Tasios & Bekiaris 2012). From the forgoing literature, the study expects that the *IFRS for SMEs* reporting regime that is based on conceptual framework of financial reporting should produce more faithfully represented financial information. Consequently, the second hypothesis of the study:

H_2*: There is statistically a significant difference between faithful representation quality of SMEs financial reporting pre and post adoption of IFRS for SMEs*

Verifiability quality

In addition to the two fundamental qualitative characteristics the IASB outlined some enhancing qualitative characteristics which makes a decision useful information more useful. Verifiability is an enhancing qualitative characteristic that serves as a follow up to faithful representation. Verifiability is a quality of information that gives users the assurance that the information faithfully represents the economic phenomena that it purports to represent (IASB, 2010). This they stated that different knowledgeable users of financial reporting information reach general consensus, although not necessarily complete agreement.

Agency problems could also arise in debt relationships (Jensen & Meckling, 1976). However, when debt providers are typically able to confirm that the financial information is complete, neutral and free from material error then financial accounting might primarily serve stewardship purposes (Eierle, Shirkhani & Helduser, 2018). Confirmation of faithful representation can be in the form of the financial statement providing valid arguments to support decisions for certain assumptions and the extent to which companies base their choice for certain accounting principles on valid arguments of which previous studies confirm they lead to improved financial reporting quality (Abedana et al., 2016; Beest et al., 2009; Mbobo & Ekpo, 2016; Tasios & Bekiaris ,2012). Hence the study hypothesizes, therefore, that:

H*$_3$*: There is statistically a significant difference between verifiability quality of SMEs financial reporting pre and post adoption of IFRS for SMEs.

Understandability quality

Understandability is the quality of information that enables users to comprehend its meaning (IASB, 2010). This quality is well represented when information is classified, characterized and presented clearly and concisely.

Classified and characterized information refers to how well-organized the information in the annual report is presented. To ensure understandability of *IFRS for SMEs'* prepared financial information, several caveats were given (Section 8- notes to the financial statements) to draw preparers' attention on systematic presentation of information to enhance understandability. If the annual report is well-organized it is easier to understand where to search for specific information (Beest et al., 2009; Tasios & Bekiaris, 2012). Prior literature confirms that when there are sufficient notes to the balance sheet and the income statement as well as when information is presented in tables and graphs, users' comprehension of the financial statement is enhanced (Courtis, 1995; Jonas & Blanchet, 2000.). Consequently, the fourth hypothesis of the study:

***H_4**: There is statistically a significant difference between understandability quality of SMEs financial reporting pre and post adoption of IFRS for SMEs*

Comparability quality

Comparability quality is achieved when the financial information enables users to identify similarities in and differences between two sets of economic phenomena (IASB, 2010). This implies that similar situations must be presented similarly whereas different situations presented differently. The normative accounting theory which prescribes principles and basis on how economic phenomena are to be presented seeks to achieve comparability both within firm reporting (Consistency) and between firm reporting. Capital providers are mainly concerned about evaluating performances of which comparable information is pertinent in this regard. An advantage of IFRS prepared financial statement is to eliminate informational externalities arising from lack of comparability. If firms and/or countries use different accounting techniques, they can impose costs on others due to lack of comparability (Ball, 2006). Based on the forgoing discourse, the final hypothesis of the study is:

***H**$_5$: There is statistically a significant difference between comparability quality of SMEs financial reporting pre and post adoption of IFRS for SMEs.*

Empirical Review

This section reviews the current state of the subject matter. It provides evidence on prior studies. The section lays the basis for comparison of the results of the current study to existing literature. In other to get hold of understanding the performance of the variables of this study in the IFRS regime, it was imperative that the study reviewed literature to cover the performance of these variables after the adoption of the full IFRS and then narrow the search to their performance during the *IFRS for SMEs* era. Below is the outcome of reviews made:

In Nigeria, Mbobo and Ekpo (2016) operationalized the qualitative characteristics of financial reporting by examining the perception of Nigerian accountants on the subject matter. The study made use of the survey research approach of which 120 questionnaires were administered. The views of professional accountants were sought regarding how various qualitative characteristics enhanced the quality of financial reporting. In analyzing data collected, descriptive statistics was employed in the study by the use of frequencies and mean.

Findings indicated that faithful representation has a higher potential of enhancing the quality of financial reporting. This was followed by relevance with average mean score of 3.1. With regard to the underneath attributes, the type of auditor's report (whether qualified or unqualified), recorded the highest mean of 3.6, followed by the use of fair value as a measurement basis in the financial report, with a mean score of 3.4. The presence of information which explains the assumptions and estimates made in the preparation of financial statements as well as information which explains the choice of accounting principles used in the preparation of financial statements also enhance the quality of financial reporting to a greater extent.

The results further revealed that the presence of information which explains the implications of the changes in accounting policies also recorded a high mean score of 3.4, implying that this attribute greatly enhances the comparability of financial reports and by extension the quality of financial reporting. The non-quantitative attributes such as: notes to the accounts, clarity of the contents of financial statements, the use of graphs and tables and timeliness of financial reporting, all show significant influence in enhancing the quality of financial reporting.

A work similar to Mbobo and Ekpo (2016) was previously done by Tasios and Bekians (2012) in Greece. Here the perception of auditors was sought on the quality of financial report based on qualitative characteristics of financial report as defined by IASB in the conceptual framework. The study also aimed at identifying key factors that influence and improve the quality of financial reporting as well as factors that lead to poor quality.

In achieving the objective of the study, the researcher made use of questionnaires as the data collection instrument. The study population was 738 Certified Public Accountants (CPAs). It was a census study hence there was no sampling method used. The questions were mailed to respondents and 602 e-mails were delivered. 104 questionnaires were eventually used as they were fully completed and useable. Most of the questionnaires were in a Likert scale form. Descriptive statistics were used to summarize and analyze the data. Outcome from the study indicated that faithful representation is perceived by Greece auditors as the most important qualitative characteristic of all. This result was consistent with that of Mbobo and Ekpo (2016).

They further revealed that narratives are perceived as important non-financial characteristics of financial reporting. Again, supervision and audit performed by public authorities, training of personnel, the accounting firm that performs the audit and independence of the members of the board of directors are the most significant factors that affects the quality of financial reports. On the other hand, earnings management, poor corporate governance, deviation from accounting principles, insufficient supervision and family ownership lead to poor quality in financial reporting.

In Indonesia, Yurisandi and Puspitasari (2015) assessed the quality of financial reporting of 55 companies that are listed on the Indonesia Stock Exchange. The study was a comparative one. The researchers compared the financial reporting quality of these firms before IFRS adoption which was represented by the periods 2009 and 2010 and same after adoption of the standard being represented by years 2012 and 2013. Qualitative measure was employed in assessing the financial reporting quality. Researchers made use of the NiCE qualitative measurement tool in this regard. Mean comparison test was performed using paired sample test in coming out with the differences in the reporting period.

The study reported that the overall quality of financial reporting has increased following the advent of IFRS. In taking specifics with respect to the qualitative characteristics, it was revealed that the qualitative characteristics, relevance, understandability and comparability levels increased after adoption of IFRS. Faithful representation on the other hand, had a decrease in trend following adoption of the standard whereas difference in timeliness before and after adoption is not significant.

Abdulrazak (2013) in Nairobi examined the effect of adopting International Financial Reporting Standards on the quality of accounting reports of Small and Medium enterprises. The measure of financial reporting quality in this study was the IASB qualitative characteristics. Thus, relevance, faithful representation, understandability, comparability and timeliness. The object for the study was to ascertain the relationship between the independent variable and the dependent variables.

The study made use of both the qualitative and the quantitative approach in finding answers to the research questions. A combination of observation, questionnaire and interviews were used in collecting data. The study however, adopted questionnaires as the principal data collection instrument. Out of a population of 150 SMEs as disclosed in the sample frame, the researcher collected data from 70 people by the use of stratified sampling technique. The study however did not indicate the sample determination technique that was used in arriving at the stated sample. Regression analysis model was use in analyzing the data for this study.

The study discovered mixed results. Four of the independent variables, that is, relevance, faithful representation, comparability and understandability had a positive, although weak relationship to the quality of SMEs financial report. Timeliness stood out to be the only independent variable that does not have impact on the dependent variable. In other words, timeliness of signing the annual reports by auditors does not have relationship with the change in the quality of accounting reports.

In Mongolia, Demberel, Dorj, and Soo (2015) also assessed the effects of *IFRS for SMEs* on the quality of SME financial reporting. The qualitative characteristics were once again utilized as the measure for financial reporting quality. The assessment was made on enterprises that have adopted the *IFRS for SMEs* as against enterprises that have not adopted. Questionnaires and observation were used in collecting data from owners and accountants who are responsible for preparing SMEs' financial statements. 161 questionnaires were retrieved from randomly sampled respondents.

The study made use of descriptive statistics and computed mean differences of SMEs that have adopted the *IFRS for SMEs* and those that have not adopted. A three-point rating scale was used to assess the score on the items for quality characteristics. The study revealed that the adoption of *IFRS for SMEs* is 41% of entities in Mongolia. The study further revealed that, IFRS implementation was stressful with more difficulties with first time adopters. The standard has training difficulties with its associated high cost. Lastly, the study revealed that there were significant mean differences for understandability, comparability, timeliness and relevance. However, the mean difference between faithful representation of those entities that have adopted and entities yet to adopt turned out to be insignificant.

In other to investigate whether entities that have adopted the *IFRS for SMEs* are actually complying with the provisions of the standard, Tackie (2017) assessed the compliance level of firms that have adopted the standard in Ghana. In achieving the objectives of the study, the researcher employed content analysis as the data analysis methodology. The study made use of 27 financial statements of firms that fell under the SMEs category according to IASB's definition. A checklist was used to ascertain the extent of compliance with presentation and disclosure requirement of the standard. Simple count of the items of the measurement was used.

Results from this study revealed that out of the 35 sections of the standard, four do not have presentation and disclosure requirement, eight sections were not applicable to SMEs. Hence, SMEs are to comply with 66% of the requirements of the standard. The study further reported that compliance level to the requirements of the standard by these SMEs is at a significant level of 70.

Lessons learnt from empirical reviews

From the empirical reviews that were undertaken, it can be said that all the qualitative characteristics delineated in IASB's conceptual framework have been empirically proven to improve the decision usefulness of financial statements with exception of timeliness. The review discloses that timeliness although it is an enhancing qualitative characteristic, its contribution to financial reporting quality is insignificant. Faithful representation as a fundamental qualitative characteristic has been discovered to be the most important of all the qualitative characteristics.

Literature also reveals that, faithful representation although has been found out to be the most important of all the qualitative characteristics of financial reporting, it happens to be the qualitative characteristic that is less represented in financial reporting. This was revealed in the works of Yurisandi and Puspitasari (2015) when they discovered a decrease in trend of faithful representation following adoption of full IFRS. The works of Dernberal, Dorj and Soo (2015) also unveiled this problem in SMEs financial reporting when the mean difference between faithful representation of entities that have adopted *IFRS for SMEs* and entities yet to adopt turned out to be insignificant.

The performance of these qualitative characteristics has been examined in various jurisdictions across the world with regard to full IFRS and *IFRS for SMEs*. However, to the best to the researchers' knowledge no research has so far been undertaken here in Ghana, on how the adoption of the standard has impacted on the quality of financial reporting for SMEs. Therefore, the need for this current study.

Conceptual Framework of the Study

A conceptual framework according to Huberman and Miles (1994) is a visual or written product, one that explains, either graphically or in narrative form, the main things to be studied—the key factors, concepts, or variables—and the presumed relationships among them. The framework shows the connections of the variables under study. They further maintained that the most important thing that is worth noticing about conceptual framework is that, it represents a conception or model of what is out there that the researcher plans to study.

The study examines the quality of SMEs' financial reporting pre and post adoption of the *IFRS for SMEs*. It assesses whether there is statistically significant difference between the qualitative characteristics (Relevance, faithful representation, verifiability, understandability and comparability) before and after the adoption of the standard. The decision usefulness model has it that the adoption of the conceptual framework style of reporting improves the decision usefulness (quality) of these reports. Existing literature (Abedana et al., 2016; Agyei-Mensah, 2013; Mbobo & Ekpo, 2016; Tasios & Bekiaris ,2012; Yurisandi & Puspitasari, 2015) supported the theory and by extension the model. Figure 1 presents the conceptual framework for the study.

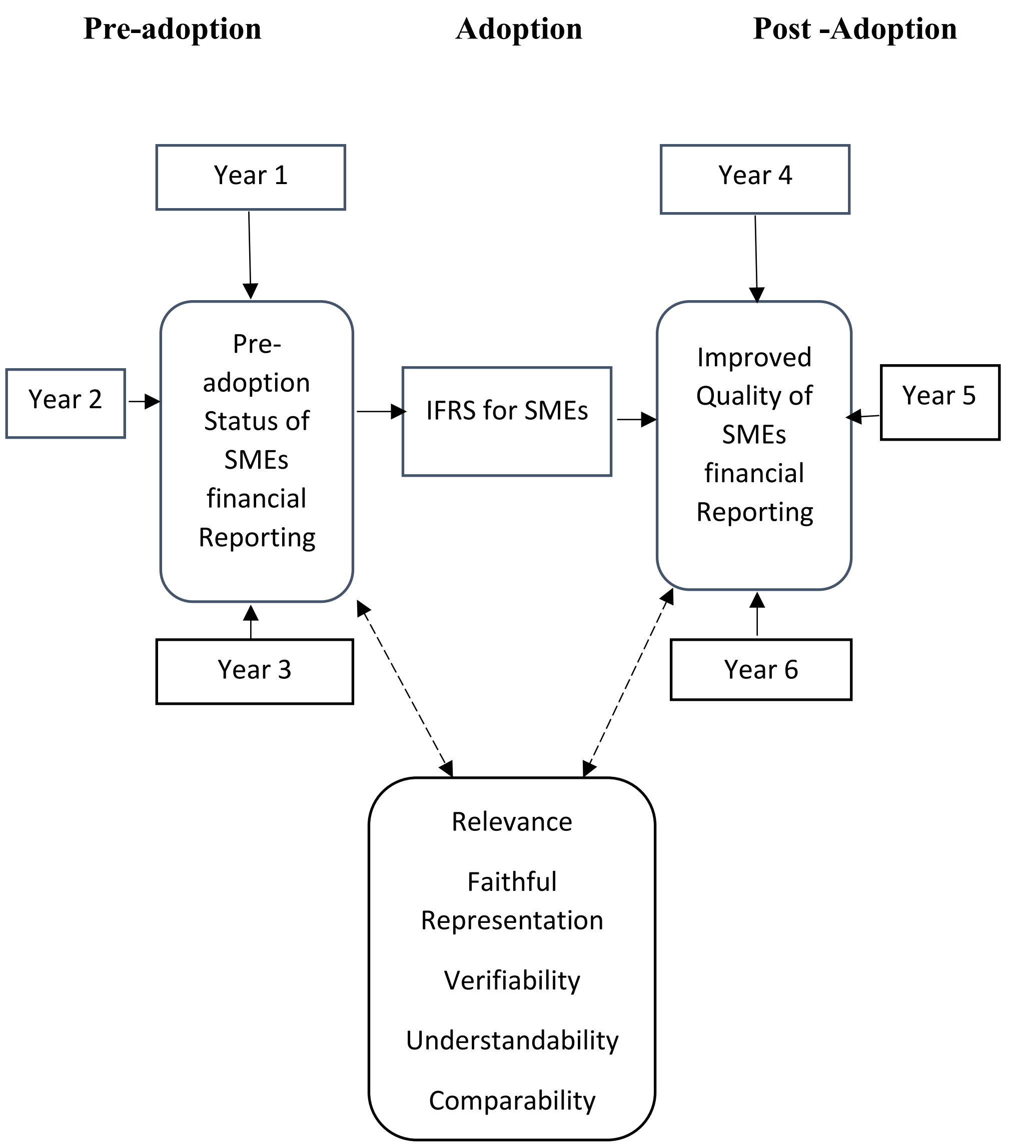

Figure 1: Conceptual Framework of SMEs' financial Reporting Quality Pre and Post the Adoption of *IFRS for SMEs*

Source: Author's construct, 2018

Figure 1 depicts the conceptual framework for the study. The diagram indicates that there exists some level of decision usefulness of financial reporting prior to the adoption of the *IFRS for SMEs* since financial statement fundamentally exist to communicate to users the financial performance of the entity for decision making. International financial reporting standards however came into being to ensure that the decision usefulness these general-purpose financial statements are enhanced.

With the objective of IASB with regards to standard setting coupled with the theoretical stand of the normative accounting theorist, the intervention variable (*IFRS for SMEs*) being introduced should help improve the qualitative characteristics of SMEs financial reporting. Central to quality enhancement is the compliance of the provision in the *IFRS for SMEs.* Tackie (2017) maintained that SMEs in this part of the world are significantly complying with the provisions in the *IFRS for SMEs*. Compliance of the provisions in the standard consequently, should birth improved decision usefulness of SMEs financial reporting.

CHAPTER THREE

RESEARCH METHODS

Introduction

The thrust of this study is to empirically evaluate SMEs financial reporting quality pre and post the adoption of *IFRS for SMEs* in the Accra Metropolitan Area. This chapter presents the method used to obtain valid and reliable data for the study. The issues discussed in this chapter include the research approach, research design, study area, study population, sample and sampling procedure, data collection method, measurement tool, fieldwork, ethical considerations and data analysis.

Research Paradigm

A research paradigm can be described as the progress of scientific practices based on a person's basic belief and assumptions about the world and how knowledge can be acquired. Creswell (2014) used worldview to describe research paradigm where he operationalised worldview as "a basic set of beliefs that guide action". Positivism which is the philosophical base of this study, is a branch of epistemology which assumes a scientific approach to the development of knowledge (Gray, 2013).

It holds that science or knowledge creation should be restricted to what can be observed and measured (Bhattacherjee, 2012). In the view of the positivists, quantitative techniques which involve statistics and mathematics are more objective. Positivism is well suited for this study considering the objectives of the study which assesses financial reporting quality quantitatively. Again, the study starts with a theory out of which a model was derived that assumes that the adoption of the *IFRS for SMEs* which emanated from the conceptual framework of financial reporting will improve SMEs financial reporting quality.

Research Approach

The two main approaches to research are quantitative and qualitative research. According to Sarantakos (2005) quantitative research are generally geared towards documenting subjects' attributes in quantity, extent or strength as well as guaranteeing among other things objectivity, accuracy, validity and reliability. He further explained that the purpose for quantitative study is to measure variables and to produce figures which will allow judgement as to the status of the variable in question, which in turn will allow further processing and comparisons and permit replication. This approach also operates by developing testable hypotheses and theories which lead themselves to generalization.

Qualitative approach on the other hand is geared towards understanding the aspects of social life. Unlike quantitative analysis, which is statistics driven and largely independent of the researcher, qualitative study is heavily dependent on the researcher's analytic and integrative skills and personal knowledge of the social context where the data is collected (Bhattacherjee, 2012). The emphasis in qualitative research he opined is "sense making" or understanding a phenomenon, rather than predicting or explaining.

The study was approached quantitatively to investigate the effect of the adoption of the *IFRS for SMEs* on financial reporting quality of SMEs in the Ghanaian context. The choice of a quantitative approach was appropriate given the particular purpose of the study and how the various qualitative characteristics are measured as well as the need to test hypothesis. This will help in drawing inferences and conclusions about the quality of SMEs' financial reporting pre and post adoption of the *IFRS for SMEs.*

Research Design

According to Sarantakos (2005), research designs are types of inquiry within qualitative, quantitative, and mixed methods approaches that provide specific direction for procedures in a research. The design gives a framework for the collection, measurement and analysis of data. The study adopted a comparative design as it aims at comparing the financial reporting quality performance of two regimes – GNAS regime and *IFRS for SMEs* regime.

Specifically, the interrupted time - series design was used. This design consists of series of observations for each participant before and after an event or treatment. The event is not a treatment or an experience that is created or manipulated by the researcher. (Gravetter & Forzano, 2006). This design is a quasi-experimental design that sought to investigate the changes that has occurred to the qualitative characteristics following the intervention (the adoption of the *IFRS for SMEs)* with particular reference to time (pre and post adoption).

Study Area

The study area is the Accra Metropolitan Area (AMA) which is the regional capital for the Greater Accra Region and also serves as the national capital of Ghana. The area is seen as the hub of all economic activities in the country. There are several important reasons why the study settled on the Accra Metropolis as the study area. The study is interested in SMEs and literature reveals that the Greater Accra Region has the highest population of SMEs in the country (Ansobo, 2015; Mahmoud, 2010).

The study was narrowed to Accra Metropolitan Area because the Metropolis records the highest ICAG licensed firms who are mostly SMEs financial statements preparers. According to the 2017 licensed ICAG practicing firms, 78% of these firms can be located in the Accra Metropolis alone. The Accra Metropolitan Area covers a total land area of 60 km2 (23 sq mi). It is bounded to the north by the Ayawaso West Municipal district and Okaikoi North Municipal district, to the west by the Ablekuma West Municipal district and Ablekuma North Municipal district, and to the east by the Ayawaso East Municipal district and the La Dade Kotopon Municipal district. The Gulf of Guinea serves as the southern border. Figure 4 presents the map of Accra Metropolis area:

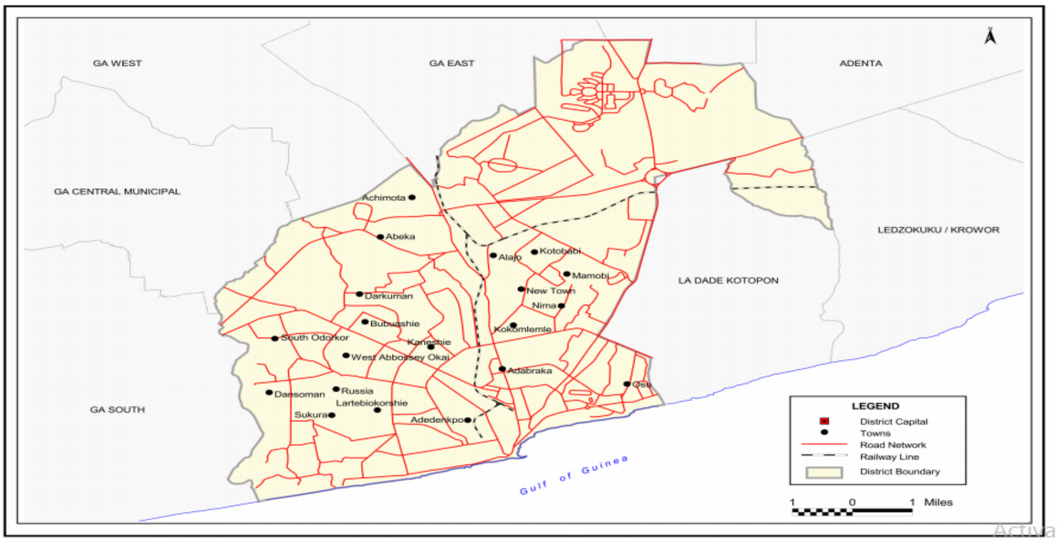

Figure 2: Map of Accra Metropolis

Source: Ghana Statistical Service, 2010

Data Sources

The researcher obtained the complete list of ICAG licensed practicing firms for the year 2017 from ICAG secretariat. Out of the 296 licensed firms for the year, 231 were within the Accra Metropolis. The use of SMEs that rely on ICAG practicing member firms for the preparation of their financial statement was appropriate for the study because, the study was interested in SMEs that have adopted the *IFRS for SME*. Investigations revealed that most of these practicing firms currently prepare financial statements based on *IFRS for SMEs* requirements for their clients thereby gaining the attention of the researcher.

The lottery method was used to randomly select 180 ICA practicing member firms. With the lottery method, the names of each firm in the frame was written on equally sized papers and folded into a bowl. The papers were shuffled for some time to make sure they were well mixed before selection is made. The adoption of this method was to give each firm equal chance of getting selected for the study. It was also to reduce bias and gather fair data for the study. After shuffling, the first draw was made without replacement and the name of the respondent was noted. The process was repeated until the required number was exhausted.

Out of the 180 SMEs that were contacted through their preparer, 92 accepted to release their financial statements for the study. The rest were not ready to get involved. The unwillingness of SMEs to release their financial statements for research purpose is widely known in literature Ploybut (2012). This has resulted in limited works on the analysis of SMEs financial reporting as compared to listed companies who are mandated to publish their financial statements.

In total, 194 financial statements were obtained which comprised of eighty-five *IFRS for SME's* prepared financial statement, eighty-three GNAS prepared, 23 full IFRS prepared and 3 incomplete statements (one GNAS prepared and two *IFRS for SMEs* prepared). Below is the breakdown of the financial statements obtained.

Table 1: Summary of financial statements obtained by Accounting Standards and Years

Years	*2011*	*2012*	*2013*	*2014*	*2015*	*2016*	*Total*
IFRS for SMEs				28	32	26	86
GNAS	29	28	28				85
Full IFRS	7	5	4	3	4		23
Total	36	33	32	31	36	26	194

Source: Field Data, Kyei- Baffour (2018)

Since the study was interrupted time series study, the researcher was interested in SMEs that have financial statements for the six years period. Consequently, SMEs that could not provide such information were exempted. Eventually 74 financial statements were disqualified as they were either incomplete, full IFRS prepared or did not have representation for the entire six years period. The study settled on twenty (20) SMEs that provided valid financial statements for the entire six years period under consideration leaving the study with 120 years of observations. Table 2 depicts the breakdown of the financial statements that qualified and was used by the study.

Table 2: Summary of financial statements used by the Study per Accounting Standards and Years

Accounting Standards	GNAS			IFRS for SMEs		
Years	*2011*	*2012*	*2013*	*2014*	*2015*	*2016*
Financial statements of SMEs per year	20	20	20	20	20	20
Total by Accounting Standards			**60**			**60**
Total number of SME's financial statements						**120**

Source: Field Data, Kyei- Baffour (2018)

Measurement Tool

The study aimed at using the current model in assessing financial reporting quality which is based on IASB notion of what quality financial information should contain. The Nijmegen Center for Economics (NiCE) measurement tool for assessing qualitative characteristics of financial reporting was considered in this regard. The tool was developed in 2009 by Ferdy Van Beest, Geert Braam and Suzanne Boelens of the Institute for Management Research -Radboud University. The tool was preferred because the measurement covers all the qualitative characteristics that were mentioned in the IASB's conceptual framework. The validity and reliability of the measurement tool has been confirmed and has subsequently been adopted by various researchers (Abedana et al., 2016; Abdulrazak, 2013; Demberel, Dorj & Soo, 2015; Mbobo & Ekpo, 2016; Tasios & Bekiaris, 2012; Yurisandi & Puspitasari, 2015).

Modification made to the tool was directed towards the verifiability and timeliness variables. The NiCE measurement tool treated verifiability (which is a standing enhancing qualitative characteristic as per the conceptual framework) as an item of faithful representation owing to their association.

This study will however measure verifiability separately from faithful representation which is consistent with Tasios and Bekiaris (2012). Timeliness measurement was excluded in the study's tool owing to the mode of data collection resorted to. The measurement tool is in five sections which measures each of the qualitative characteristics using multiple items that refer to the sub notions of the qualitative characteristics.

Validity and Reliability

Validity according to Sarantakos (2005) is the property of a measuring instrument to measure its relevance, precision and accuracy. In measuring variables of a study, researchers are particularly concerned about whether they are measuring what they intend measuring. In testing for validity, Sarantakos further opined that empirical validity is core. Thus, when there is available data that a particular instrument measures what it intends to measure accurately. Validity is also assured in this vein when findings are already supported by existing literature (concurrent validity).

Accordingly, to be assured of validity of the study, the researcher adapted a measurement tool which has been used severally in literature by various researchers (Abedana et al., 2016; Abdulrazak, 2013; Demberel, Dorj & Soo, 2015; Mbobo & Ekpo, 2016; Tasios & Bekiaris ,2012; Yurisandi & Puspitasari, 2015) in measuring the qualitative characteristics of financial reporting which has proven to be valid.

Conclusions from research data can only be trusted when their reliability can be demonstrated (Arthur et. al., 2017; Hayes & Krippendorff, 2007). Reliability according to Drost (2011) is consistency of measure or stability of measurement over a variety of conditions in which basically the same results should be obtained. The purpose of reliability testing according to Sarantakos (2005) is to ensure that the research instrument in question is robust and not sensitive to changes of the researcher, the respondents or the research instrument.

Consequently, to mitigate the challenges associated with data extraction such as coder bias, coder reliability was achieved by the use of two independent assessors who are professional accountants to perform the evaluation. The results of the prime and second evaluator were compared, and the differences discussed and sorted with re-coding (Arthur et al., 2017; Duff, 2014).

Data Collection Procedures

Fieldwork was organized in two sections. The first section was in September 2017. The second section was from November 2017 through to February 2018. Introductory letter was obtained from the department of Accounting, University of Cape Coast, to start the data collection process. The researcher initially visited some Medium Sized Entities that fell under the operational definition of SMEs by the study from a list obtained from the NBSSI. The experience was rather unpleasant. All firms visited were reluctant to offer the researcher access to the company's financial statement for fear of taxation. Some invariably suggested a different methodology for the study. A financial controller of a company visited stated that *"madam, you go and prepare questionnaires for us and we will gladly answer, but for us to release the company's financial statement to you, it will never happen"*.

A visit was made to the Ghana Alternative Market (GAX) to verify if they can be considered as the study object. It was however gathered that as at the time of the field work, only five companies were registered with GAX which was too small a number to suffice the intended methodology. Eventually those five statements obtained from the GAX were excluded from the sample owing to their recognition as PIEs and are therefore required to comply with full IFRS of which they were actually doing so.

The Registrar General Department (RGD) was the next target. Even though the department was willing to assist in this direction, they were handicapped as they do not keep computer retrievable copies of such information. This made it impossible for them to run report for the researcher's request. The only option was to go the manual way of which no body was ready to go through that ordeal. The contact person at RGD referred the researcher to another contact person at the Ghana Revenue Authority (GRA) since companies are required to file their returns for taxation purposes. A visit to GRA however, proved futile which ended the first section of the data collection exercise.

The use of SMEs' financial statements preparers to get to the owners was suggested by an expert in the field of accounting and finance whom I came into contact with during my visit to GRA Headquarters in Accra. This avenue was confirmed in literature by the work of Ploybut (2012). The second section of the exercise begun by a visit to the ICAG secretariat for enquiries. A list of ICAG licensed firms who are known to be preparers of SMEs financial reports was obtained from the secretariat. Licensed firms that comprised the sample frame were contacted through the contact numbers ICAG provided and those that could not be reached were visited at their office location given by the directory. Some hailed the study and asked for time to seek the consent of their clients. Some also did not have time to spare. Most SMEs were comfortable assenting to the idea of releasing their financial statements for the study through their financial statements' preparers. Accordingly, consents were given by quite a number of SME owners and data for the study were duly released via email.

Ethical Consideration

Issues relating to ethical conducts of research such as informed consent, confidentiality, privacy and anonymity were upheld in this study. The first step in ensuring ethical conducts with respect to data collected was having brief meeting with the ICAG licensed firms that were used as a conduit in getting to the SMEs. The meeting was virtually to explain the essence of the research and to create opportunity for these firms to ask questions. The researcher took time to answer all questions raised with respect to the study. The researcher assured these firms that data collected was going to be used purely for academic purpose as a requirement to the award of a degree in Master of Commerce (Accounting). The identity of the ICAG licensed firms as well as the SMEs who allowed their financial statements to be used as units of analysis were also pledged to be kept undisclosed. The researcher also gave ample time for these two parties to organize the data so as to get a complete and undistorted data.

Data Processing and Analysis

According to Sarandakos (2005), data analysis allows the researcher to oganise the data collected during the study in order to assess and evaluate the findings and to arrive at some valid, reasonable and relevant conclusion. In obtaining the data, the raw financial statements were first of all sorted out for complete and useable statements. This research takes all five financial statements into consideration. Complete set of financial statement according to IASB (2015) are 1) Statement of financial Position, 2) Statement of comprehensive income, 3) Statement of Changes in equity, 4) Statement of Cash Flow, 5) Notes to the Account and any other accompanying report to the financial statement. Financial statements that were obtained without any of the above mentioned were disqualified. Complete financial statements sorted were further grouped into the reporting basis.

The data was extracted from the financial statements manually by the use of the measurement tool. Financial reporting quality measurement was approached using the index quality measurement which is parallel to the works of (Abedana et al., 2016; Beest et al., 2009, Yurisandi & Puspitasari, 2015). The use of index for assessing IFRS/ IAS quality disclosure has been pronounced popular in literature as compared to all other methodologies (Abedana et al., 2016). This approach combines several variables of interest into a single gauge. It involves a collection of items that should be included in the index and the assignments of weights to these items.

Consequently, the study made use of multiple items that refer to the sub notion of IASB with respect to qualitative characteristics of financial reporting. Financial statements were scored using index score values; high score connotes adequate quality and vice versa. Critical examination of the financial statements was made to identify the items to be measured. A company was scored from 1-5 based on the level of operationalisation of the items. A company's total quality score obtained was then divided by the number of quality items and the results was then used as the quality index. The quality index can be mathematically shown as follows:

$$TQI \quad \frac{TQS}{TQ_i} = \frac{\sum_i^a qi}{\sum_i^n qi}$$

Where TQI = Total Quality Index

TQS = Total Quality Score

TQi = Total Quality Index Item

qi = Quality Index Item

a = Actual score of quality item

n = Number of quality items

Quality index score obtained for each units of analysis for pre and post periods were entered into SPSS statistical software version 20 for further processing.

The hypotheses were finally tested to examine whether there were significant differences in the qualitative characteristic qualities of SMEs' financial reporting across the periods. This was done based on a default alpha level of 5 percent (0.05) with a confident interval of 95 percent. All statistical decisions were based on the alpha level. The analysis was done based on the objectives of the study. Hence the study made use of the one-way analysis of variance (ANOVA) to compare the mean scores of the study variables overtime for pre and post periods of the adoption of the *IFRS for SMEs*.

The one-way ANOVA involves one categorical independent variable (referred to as a factor) which has a number of different levels (which in this study represents the time period). The dependent variables (Qualitative characteristics) were assessed individually on the independent variable This statistical tool, compares the variance (variability in the qualitative characteristics) between the different (but related) groups, with the variability within each of the group. Since ANOVA is an omnibus test which cannot tell where the differences are when you have three or more related groups, post-hoc tests were performed to find out where the differences lie.

Chapter Summary

The chapter discussed the research process adopted. One hundred and ninety-four SMEs' financial statements were obtained from ICAG practicing firms with the consent of their clients to form the unit of analysis for the study, out of which 74 of these statements were disqualified as they were either incomplete, full IFRS prepared or they were without representation for the six years period. Hence, the study made use of 120 units of analysis (20 SMEs for six years). Quality assessment was made by the help of the qualitative characteristics' measurement tool. One-way ANOVA was used to assess the differences in the mean values across the periods.

CHAPTER FOUR

RESULTS AND DISCUSSION

Introduction

The study sought to assess the effect of the adoption of *IFRS for SMEs* on the quality of SMEs financial reporting. This chapter presents the results and discussion of the data gathered from the field and analysed by employing one - way analysis of variance (ANOVA) using SPSS. First and foremost, the homogeneity of variance test was performed for each data set in fulfillment of the equality of variances assumption. Results were then generated separately for the quality variables. Years 1, 2 and 3 denotes pre-adoption years 2011, 2012 and 2013 whereas years 4, 5 and 6 stands for post-adoption years 2014, 2015 and 2016 respectively. Discussion was provided for the findings.

Test of Homogeneity of Variances

The assumption of homogeneity of variance holds that all comparison groups have the same variance. If the variances are not the same, the F statistics will be biased in its estimation. Hence homogeneity of variance was tested using levene statistics.

Table 3: Results of Test of Homogeneity of Variances

Quality	Levene Statistics	df1	df2	Sig.	Remarks
Relevance	2.982	5	114	.014	Equal Variance not assumed
Faithful Representation	.617	5	114	.687	Equal Variance Assumed
Verifiability	8.646	5	114	.000	Equal Variance not assumed
Understandability	2.628	5	114	.027	Equal Variance Not Assumed
Comparability	.635	5	114	0.673	Equal Variance Assumed

Source: Field Data, Kyei- Baffour (2018)

From the test results in Table 3, since the significant values for three of the dependent variables (relevance, verifiability and understandability) data sets were less than *0.05*, the null hypotheses that states that equal variances are assumed for these data sets were rejected in favor of their alternative hypotheses, equal variances not assumed. As maintained by Pallant (2007), when the assumption of homogeneity of variances is violated, the Robust Tests of Equality of Means (Welsh and Brown- Forsythe) are preferred. Equal variances were assumed for faithful representation and comparability data sets with reported significant values more than *0.05*.

Relevance Quality Assessment

The relevance quality was the first to be evaluated by the study. It is a fundamental qualitative characteristic that suggests that financial reporting must be capable of making differences in decisions made by users in their capacity as capital providers. The relevance quality was viewed in four different perspectives.

The first perspective was the forward-looking nature of the financial reporting. Beretta and Bozzolan (2008) consider forward-looking information as important to the quality of financial information because of its capability to convey value-relevant information to external users. Another viewpoint was the presence of non- financial information in the financial reporting. Literature suggests that capital providers rely on a broader range of non-financial information in their decision making (Canibano ,2017).

Thirdly, compared to historical cost, fair value accounting presents a better predictive value of financial reporting information (Elfaki & Hammad, 2015; Maines & Wahlen, 2006). The study revealed that almost all financial statements prepared under the GNASs regime used purely historical cost measurement base. Few of these statements combined the two measurement bases.

The use of fair value measurement is costly as compared to historical cost. To reduce the implementation cost for SMEs and lessen their burden, the standard grants SMEs some level of flexibility with respect to the application of this provision in the standard. The standard maintains that when assets cannot be measured reliably without undue cost and effort, the historical cost basis of measurement is permissible (IASB, 2015). SMEs are however expected to disclose reasons why a reliable fair value measure would result in an undue cost and effort. It was revealed that all SMEs who are still using historical cost basis after the adoption of the standard never disclosed reasons why historical cost measurement was resorted to.

In addition to predictive value (measured using the three aforementioned perspectives), confirmatory value contributes immensely towards the relevance quality. If information in the annual report provides feedback to the users of the annual report about previous transactions or events, users can either confirm or change their expectations (Tasio & Bakiaris, 2012). Provision of feedbacks were absent in most of the financial statements.

So, in addressing the first hypothesis, the one- way analysis of variance was conducted. The descriptive statistics of the relevance quality dataset was examined. The result as shown in Table 4 provides evidence about each group (number in each group, mean, standard deviation, standard error, confidence interval, maximum and minimum). Below is the detail:

Table 4: Descriptive Statistics on Relevance Quality

	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean Lower Bound	95% Confidence Interval for Mean Upper Bound	Minimum	Maximum
1	20	1.257500	.2504076	.0559928	1.140306	1.374694	1.0000	1.7500
2	20	1.327500	.2931117	.0655418	1.190319	1.464681	1.0000	2.0000
3	20	1.407500	.2815722	.0629615	1.275720	1.539280	1.0000	2.0000
4	20	2.075000	.4004931	.0895530	1.887563	2.262437	1.2500	3.0000
5	20	2.230000	.3122078	.0698118	2.083882	2.376118	1.7500	2.8000
6	20	2.372500	.5255261	.1175112	2.126546	2.618454	1.0000	3.0000
Total	120	1.778333	.5770008	.0526727	1.674036	1.882631	1.0000	3.0000

Source: Field Data, Kyei- Baffour (2018)

Since the equality of variance assumption was violated for the relevance dataset as shown in Table 3, the non-parametric version of the ANOVA was employed to ascertain whether there were differences in the relevance quality across the time periods. The Welch and brown-Forsythe statistics were used in this regard. The results follow in Table 5:

Table 5: Results for Robust Tests of Equality of Means (Relevance Quality)

	Statistic[a]	df1	df2	Sig.
Welch	41.199	5	52.852	.000
Brown-Forsythe	39.596	5	85.443	.000

Source: Field Data, Kyei- Baffour (2018)

From Table 5, both Welch and Brown-Forsythe statistics of *41.199* and *39.596* respectively reported sig values of *0.000*. This indicates that there is statistically significant difference in the mean scores of the relevance quality somewhere across the reporting periods under consideration. As it was established that the mean scores were not the same across the periods for this dependent, the study further performed a Post Hoc comparison test to tell where exactly the differences lie. Table 6 presents the pairwise comparison test performed with Games- Howell.

Table 6: Multiple Comparisons Games-Howell (Relevance Quality)

(I) YEARS		Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval Lower Bound	Upper Bound
1	2	-.0700000	.0862028	.963	-.328930	.188930
	3	-.1500000	.0842576	.490	-.402947	.102947
	4	-.8175000*	.1056169	.000	-1.137501	-.497499
	5	-.9725000*	.0894924	.000	-1.241627	-.703373
	6	-1.1150000*	.1301694	.000	-1.513600	-.716400
2	1	.0700000	.0862028	.963	-.188930	.328930
	3	-.0800000	.0908838	.949	-.352670	.192670
	4	-.7475000*	.1109750	.000	-1.081996	-.413004
	5	-.9025000*	.0957570	.000	-1.189826	-.615174
	6	-1.0450000*	.1345534	.000	-1.454457	-.635543
3	1	.1500000	.0842576	.490	-.102947	.402947
	2	.0800000	.0908838	.949	-.192670	.352670
	4	-.6675000*	.1094709	.000	-.997856	-.337144
	5	-.8225000*	.0940097	.000	-1.104679	-.540321
	6	-.9650000*	.1333155	.000	-1.371335	-.558665
4	1	.8175000*	.1056169	.000	.497499	1.137501
	2	.7475000*	.1109750	.000	.413004	1.081996
	3	.6675000*	.1094709	.000	.337144	.997856
	5	-.1550000	.1135492	.747	-.496692	.186692
	6	-.2975000	.1477451	.355	-.742342	.147342
5	1	.9725000*	.0894924	.000	.703373	1.241627
	2	.9025000*	.0957570	.000	.615174	1.189826
	3	.8225000*	.0940097	.000	.540321	1.104679
	4	.1550000	.1135492	.747	-.186692	.496692
	6	-.1425000	.1366842	.900	-.557423	.272423
6	1	1.1150000*	.1301694	.000	.716400	1.513600
	2	1.0450000*	.1345534	.000	.635543	1.454457
	3	.9650000*	.1333155	.000	.558665	1.371335
	4	.2975000	.1477451	.355	-.147342	.742342
	5	.1425000	.1366842	.900	-.272423	.557423

Source: Field Data, Kyei- Baffour (2018)

Games-Howell test which is the Post Hoc test preferred when the equality of variance assumption is violated (refer Table 6) indicated that, the mean score for the relevance quality for the pre-adoption years (1,2 and 3) were significantly not different from each other as the reported sig values were all above *0.05*. From the table, year 1 compared to years 2 and 3 reported *p*-

values of *.963* and *.490* respectively. Nevertheless, sig values reported for the relevance quality for the pre-adoption years (1,2 and 3) paired wise with post adoption years (4, 5 and 6) were all below the significant level of *0.05*. Relating pre-adoption year 1 with post- adoption years 4, 5 and 6 produced *p-values* of *.000* across the periods which are all significant.

Table 6 similarly indicate that there were no statistically significant differences in the relevance quality across the three years post adoption time period (4, 5 and 6). Period 4 likened to periods 5 and 6 recorded *p- values* of *.747* and *.355*. Yet pairwise comparison for post - adoption periods as against pre-adoption periods displayed statistically significant differences (e.g. when year 4 is compared to years 1, 2 and 3 *p- values* of *0.000* were obtained for all).

Thus, quality in this wise remain the same when the same reporting base is applied but differences indeed existed when the two reporting periods were juxtaposed. It is also interesting to note judging from the mean column (Table 6) that the mean values increase from year to year when the pre-adoption years are paired with the post adoption years. This is a signal that even the application of the *IFRS for SMEs* gets better with time.

Findings from the study for this dependent variable support the first hypothesis and conclude that the relevance quality has improved following the adoption of the *IFRS for SMEs.* This result is consistent with findings from Demberel, Dorj and Soo (2015) when they assessed differences in the qualitative characteristics of entities that have adopted the *IFRS for SMEs* and those that are yet to adopt. The result is also in line with that works of

Yurisandi and Puspitasari (2015) where they found improvement in the relevance quality pre and post adoption of the full IFRS.

Faithful Representation Quality Assessment

The next issue that was addressed was the faithful representation quality. This quality of financial reporting suggests that financial statements should faithfully represent the economic phenomena they purport to represent. AICPA (1994) maintained that when positive events are overemphasized and negative events less mentioned or not disclosed at all in financial reporting, the interest of capital providers are virtually not protected. In its quest to moderate accountants' behavior in financial reporting, the *IFRS for SMEs* requires full disclosure from preparers even with matters relating to negative events and occurrences (IABS, 2015). In measuring this item, it was realized that financial reporting under both regimes hardly highlights either negative or positive events. *IFRS for SMEs'* prepared financial statements reported some few ones.

Auditors' report adds value to financial reporting information by providing reasonable assurance about the degree to which the annual report represents economic phenomena faithfully (Gray et al., 2011; Kim et al., 2011; Willekens, 2008). All the financial statements came with unqualified audit reports. There were no adverse opinions, no disclaimer of opinion, neither were there qualified opinion. However, the unqualified opinions were on the financial statements only. Internal controls were not reported on by the auditors.

Finally, in examining faithful representation, a progressively important aspect of annual reports- corporate governance was measured. The study evaluated whether the annual report extensively disclosed information on how the firm is directed and controlled. Literature reveals that to capital providers, corporate governance information adds value to financial information as it increases the probability of faithfully represented information (Klai & Omri, 2011; Sloan, 2001; Holland, 1999).

In testing for statistically significance difference in the faithful representation quality of SME's financial reporting pre and post adoption of the standard, ANOVA was performed. The results are depicted in Table 7.

Table 7: Descriptive Statistics on Faithful Representation Quality

	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean Lower Bound	95% Confidence Interval for Mean Upper Bound	Minimum	Maximum
1	20	2.025000	.2947642	.0659113	1.887046	2.162954	1.0000	2.5000
2	20	2.010000	.2686548	.0600730	1.884266	2.135734	1.0000	2.3333
3	20	2.040000	.2939149	.0657214	1.902444	2.177556	1.0000	2.5000
4	20	2.113000	.3266164	.0730336	1.960139	2.265861	1.0000	2.6600
5	20	2.199667	.1985971	.0444077	2.106720	2.292613	2.0000	2.6600
6	20	2.199666	.2046874	.0457695	2.103870	2.295463	2.0000	2.6600
Total	120	2.097889	.2747418	.0250804	2.048227	2.147551	1.0000	2.6600

Source: Field Data, Kyei- Baffour (2018)

Table 7 above describes the dataset for faithful representation quality with reference to the number in each related group, their mean values, standard deviation, standard error, their lower and upper bounds as well as the minimum and maximum.

Table 8: ANOVA Faithful Representation

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	.747	5	.149	2.067	.075
Within Groups	8.236	114	.072		
Total	8.982	119			

Source: Field Data, Kyei- Baffour (2018)

The ANOVA table (Table 8) displays both between - groups and within- groups sums of squares, the degree of freedom, mean square, F value and the sig value. From the *F – Statistics* (*2,067*) with obtained Sig Value of *0.075* which is more than the significance level of *0.05* indicates that, there is statistically no significant difference across the time periods for faithful representation quality. Since the ANOVA table for this dependent variable disclosed no difference across the time periods, there was no need therefore for a post hoc test to be conducted for this variable by the study.

The insignificant difference with faithful representation is clearly demonstrated with evidence from the descriptive (Tables 7) which shows that the mean values for faithful representation quality for the pre- adoption years (Year 1= 2.02, Year 2= 2.01, Year 3=02.04) were close to the mean values for the post-adoption period (Year 4 = 2.11, Year 5= 2.19, Year 6= 2.19). This means that although there was slight enhancement in the faithful representation quality in SMEs financial reporting across the period, the improvement was statistically not significant. This is in line with the findings of Demberel, Dorj and Soo (2015) in Mongolia when they assessed the financial reporting quality of entities that have adopted the *IFRS for SMEs* and those that are yet to adopt the standard. The finding is however convex with the work of Yurisandi and Puspitasari (2015) who found a decrease in the trend faithful representation after the adoption of full IFRS in Nairobi.

Faithful representation quality is the greatest contributory variable to financial reporting quality (Mbobo & Ekpo, 2016; Tasios & Bekiaris, 2012). It is therefore unfortunate that this quality is less represented in the financial reporting of SMEs as revealed by the study. This can be attributed to the fact that SMEs still fall short in highlighting positive events as well as the negative events in discussing annual performance for a particular fiscal year. The financial reporting of SMEs also failed to extensively disclose information on corporate governance issues of their companies.

Verifiability Quality Assessment

Another component of the qualitative characteristics examined was the verifiability quality. Verifiability has been linked with faithful representation.

This quality of information helps assure users that the information faithfully represents the economic phenomena that it purports to represent (IASB, 2010). Verifiability was examined by assessing whether the annual reports explained assumptions and estimates made clearly, whether the annual report explained the choice of accounting principles clearly. Literature reveals that, valid and well-grounded arguments provided for the accounting principles used increase the likelihood that preparers fully understand the measurement method. This in turn will reduce the possibility of unintentional material errors in their financial report. The analysis of variance that was conducted for this factor yielded the following output:

Table 9: Descriptive Statistics on Verifiability Quality

	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean Lower Bound	95% Confidence Interval for Mean Upper Bound	Minimum	Maximum
1	20	1.575000	.7573326	.1693447	1.220557	1.929443	.5000	2.8000
2	20	1.539444	.7290986	.1630314	1.198215	1.880673	.5000	3.0000
3	20	1.759444	.7506139	.1678424	1.408146	2.110742	.5000	3.0000
4	20	2.594444	.3688584	.0824793	2.421813	2.767075	1.8889	3.0000
5	20	2.690000	.3338768	.0746571	2.533741	2.846259	2.0000	3.5000
6	20	2.620000	.4111601	.0919382	2.427571	2.812429	1.8000	3.0000
Total	120	2.129722	.7718128	.0704565	1.990211	2.269233	.5000	3.5000

Source: Field Data, Kyei- Baffour (2018)

Table 9 displays useful descriptive statistics on the verifiability data set that provides information about each group as well as when all the groups are combined. The N column displays the number in each group thus 20 in six groups totaling 120. The descriptive table also reports the mean scores, standard error, and 95% confidence interval level for this dependent variable for each group.

With reference to Table 3 which gives information on homogeneity of variances of the datasets, equal variances were not assumed for the verifiability dataset. Hence the Welch and Brown-Forsythe statistic which are preferred in this wise were used in testing for the equality of the mean values for this dependent variable.

Table 10 : Result for Robust Tests of Equality of Means (Verifiability)

	Statistic[a]	df1	df2	Sig.
Welch	17.431	5	52.346	.000
Brown-Forsythe	17.996	5	83.569	.000

Source: Field Data, Kyei- Baffour (2018)

As shown from the Robust Test of Equality of Means in Table 10 for the verifiability quality, both Welch and Brown-Forsythe statistics of *17.431* and *17.996* respectively reported sig values of *0.000*. This is an indication that overall, there is statistically significant difference somewhere among the mean values for the groups involved as the sig values are less than *0.05*. Table 10 does not tell which groups were different from the others. The statistical significance of the differences between each pair of groups was tested using Games- Howell the prefered for equal variances not assumed dataset. Table 11 presents the pairwise results.

Table 11: Multiple Comparisons Games-Howell (Verifiability Quality)

(I) YEARS		Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
					Lower Bound	Upper Bound
1	2	.0355560	.2350678	1.000	-.669690	.740802
	3	-.1844440	.2384296	.970	-.899725	.530837
	4	-1.0194440*	.1883626	.000	-1.595742	-.443146
	5	-1.1150000*	.1850711	.000	-1.683430	-.546570
	6	-1.0450000*	.1926921	.000	-1.632003	-.457997
2	1	-.0355560	.2350678	1.000	-.740802	.669690
	3	-.2200000	.2339878	.933	-.921984	.481984
	4	-1.0550000*	.1827076	.000	-1.613153	-.496847
	5	-1.1505560*	.1793124	.000	-1.700494	-.600618
	6	-1.0805560*	.1871680	.000	-1.649877	-.511235
3	1	.1844440	.2384296	.970	-.530837	.899725
	2	.2200000	.2339878	.933	-.481984	.921984
	4	-.8350000*	.1870131	.002	-1.406967	-.263033
	5	-.9305560*	.1836974	.000	-1.494575	-.366537
	6	-.8605560*	.1913732	.001	-1.443335	-.277777
4	1	1.0194440*	.1883626	.000	.443146	1.595742
	2	1.0550000*	.1827076	.000	.496847	1.613153
	3	.8350000*	.1870131	.002	.263033	1.406967
	5	-.0955560	.1112498	.954	-.429470	.238358
	6	-.0255560	.1235130	1.000	-.396313	.345201
5	1	1.1150000*	.1850711	.000	.546570	1.683430
	2	1.1505560*	.1793124	.000	.600618	1.700494
	3	.9305560*	.1836974	.000	.366537	1.494575
	4	.0955560	.1112498	.954	-.238358	.429470
	6	.0700000	.1184327	.991	-.286067	.426067
6	1	1.0450000*	.1926921	.000	.457997	1.632003
	2	1.0805560*	.1871680	.000	.511235	1.649877
	3	.8605560*	.1913732	.001	.277777	1.443335
	4	.0255560	.1235130	1.000	-.345201	.396313
	5	-.0700000	.1184327	.991	-.426067	.286067

Source: Field Data, Kyei- Baffour (2018)

Table 11 displays the pairwise comparison year by year which reveals that, the mean differences for the pre-adoption periods (years 1, 2 and 3) related to one another were statistically not significant. Year 1 equated to years 2 and 3 reported *p- values* of *1.00* and 0.97 respectively However, comparing the pre-adoption periods (years 1,2 and 3) with the post- adoption periods (years 4, 5 and 6) resulted in sig values that were all below the significance value of *0.05* indicating a statistical significance difference. Taking pre-adoption year 2 paralleled with post- adoption years 4, 5 and 6 obtained *p-values* of *0.000* for all which demonstrates significance differences between the pre and post periods.

From the other side of the coin, the results (Table 11) similarly indicated that there were statistically no significant differences in the verifiability quality across the three years post adoption (4, 5 and 6) compared to each other. Year 4 compared to years 5 and 6 reported sig values *0.95* and *1.00* respectively. Pairwise comparison for post adoption periods (4,5 and 6) as against pre-adoption periods however, showed a statistically significant differences (e.g. pairing year 4 against years 1, 2 and 3 recorded *p- values* of *0.00, 0.00* and *0.002* respectively).

Remarkably, the study revealed that although faithful representation quality found no significant improvement following the adoption of the *IFRS for SMEs*, its' follow up quality thus verifiability attained statistically significant difference subsequent to the adoption of the *IFRS for SMEs.* It is therefore indicative that financial reporting under the GNAS did not disclose detailed information with respect to decisions for certain assumptions and estimates in the annual report.

Understandability Quality Assessment

Another factor that enhances the usefulness of financial reporting is the understandability quality. This quality stands for how users of the financial statement comprehend the meaning of the information in the report. When the annual report is well organized, it is easier to understand where to search for specific information (Beest et al., 2009, Tasios & Bekiaris, 2012).

Being particular with this quality, provisions in the IFRS *for SMEs* stress on disclosures that promote the understandability of users. Although the standard did not prescribe sequence or format in which items are to be presented, Section 8 of the standard enjoins entities to as far as practicable present the notes in a systematic manner. Items in the financial statement are also to be cross- referenced to any related information in the notes to aid understandability. To this end assessment was made as to well organized annual reports, clarity of notes to the balance sheet, presentation of graphs and tables, the use of languages and the size of glossary.

This dependent variable was also analysed using the one- way analysis of variance to help the study achieve its objectives. The descriptive statistics of the dataset was firstly assessed followed by the equality of means test and finally a multiple comparison test. Table 12 presents the results:

Table 12: Descriptive Statistics on Understandability Quality

					95% Confidence Interval for Mean			
	N	Mean	Std. Deviation	Std. Error	Lower Bound	Upper Bound	Minimum	Maximum
1	20	1.784444	.5151934	.1152007	1.543326	2.025562	1.2000	3.0000
2	20	1.764444	.4532116	.1013412	1.552334	1.976554	1.2000	3.0000
3	20	1.898888	.4519095	.1010500	1.687388	2.110388	1.2000	3.0000
4	20	2.299444	.2459154	.0549884	2.184352	2.414536	1.8889	2.8000
5	20	2.360000	.2702825	.0604370	2.233504	2.486496	2.0000	3.0000
6	20	2.370000	.2792848	.0624500	2.239291	2.500709	2.0000	3.0000
Total	120	2.079537	.4624797	.0422184	1.995940	2.163133	1.2000	3.0000

Source: Field Data, Kyei- Baffour (2018)

The result in Table 12 provides useful descriptive statistics of the understandability datasets. This describes the data with reference to the number in each related group, their mean values, standard deviation, standard error, their lower and upper bounds as well as the minimum and maximum.

The study went ahead to test the fourth hypothesis whether overall there is significance difference in the group across the six years period for the understandability quality. The robust test of equality of means was conducted as equal variances were not assumed for the understandability dataset (refer Table 3). The obtained results follow:

Table 13: Robust Tests of Equality of Means (Understandability Quality)

	Statistic[a]	df1	df2	Sig.
Welch	11.001	5	52.595	.000
Brown-Forsythe	11.651	5	88.147	.000

Source: Field Data, Kyei- Baffour (2018)

According to both the Welch *(11.001)* and Brown -Forsythe *(11.651)* statistics, the mean differences are significant at *0.000*. This Indicates statistically significant difference somewhere in the mean scores of the understandability quality for the reporting periods under consideration.

The disclosure by the equality of means test called for a post hoc test to detect where exactly the differences in the mean values lie. Games- Howell (preferred for unequal variances) was used for the multiple comparisons. The results are presented in Table 14.

Table 14: Multiple Comparisons Games-Howell (Understandability)

(I) YEARS		Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval Lower Bound	Upper Bound
1	2	.0200000	.1534316	1.000	-.440674	.480674
	3	-.1144440	.1532394	.975	-.574559	.345671
	4	-.5150000*	.1276516	.005	-.905863	-.124137
	5	-.5755560*	.1300917	.002	-.972398	-.178714
	6	-.5855560*	.1310390	.001	-.984767	-.186345
2	1	-.0200000	.1534316	1.000	-.480674	.440674
	3	-.1344440	.1431124	.934	-.563775	.294887
	4	-.5350000*	.1152986	.001	-.886245	-.183755
	5	-.5955560*	.1179944	.000	-.953691	-.237421
	6	-.6055560*	.1190380	.000	-.966413	-.244699
3	1	.1144440	.1532394	.975	-.345671	.574559
	2	.1344440	.1431124	.934	-.294887	.563775
	4	-.4005560*	.1150427	.018	-.750981	-.050131
	5	-.4611120*	.1177444	.006	-.818449	-.103775
	6	-.4711120*	.1187902	.005	-.831180	-.111044
4	1	.5150000*	.1276516	.005	.124137	.905863
	2	.5350000*	.1152986	.001	.183755	.886245
	3	.4005560*	.1150427	.018	.050131	.750981
	5	-.0605560	.0817089	.975	-.305792	.184680
	6	-.0705560	.0832089	.956	-.320386	.179274
5	1	.5755560*	.1300917	.002	.178714	.972398
	2	.5955560*	.1179944	.000	.237421	.953691
	3	.4611120*	.1177444	.006	.103775	.818449
	4	.0605560	.0817089	.975	-.184680	.305792
	6	-.0100000	.0869059	1.000	-.270728	.250728
6	1	.5855560*	.1310390	.001	.186345	.984767
	2	.6055560*	.1190380	.000	.244699	.966413
	3	.4711120*	.1187902	.005	.111044	.831180
	4	.0705560	.0832089	.956	-.179274	.320386
	5	.0100000	.0869059	1.000	-.250728	.270728

Source: Field Data, Kyei- Baffour (2018)

From the above (Table 14), Games-Howell multiple comparison test for the understandability quality reveals that the mean differences for the pre-adoption periods (1, 2 and 3) compared to one another were statistically not significant. Comparing year 2 to years 1 and 3 for instance reported *p- values* of *1.00* and *.0.93* respectively. The results however indicate that the mean values of the pre-adoption periods (1, 2 and 3) compared to that of the post-adoption periods (4, 5 and 6) produced sig values that are all below the 0.05 sig level indicating a statistical significance difference. Pre-adoption year 2 compared to post - adoption years 4, 5 and 6 recorded *p-values* of *.001, .000* and *0.000* respectively.

Again, from the Sig values column of Table 17 reveals that there were no statistically significant differences in the mean scores of the understandability quality across the three years post adoption time period. Year 5 compared to years 4 and 6 obtained *p- values* of *.975* and *1.000* respectively Pairwise comparison for post- adoption periods as against pre-adoption periods however, demonstrated a statistically significant differences in their mean values. From the table, period 5 compared to period 1, 2 and 3 reported *p-values* of *.002, .000* and *.006* respectively.

As revealed by the study, the understandability quality has improved subsequent to the adoption of the *IFRS for SMEs*. This connotes that users can better understand financial statements that were prepared by the *IFRS for SMEs* as compared to those prepared using the GNAS. The results therefore supported hypothesis four which collaborates the stand of Yurisandi and Puspitasari (2015).

Comparability Quality Assessment

The final qualitative characteristic that was analysed was the comparability quality. Comparability quality enables users to identify and understand similarities in and differences among items (IASB, 2010). Financial statements users' mostly take decisions that involve choosing between alternatives. Consequently, information about a reporting entity is more useful if it can be compared with similar information about other entities and with similar information about the same entity for another period of time.

In line with the other dependent variables of the study, the analysis of variance was used to determine whether there were significant differences in the comparability quality of the financial reporting of SMEs over the time periods under consideration. The output obtained are presented and interpreted in Table 15.

Table 15: Descriptive Statistics on Comparability Quality

	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean Lower Bound	95% Confidence Interval for Mean Upper Bound	Minimum	Maximum
1	20	1.327778	.5031609	.1125102	1.092291	1.563264	.6667	2.7000
2	20	1.292778	.3913668	.0875123	1.109612	1.475943	.6667	2.0000
3	20	1.382778	.4537545	.1014626	1.170414	1.595141	.6667	2.3000
4	20	1.892775	.3610568	.0807348	1.723795	2.061754	1.1667	2.5000
5	20	2.029439	.4030957	.0901349	1.840785	2.218094	1.3333	3.0000
6	20	2.042771	.3247309	.0726120	1.890792	2.194750	1.5000	2.7000
Total	120	1.661386	.5216734	.0476220	1.567090	1.755683	.6667	3.0000

Source: Field Data, Kyei- Baffour (2018)

First was to describe the comparability dataset. Table 15 as shown does that with reference to the number in each related group, their mean values, standard deviation, standard error, their lower and upper bounds as well as the minimum and maximum. The table also provides the combined values for these statistical models.

Table 16 : ANOVA (Comparability Quality)

	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	13.185	5	2.637	15.657	.000
Within Groups	19.200	114	.168		
Total	32.385	119			

Source: Field Data, Kyei- Baffour (2018)

From the F-statistics table (Table 16), the *Sig value* of *F- stat* of *15.657* is *0.000*. This is less than the significance level of *0.05* thus the null hypothesis that states that there is statistically no significant difference in the mean score of comparability quality for pre and post period is rejected. This therefore indicates that there are some differences somewhere in the mean values of this dependent variable across the period.

To further detect where the differences existed, the study conducted a multiple comparison test using Tukey HSD which is the preferred Post Hoc test. Table 17 displays the results.

Table 17: Multiple Comparisons Tukey HSD (Comparability Quality)

(I) YEARS		Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval Lower Bound	Upper Bound
1	2	.0350000	.1297774	1.000	-.341196	.411196
	3	-.0550000	.1297774	.998	-.431196	.321196
	4	-.5649969*	.1297774	.000	-.941193	-.188801
	5	-.7016614*	.1297774	.000	-1.077857	-.325466
	6	-.7149934*	.1297774	.000	-1.091189	-.338798
2	1	-.0350000	.1297774	1.000	-.411196	.341196
	3	-.0900000	.1297774	.982	-.466196	.286196
	4	-.5999969*	.1297774	.000	-.976193	-.223801
	5	-.7366614*	.1297774	.000	-1.112857	-.360466
	6	-.7499934*	.1297774	.000	-1.126189	-.373798
3	1	.0550000	.1297774	.998	-.321196	.431196
	2	.0900000	.1297774	.982	-.286196	.466196
	4	-.5099969*	.1297774	.002	-.886193	-.133801
	5	-.6466614*	.1297774	.000	-1.022857	-.270466
	6	-.6599934*	.1297774	.000	-1.036189	-.283798
4	1	.5649969*	.1297774	.000	.188801	.941193
	2	.5999969*	.1297774	.000	.223801	.976193
	3	.5099969*	.1297774	.002	.133801	.886193
	5	-.1366645	.1297774	.899	-.512860	.239531
	6	-.1499965	.1297774	.857	-.526192	.226199
5	1	.7016614*	.1297774	.000	.325466	1.077857
	2	.7366614*	.1297774	.000	.360466	1.112857
	3	.6466614*	.1297774	.000	.270466	1.022857
	4	.1366645	.1297774	.899	-.239531	.512860
	6	-.0133320	.1297774	1.000	-.389528	.362864
6	1	.7149934*	.1297774	.000	.338798	1.091189
	2	.7499934*	.1297774	.000	.373798	1.126189
	3	.6599934*	.1297774	.000	.283798	1.036189
	4	.1499965	.1297774	.857	-.226199	.526192
	5	.0133320	.1297774	1.000	-.362864	.389528

Source: Field Data, Kyei- Baffour (2018)

The test results in Table 17, Tukey HSD multiple comparison test for the comparability quality reveals that the pre-adoption periods (1, 2 and 3) compared to each other were statistically not significant. Pre- adoption period 3 compared to periods 1 and 2 produced *p-values* of *.998* and *.982*. The results nevertheless indicated that the pre-adoption periods compared to post-adoption periods obtained Sig values that are all below the *0.05* significance level indicating statistical significance differences in the mean values. When year 3 is matched with years 4, 5 and 6, the *p-values* recorded were *.002, .000* and *.000* correspondingly.

The results in Table 17 again disclosed that there were statistically no significant differences in the comparability quality across the three years post-adoption time period allied to each other. Relating period 4 with periods 5 and 6 for instance reported *p- values* of *.899* and *.857* respectively. Pairwise comparison for post- adoption periods (4,5 and 6) as against pre-adoption periods (1, 2 and 3) however exhibited statistically significant differences. Likening the same period 4 with pre-adoption years 1,2 and 3 resulted in *p-values* of *.000*, *.000* and *.002* respectively.

The normative accounting theory prescribing principles and basis on how economic phenomena are to be presented has achieve comparability both within firm reporting (Consistency) and between firm reporting. Findings from this study therefore support the final hypothesis of the study that states that there is significant difference in the comparability quality of financial reporting following the adoption of the *IFRS for SMEs.* This connotes that subsequent to the adoption of the IFRS *for SMEs*, users can better compare the performance of a particular entity from one period to the other as consistency has improved. Across company comparison has also been enhanced.

This finding is consistent with that of Demberel, Dorj and Soo (2015) when they found out that comparability quality for entities that have adopted the standard has improved compared to entities that are yet to adopt the *IFRS* *for SMEs.* Findings from the work of Yurisandi and Puspitasari (2015) suggest same when it comes to pre and post adoption of full IFRS.

Table 18 presents a summary of the analysis of study. It provides the statistical approach to the hypotheses, statistical model sig values obtained and decisions arrived at based on the derived outputs.

Table 18: Summary Statistics from One Way Analysis of Variances-Test for the Five Hypotheses of the Study

NO	Hypothesis	Statistical Approach	Statistical Model	Sig Values	Decision
1	*There is statistically a significant difference between relevance quality of SMEs financial reporting pre and post adoption of IFRS for SMEs*	Homogeneity of variances	**Levene Test**	0.014	Equal Variances not assumed
		Descriptive Statistics	Mean, Standard deviation, Standard Error, Lower and Upper bounds, Minimum and Maximum		
		Robust Test for Equality of mean	Welch	0.000	Hypothesis Supported
			Brown-Forsythe	0.000	
2	*There is statistically a significant difference between faithful representation quality of SMEs financial reporting pre and post adoption of IFRS for SMEs*	Homogeneity of variances	Levene Test	0.687	Equal Variances assumed
		Descriptive Statistics	Mean, Standard deviation, Standard Error, Lower and Upper bounds, Minimum and Maximum		
		Equality of mean Test	ANOVA	0.075	Hypothesis Not Supported

Table 19: Continued

NO	Hypothesis	Statistical Approach	Statistical Model	Sig Values	Decision
3	*There is statistically a significant difference between understandability quality of SMEs financial reporting pre and post adoption of IFRS for SMEs*	Descriptive Statistics	Mean, Standard deviation, Standard Error, Lower and Upper bounds, Minimum and Maximum		
		Robust Test for Equality of mean	Welch	0.000	Hypothesis Supported
			Brown-Forsythe	0.000	
4	*There is statistically a significant difference between understandability quality of SMEs financial reporting pre and post adoption of IFRS for SMEs*	Homogeneity of variances	Levene Test	0.027	Equal Variances not assumed
		Descriptive Statistics	Mean, Standard deviation, Standard Error, Lower and Upper bounds, Minimum and Maximum		
		Robust Test for Equality of mean	Welch	0.000	Hypothesis Supported
			Brown-Forsythe	0.000	

Table 20: Continued

NO	Hypothesis	Statistical Approach	Statistical Model	Sig Values	Decision
5	*There is statistically a significant difference between comparability quality of SMEs financial reporting pre and post adoption of IFRS for SMEs*	Homogeneity of variances	Levene Test	0.673	Equal Variances assumed
		Descriptive Statistics	Mean, Standard deviation, Standard Error, Lower and Upper bounds, Minimum and Maximum		
		Equality of Mean Test	ANOVA	0.000	Hypothesis Supported

Source: Field Data, Kyei- Baffour (2018)

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Introduction

This chapter presents the summary, conclusion and recommendations of the study based on the research findings. The chapter is divided into five main parts. The first part presents the summary of the study. This is followed by the key findings of the study. The third section presents the conclusion followed by the recommendations. The chapter finally ends with direction for future research.

Summary of the Study

SMEs are being recognized as drivers of economic development. Globally, they have been the means through which advanced countries have achieved accelerated economic growth. As a result, many developing countries, especially in Africa, Ghana not an exception, are channeling massive resources for the development of these SMEs as a remedy to the economic woes of these nations.

Although the existence of SMEs is evident all over the world, their reporting needs were overlooked for a long period of time. SMEs' financial reporting across the world suffered quality deficiency due to this neglect. In Ghana to be precise, the World Bank in 2014 reported that financial reporting of SMEs in the country does not provide users with the necessary information for them to take economic decisions. The intervention by IASB promulgating a standalone accounting standard for SMEs was geared towards improving the quality of SMEs financial reporting.

The underlying argument of this study therefore was that the adoption and application of the *IFRS for SMEs* by Ghanaian SMEs should change the narrative of the quality of SMEs financial reporting in Ghana. The study therefore applied the normative accounting theory stand of financial reporting to assess the effect of the adoption of *IFRS for SMEs* on the quality of SMEs' financial reporting. To achieve this, five specific objectives were set out to assess SMEs financial reporting quality pre and post the adoption of the *IFRS for SMEs* with specific reference to the qualitative characteristics of financial reporting.

The study was a comparative study which was approached quantitatively. Specifically, the interrupted time series (which is quasi experimental) was adopted to achieve the objective of the study. Twenty (20) SMEs in the Accra Metropolitan Area who rely on ICAG practicing firm for their financial reporting were selected. Six years timespan was study thus from 2011 to 2016. Pre-adoption years were 2011, 2012 and 2013 whereas post adoption years were represented by 2014, 2015 and 2016. In all 120 years of observation was achieved. Financial reporting quality assessment was based on the decision usefulness model. The data was processed and analysed by the use of Microsoft Excel 2013 and SPSS. One-way analysis of variances was the analytical tool employed to ascertain whether there were significant differences in the quality of SMEs financial quality over the time period. All statistical decisions were made based on a default alpha level of 0.05, with a 95% confidence level.

Key Findings of the Study

This section presents the major findings of the study. These findings are presented based on the objectives of the study.

Relevance Quality of SMEs Financial Report Pre and Post Adoption of the *IFRS for SMEs.*

The study found that the adoption of the *IFRS for SMEs* has improved the quantum of information provided in SMEs' financial statements that are capability of helping users in making informed decisions.

- Predictive value, a concept under relevance of financial information which refers to information on the firm's ability to generate future cash flow saw an appreciable improvement with the advent of *IFRS for SMEs.*
- Confirmatory value, on the other hand appeared to be almost similar in SMEs' reporting after the adoption of the standard just like period pre-adoption period. Less feedback was given on how various events and significant transactions affected the company.

Faithful Representation Quality of SMEs Financial Reporting Pre and Post Adoption of the *IFRS for SMEs.*

- The study revealed that the adoption of the *IFRS for SMEs* by SMEs in the Accra Metropolis had no impact on how the financial reporting of SMEs faithfully represents what they purport to represent.

- SMEs still fall short in highlighting positive events as well as the negative events in discussing annual performance for a particular fiscal year.
- The financial reporting of SMEs also failed to extensively disclose information on corporate governance issues of their companies.

Verifiability Quality of SMEs Financial Reporting Pre and Post Adoption of the *IFRS for SMEs*.

With respect to the follow up quality of faithful representation however, the study concluded that the adoption of the *IFRS for SMEs* has improved the rate at which users can confirm the faithful representativeness of SMEs financial reporting.

This is due to the fact that various disclosure requirements in the standard with respect to accounting policies and estimates abetted in giving users assurance on the state of the faithful representativeness of the financial reporting.

Understandability Quality of SME Financial Reporting Pre and Post Adoption of the *IFRS for SMEs*

Generally, the adoption of the standard has aided users to comprehend the meaning of the financial information provided in financial reports. The standard consistently admonished preparers to make financial reporting understandable to users by furnishing users with adequate notes to the balance sheet. Notes to *IFRS for SMEs'* prepared financial statements were well explained which promoted understandability.

Comparability Quality of SMEs Financial Reporting Pre and Post Adoption of *IFRS for SMEs*.

Comparability of SMEs financial reporting after the adoption of *IFRS for SMEs* has improved since users can now better identify similarities and differences between two sets of economic phenomena.

- Consistency as a means to comparability which actually measures how comparable a company's financial reporting for a particular year can be compared to another year's financial reporting saw significant improvement after the adoption of the standard.
- Comparability between companies in terms of accounting policies, structures and explanations of events has also improved subsequent to the adoption.

Conclusions

The Institute of Chartered Accounts Ghana currently endorses the *IFRS for SMEs* as the only reporting basis for non-public interest entities in the country. This is a demonstration that the country is responding to the recommendations made by the World Bank during their assessment on the observations of accounting and audit standards in the country. This has helped in bridging the standard gap and will also go a long way to eliminate reporting differences that exist both locally and internationally during the GNAS era. Firm level adoption of the *IFRS for SMEs* by Ghanaian SMEs is obviously a good move for SMEs themselves, the accounting regulatory body in Ghana and the country as a whole.

Based on the findings, the study concludes that the decision usefulness of SMEs financial reporting has improved with the advent of the standard. This is basically as a result of stringent disclosure requirement of the *IFRS for SMEs* that enables financial statements prepared in accordance with the standard to stand out so far as the qualitative characteristics of financial reporting are concerned. The results indicated that the four of the qualitative characteristics that were studied (relevance, verifiability, understandability and comparability) have significantly improved following the adoption of the standard. Faithful representation quality which is a fundamental qualitative characteristic and the most important of all of the qualitative characteristics however found no improvement following the adoption of the standard. This is because financial reporting of SMEs still falls short in highlighting positive events as well as the negative events when discussing annual performance for a particular fiscal year and the poor disclosure of corporate governance issues of their companies.

Although most SMEs are adopting the use of the standard, the study found out during the data collection exercise that, a lot of SMEs are yet to adopt the standard in question. Unlike listed companies that are mandated to comply with provisions of the full IFRS, SMEs are not mandated to adopt the standard though ICAG has pronounced it as the reporting basis of all SMEs in Ghana. Due to this fact, SMEs basically weigh the cost and benefit involve in the application of the standard before taking decision on its adoption.

Furthermore, it can be concluded that the application of the standard is going down well with SMEs. Firms that the standard precludes from the use of the *IFRS for SMEs* due to the nature of their operations are actually complying with such prohibitions. Although these firms in question are not listed on the Ghana Stock Exchange, the standard classifies them also as public interest entities (PIEs). These firms hold in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. Some of such entities are banks, credit unions, insurance companies, security brokers/dealers. These entities are to use full IFRS in their financial reporting. SMEs compliance to this rule contributed to increase number of disqualified units of analysis in this study.

Finally, the findings of the study support the Normative Accounting Theory stand of financial reporting which is of the view that general principles must be prescribed for accountants to religiously abide in reporting economic phenomena. The adoption of the *IFRS for SMEs* which represents the basic accounting principles as prescribed by the theory has improved the decision usefulness of SMEs financial reporting

Recommendations

Based on the results and findings obtained, the study makes some recommendations. First of all, the government, spearheaded by ICAG should organise free public seminars introducing the *IFRS for SMEs* to all SMEs and the public at large. These seminars should involve some of the early adopters of the standard in sharing the benefits associated with the standard which will enable SMEs understand and appreciate the advantages of adopting the standards. This in turn would reduce resistance to change.

Secondly, the government should introduce some incentive packages to motivate entities to adopt the use of the *IFRS for SMEs*. This can be implemented by giving tax waiver of a certain percentage to those SMEs who have already adopted the standard. When this happens, firms that are reluctant in adopting will at least perceive some direct benefit in adopting the standard and this will encourage them to get involved.

Again, the standard setting body must be adequately resourced so they can create a unit that will solely educate SMEs on the practical application of the standard. Employees at this unit will always be available to address the challenges SMEs encounter in the application of the standard. In so doing, compliance with the requirement of the standard would be strengthened so that the impact of the use of the standard can be well felt.

Research Contribution

1. To the best of the researcher's knowledge, this is the first study that assesses SMEs reporting quality pre-and post-adoption of *IFRS for SMEs* in Ghana.
2. The study employed document analysis to evaluate SMEs financial statements. Most studies use the survey method in acquiring knowledge on SMEs' reporting quality owing to the difficulties in attaining SMEs' financial statements. With the aid of key informants, the researcher was able to gain access to the SMEs' financial statements which will serve as a road map for future researchers in Ghana.

Suggestions for Further Studies

The study suggests that further study be conducted to assess the perception of the users of SMEs' financial statement on how the adoption of the *IFRS for SMEs* has improved the quality of SMEs' financial reporting based on the qualitative characteristics. Comparison can be made with the results of this study.

It would also be interesting to expand this particular study to further investigate how the improved quality of SMEs' financial reporting has impacted on the performance of SMEs in Ghana since it has been reported that SMEs have huge credit gap primarily due to poor financial reporting. A further investigation into this would interest the research world.

A further study could be conducted on the effect of the adoption of the standard on the quality of SMEs financial reporting using accrual model of measurement so the results can be compared with the results of this study.

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APPENDICES

APPENDIX A: SECTIONS OF THE *IFRS for SMEs*

Section No.	*Section Title*
1	**Small and Medium Entities**
2	**Concept and Pervasive Principles**
3	**Financial Statement Presentation**
4	**Statement of Financial Position**
5	**Statement of Comprehensive Income and Income Statement**
6	**Statement of Changes in Equity and Statement of Income and Retained Earnings**
7	**Statement of Cash Flow**
8	**Note to the Financial Statement**
9	**Consolidated and Separate Financial Statement**
10	**Accounting Policies, Estimates and Errors**
11	**Basic Financial Instruments**
12	**Other Financial Instrument Issues**
13	**Inventory**
14	**Investment In Associates**
15	**Investment in Joint Venture**
16	**Investment in Property**
17	**Property, Plant and Equipment**
18	**Intangible Assets other than Goodwill**
19	**Business Combinations and Goodwill**
20	**Leases**
21	**Provisions and Contingencies: Appendix- Guidance on recognizing and measuring provisions**
22	**Liabilities and Equity: Appendix- examples of the issuer's accounting for convertible debt**
23	**Revenue : Examples of revenue recognition under the princiles in Section 23**
24	**Government Grants**
25	**Borrowing Cost**
26	**Share-Based Payment**
27	**Impairment of Assets**
28	**Employee Benefits**
29	**Income Tax**
30	**Foreign Currency Translation**
31	**Hyperinflation**
32	**Event After the End of the Reporting Period**
33	**Related Party Disclosures**
34	**Specialised Activities**
35	**Transition to the IFRS for SMEs**

APPENDIX B:

MEASUREMENT TOOL FOR ASSESSING QUALITATIVE CHARACTERISTICS OF SMES' FINANCIAL REPORTING

(The Nijmegen Center for Economics (NiCE)

Q N0	Question	Operationalization	Concept
Relevance			
R1	To what extent does the presence of the forward-looking statement help forming expectations and predictions concerning the future of the company?	1 = No forward-looking information 2 = Forward-looking information not an apart subsection 3 = Apart subsection 4 = Extensive predictions 5 = Extensive predictions useful for making expectation	Predictive Value
R2	To what extent does the presence of non-financial information in terms of business opportunities and risks complement the financial information?	1 = No non-financial information 2 = Little non-financial information, no useful for forming expectations 3 = Useful non-financial information 4 = Useful non-financial information, helpful for developing expectations 5 = Non-financial information presents additional information which helps developing expectations	Predictive Value
R3	To what extent does the company use fair value	1 = Only HC 2 = Most HC 3 = Balance FV/HC 4 = Most FV 5 = Only FV	Predictive Value

R4	To what extent do the reported results provide feedback to users of the annual report as to how various market events and significant transactions affected the company?	1 = No feedback 2 = Little feedback on the past 3 = Feedback is present 4 = Feedback helps understanding how events and transactions influenced the company 5 = Comprehensive feedback	Confirmatory Value
	TOTALS		

Faithful representation

F1	To what extent does the company, in the discussion of the annual results, highlight the positive events as well as the negative events?	1 = Negative events only mentioned in footnotes 2 = Emphasize on positive events 3 = Emphasize on positive events, but negative events are mentioned; no negative events occurred 4 = Balance pos/neg events 5 = Impact of pos/neg events is also explained	Neutrality
F2	Which type of auditors' report is included in the annual report?	1 = Adverse opinion 2 = Disclaimer of opinion 3 = Qualified opinion 4 = Unqualified opinion: Financial figures 5 = Unqualified opinion: Financial figures + internal control	Free from material error, verification, neutrality, and Completeness
F3	To what extent does the company provide information on corporate governance?	1 = No description CG 2 = Information on CG limited, not in apart subsection 3 = Apart subsection 4 = Extra attention paid to information concerning CG 5 = Comprehensive description of CG	Completeness, verifiability, and free from material error
	TOTALS		

Verifiability

V1	To what extent are valid arguments provided to support the decision for certain assumptions and estimates in the annual report?	1 = Only described estimations 2 = General explanation 3 = Specific explanation of estimations 4 = Specific explanation, formulas explained etc. 5 = Comprehensive argumentation	Verifiability
V2	To what extent does the company base its choice for certain accounting principles on valid arguments	1 = Changes not explained 2 = Minimum explanation 3 = Explained why 4 = Explained why + consequences 5 = No changes or comprehensive explanation	Verification
TOTALS			

Understandability

U1	To what extent is the annual report presented in a well-organized manner?	Judgment based on: complete table of contents Headings order of components summary/ conclusion at the end of each subsection.	Understandability
U2	To what extent are the notes to the balance sheet and the income statement sufficiently clear?	1 = No explanation 2 = Very short description, difficult to understand 3 = Explanation that describes what happens 4 = Terms are explained (which assumptions etc.) 5 = Everything that might be difficult to understand is Explained.	Understandability
U3	To what extent does the presence of graphs and tables clarifies the presented information?	1 = no graphs 2 = 1-2 graphs 3 = 3-5 graphs 4 = 6-10 graphs 5 = > 10 graphs	Understandability
U4	To what extent is the use of language and technical jargon	1 = Much jargon (industry), not explained 2 = Much jargon, minimal explanation	Understandability

	in the annual report easy to follow?	3 = Jargon is explained in text/ glossary 4 = Not much jargon, or well explained 5 = No jargon, or extraordinary explanation	
U5	What is the size of the glossary?	1 = No glossary 2 = Less than 1 page 3 = Approximately one page 4 = 1-2 pages 5 = > 2 pages	Understan dability

Comparability

C1	To what extent do the notes to changes in accounting policies explain the implications of the change?	1 = Changes not explained 2 = Minimum explanation 3 = Explained why 4 = Explained why + consequences 5 = No changes or comprehensive explanation	Consistency
C2	To what extent do the notes to revisions in accounting estimates and judgements explain the implications of the revision?	1 = Revision without notes 2 = Revision with few notes 3 = No revision/ clear notes 4 = Clear notes + implications (past) 5 = Comprehensive notes	Consistency
C3	To what extent did the company adjusts previous accounting period's figures, for the effect of the implementation of a change in accounting policy or revisions in accounting estimates?	1 = No adjustments 2 = Described adjustments 3 = Actual adjustments (one year) 4 = 2 years 5 = > 2 years + notes	Consistency

C4	To what extent does the company provide a comparison of the results of current accounting period with previous accounting periods?	1 = No comparison 2 = Only with previous year 3 = With 5 years 4 = 5 years + description of implications 5 = 10 years + description of implications	Consistency
C5	To what extent is the information in the annual report comparable to information provided by other organizations?	Judgment based on: Accounting policies Structure Explanation of events In other words: an overall conclusion of comparability compared to annual reports of other organizations	Comparability
C6	To what extent does the company presents financial index numbers and ratios in the annual report?	1 = No ratios 2 = 1-2 ratios 3 = 3-5 ratios 4 = 6-10 ratios 5 = > 10 ratios	Comparability

APPENDIX C

INTRODUCTORY LETTER

UNIVERSITY OF CAPE COAST
COLLEGE OF HUMANITIES AND LEGAL STUDIES
SCHOOL OF BUSINESS
DEPARTMENT OF ACCOUNTING

Telephone: 03321-32440-4, 32480-3 Direct: 03321-37871
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Telex: 2552, UCC, GH.
Telegrams & Cables: University, Cape Coast

VERITAS NOBIS LUMEN

UNIVERSITY POST OFFICE
CAPE COAST, GHANA

Our Ref:

Your Ref:

4th September, 2017

SB/DAF/IL/V.1/

TO WHOM IT MAY CONCERN

Dear Sir,

LETTER OF INTRODUCTION: MS JULIANA KYEI-BAFFOUR

The bearer of this letter, Ms. Juliana Kyei-Baffour is a Master of Commerce (Accounting) student at the Department of Accounting, School of Business, and University of Cape Coast.

She is conducting a research on the Topic: **International Financial Reporting Standards adoption and the financial reporting quality of small and Medium Sized Entities in the Accra Metropolitan Area (AMA).**

We would be grateful if you can offer her the needed assistance she requires.

Further inquiries on research can be obtained from her Supervisor Rev. George Tackie at gtackie@ucc.edu.gh .

Thank you.

Yours faithfully,

Mohammed Zangina Isshaq**(PhD)**
HEAD

DEPARTMENT OF ACCOUNTING
SCHOOL OF BUSINESS
UNIVERSITY OF CAPE COAST
CAPE COAST