

FINANCIAL REPORTING FOR SMALL AND MEDIUM SCALE ENTERPRISES

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ABSTRACT

The objective of this conceptual paper is to review extant literature on SME's in relation to financial reporting, identify basic financial reports needed by SME's and identify the provisions of International Financial Reporting Standards (IFRS) in relation to financial reporting by SME's. The methodology adopted for this study is library approach which focuses on content review of extant literature. Basically, the primary concern in SME financial reporting generally relates to preparation and use of general purpose financial reports such as the statement of financial position, income statement, and the cash-flow statement. The Poor record keeping, inefficient use of accounting information to support their financial

decision-making and the low quality and reliability of financial data are part of the main problems in financial management concerns of SMEs. The study concludes that with the introduction of IFRS for SME's, the bar has been raised for SME's financial reporting. Hence there is an urgent need for capacity building especially for SME's to equip them with current expectations and the skills needed for effective reporting.

Key Words: Small and medium scale enterprises, Financial reporting, International financial reporting standards.

Jel classification: M4, M41.

1. INTRODUCTION

In recent times, small and medium sized enterprises (SMEs) have been given due recognitions especially in the developed nations for playing very important roles towards fostering accelerated economic growth, development and stability within several economies. They make-up the largest proportion of businesses all over the world and play tremendous roles in employment generation, provision of goods and services, creating a better standard of living, as well as immensely contributing to the gross domestic products (GDPs) of many countries (Ronita 2012). A key challenge facing SMEs which is of interest to the study deals with financial reporting practices. In the context of SME's financial

accounting practices is important as it can help firms manage the short run problems in critical areas like costing, expenditure and cash flow by providing information to support monitoring and control (Son et al 2006). In this regards, sound financial management is crucial to the survival, growth and financial performance of SME's and this has been identified by prior studies (McMahon and Holmes 1991; Gorton 1999). It is noteworthy that a major reason for small business failure is poor or careless financial management (Hall and Young 1993).

Poor record keeping, inefficient use of accounting information to support their financial decision-making and the low quality and reliability of financial data are part of the main problems in financial management concerns of SMEs (Sarapaivanich, 2003). While proper accounting is a useful system for making sound economic decisions (Stice, 1999) and a key to SME's success, the misuse, untimely, poor record keeping, and inaccuracy of accounting information also causes SMEs to inaccurately assess their financial situation, and make poor financial decisions (Miller and Rojas, 2004). These short comings might be the cause of difficulties to succeed and to raise fund or borrow money during the later stage. In the worst case, SMEs might face with the failure and perhaps bankruptcy in the end. Basically, the primary concern in SME financial reporting generally relates to preparation and use of general purpose financial reports such as the statement of financial position, income statement, and the cash-flow statement.

There is considerable anecdotal evidence that, owner-managers of SMEs in Nigeria make considerably less use of standard financial reports, whether historical or future-oriented, in financial management of their businesses. Specifically, it is realistic to anticipate that the financial reporting practices found in SMEs in Nigeria may not accord with mandated, recommended or preferred practices in some or all of a number of specific respects; firstly, not all financial statements may be prepared in terms of statement of financial position, income statement and cash-flow statements as well as both historical and future-oriented reports should be prepared. Secondly, financial statements may not be prepared with sufficient detail with regards to generally accepted accounting principles and the specific requirements of applicable accounting standards. Thirdly, financial statements may be prepared irregularly and/or infrequently. Fourthly, financial statements may not be used appropriately with regards to routine analysis and interpreted using accepted techniques such as inspection of key figures, trend analysis, inter-firm comparisons and variance analysis. What these issues above suggest is that financial reporting practices in SMEs seem to fall well short of what is dictated by various external financial reporting imperatives that exist for them.

1.2 STATEMENT OF RESEARCH PROBLEM

Small and medium scale enterprises play a very important role both for economic agents and for ensuring

sustained growth for the economy. Therefore, the focus on SME's is reasonable and expected. However, the following issues have been identified and form important motivations for the study; Firstly, there is a very high rate of mortality for SME's in Nigeria (Ariyo,2005). There is an incidence of poor accounting standards within the SMEs. Simple records of financial transactions are not kept and this creates loopholes for fraud. Improper records of business transactions certainly limit accessibility to institutional credit. As stated earlier, a major reason for small business failure is poor or careless financial management (Hall and Young 1993). Poor record keeping, inefficient use of accounting information to support their financial decision-making and the low quality and reliability of financial data are part of the main problems in financial management concerns of SMEs. These shortcomings might be the cause of SME failure.

1.3 OBJECTIVE OF THE STUDY

The objective of this conceptual paper is to review extant literature on SME's in relation to financial reporting, identify basic financial reports needed by SME's and identify the provisions of IFRS in relation to financial reporting by SME's.

2. LITERATURE REVIEW

2.1. Small and Medium Scale Enterprises

Since the 1960s to date, small and medium sized enterprises (SMEs) have been given due recognitions especially

in the developed nations for playing very important roles towards fostering accelerated economic growth, development and stability within several economies. They make-up the largest proportion of businesses all over the world and play tremendous roles in employment generation, provision of goods and services, creating a better standard of living, as well as immensely contributing to the gross domestic products (GDPs) of many countries (OECD 2000). Over the last few decades, the contributions of the SMEs sector the development of the largest economies in the world have beamed the searchlight on the uniqueness of the SMEs (Al-Shaikh 1998). However, according to Arinaitwe (2006), it appears that considering the enormous potentials of the SMEs sector and despite the acknowledgement of its immense contribution to sustainable economic development, its performance still falls below expectation in many developing countries. This is because the sector in these developing countries has been bedeviled by several factors militating against its performance.

However, Loveman and Sengenberger (1990), Amadiou (1990), Koshiro (1990) and Marsden (1990) all point to the fact that there exist a degree of heterogeneity in the definition and conceptualization of SME. Studies undertaken by these scholars showed that the definitions tend to vary depending on the institutional or historical contexts. Consequently, various classification schemes have been employed in attempting to provide a clear-cut functional definition for SME. They include;

capital outlay, number of employees, sales turnover, fixed capital investment, available plant and machinery, market share and the level of development, these features equally varies from one country to the other. Depending on the institutional or historical contexts, major criteria for structuring SMEs sector are legal status (as in France), the ownership status (Hungary), the distribution between “craft” and “industrial” firms (Germany) or independent and subordinate firms (Japan), or small firms in industries where large enterprises dominate or where there is a mixed-size composition. Such structural variety within and across national boundaries will have to be taken into account when analyzing SMEs.

2.2 Definitions of Small and Medium Scale Enterprises In Nigeria

SMEs have been variously defined by many institutions in Nigeria and such definitions have regularly been revised from period to period. Each of these definitions has been defined on the basis of size of investment, annual turnover and number of employees. The institutions listed below gave their various definitions of SMEs relative to Medium Scale Enterprises (MSE), Small Scale Enterprises (SSE) and Micro Enterprises (ME). There is however no consensus in the definition.

The Federal Ministry of Industries sees SME’s as enterprises that have capital less than N200m and total employees less than 300. Whereas SSEs are regarded as companies with total assets

less than N50m and employees less than 100 and MEs are companies with less than 10 employees. According to the Central Bank (1998) Mediums scale enterprises are companies with operating assets less than N150m. annual turnover less than N150m and less than 300 employees. It regards small and medium scale enterprises as those companies with operating assets less than N10m with annual turnover less than N10m and less than 100 employees. The National Economic Reconstruction Fund (NERFUND) (2000) sees SME's as companies with operating assets less than N40m, with annual turnover less than N40m and with 3-35 employees.

2.3 Financial Reporting Practices in Small and Medium Enterprises

Despite the importance of financial reporting and analysis, it is unfortunate to find that these practices are often inadequate and lacking among SMEs. This rather limited usage of financial reports could be attributed to SMEs' inability to employ professional managers with functional specialization especially in the financial area due to their limited financial resources. Without adequate, effective and timely financial reports and analysis, the SMEs are losing out on the benefits from those practices such as improved monitoring of financial health and progress, improved ability to anticipate fortunes or failures, better assessments of financial risks and greater ease in financial planning and control.

According to Holmes (1991), most importantly, in the context of SMEs requiring extra capital to grow, regular financial reports can provide indications on their ability to produce steady cash flows and to service debt. It has been established that the use of appropriate financial reporting and management accounting practices could be one of the determinants of company survival particularly SMEs (Gorton, 1999; Holmes, 1991). Accounting information signals that decisions are needed, and provide information useful to making decisions (Gibson 1963) Accounting information is used to assess the profitability of alternative courses of action, measure performance, and evaluate the position of enterprises in term of profitability, liquidity, activity and leverage. It can be used to improve SME performance,

Basically, the primary concern in SME financial reporting generally relates to preparation and use of general purpose financial reports such as the balance sheet, the profit and loss statement, and the cash-flow statement. Taking a broad view of what should be included amongst financial reporting practices, both historical and future-oriented financial reporting could also be contemplated. In addition, financial reporting practices are seen as extending to the analysis and interpretation of historical financial statements. Finally, related matters such as financial systems used, undertaking financial audits, internal and external financial

advice available, and responsibility for financial decision-making are also considered.

2.3.1 Common Financial Statements to be prepared by SME's.

The four most common financial statements reported externally are the statement of financial position, income statement, statement of retained earnings, and statement of cash flows. Although derived from the same accounting records, each statement takes a somewhat different view of the well-being of a business. Taken in sum with past statements, they are tremendous sources of information relating to business operations. Each has a heading consisting of the name of the business organization, the name of the statement, and the end date of the period covered by the statement or the date that the report was prepared. Normally, these statements are prepared annually. Many businesses, however, compile them on an interim basis such as monthly or quarterly to make better use of their information. The following paragraphs describe each of these statements, its particular uses, and its interrelationships with the other statements.

1. STATEMENT OF FINANCIAL POSITION

The balance sheet is also known as the statement of financial position. It is a snapshot of a business's financial position on a particular date. The statement of financial position has two parts: the heading and the body. The body

has three sections: assets, liabilities, and stockholders' equity. The ordering of the elements in each section follows an established pattern. The first asset listed is always cash. Following cash are assets such as accounts receivable and supplies. They will be converted into cash or consumed in business operations in the near future. The last assets listed are more permanent such as land and equipment. Finally, the liabilities are always found above the stockholders' equity. Assets are defined as "economic resources owned by a business that are expected to benefit future operations." Assets may either be tangible or intangible. Tangible or physical assets include such things as buildings, cash, and office equipment. Intangible assets are often in the form of legal claims or rights. Patent rights are an example of this. Assets, despite of their form, are recorded at their original (historical) cost. This is called the cost principle (Martin, 1991).

Liabilities are the next section in the body of the statement of financial position. Liabilities are also commonly known as debts. Two liabilities are worth noting. Accounts payable is the liability created by the purchase of goods or services on credit. Notes payable arise from the borrowing of money to meet the business goals. The last section of the body of the balance sheet is owners' equity. If the business issues public stock, this section is called stockholders' equity. Owners' equity represents the funds invested by the owners. This is a residual amount since the claims of creditors must legally be

fully satisfied first. The accounting equation states that assets equal liabilities plus owners' equity. To clarify the meaning of owners' equity, it is often rewritten as owners' equity equals total assets minus liabilities. This emphasizes the point that owners' equity is a residual claim on the business' assets. Owners' equity can be increase either by funds invested by the owners or by profits from the business' operations. Conversely, owners' equity can only be decreased by distribution of assets to the owners or by losses incurred in the operation of the business (Martin,1991)

2. Income Statement

The income statement shows "the operating results of a business by matching the revenue earned during a given period with the expenses incurred in obtaining that revenue." The income statement views the organization over a period rather than on a specific date. This is necessary to understand a business's economic performance as represented by the term net income. The loss or gain in resources over a period is much more meaningful to decision makers than the loss or gain for a single day. The income statement is divided into revenue and expenses. "Revenue is the price of goods sold and services rendered during a given accounting period." Revenue can be separated on an income statement into many categories such as sales, interest earned, and fees earned. Revenues are recorded at the time the services are provided or goods sold to the customer rather than when the cash

payment is received. This is known as the realization principle that is another generally accepted accounting principle. Expenses, on the other hand, "are the cost of the goods and services used up in the process of earning revenue." They are, then, the costs associated with developing, producing, marketing, and selling a product. Expenses can be placed into many categories from employee salaries to depreciation of buildings. To determine net income accurately, all expenses must be offset by the revenues they produced. This is called the matching principle. There should be a cause and effect relationship between all expenses and revenues reported for a given period. Recording expenses is not based on when the cash payment was made. Rather, it is based on the period in which the expenditure produced or help a produce the revenue.

3. Statement of Cash Flows

The third common financial statement is the statement of cash flows. This statement builds upon the information contained in the previous statements. Though the balance sheet helps figure out solvency and the income statement helps determine profitability, users of this information also need to assess a business's ability to remain solvent. The basic purpose of the statement of cash flows is to provide information on the origin and amount of cash receipts and on the destination and amounts of cash payments. Cash is defined to include cash and cash equivalents. Cash equivalents are highly liquid, short term investments such as money market funds and Treasury

bills. The body of the statement of cash flows is divided into four parts. The first section, cash flows from operating activities, is of critical importance. A business that cannot raise funds from operations will be hard pressed to gain sufficient funds from investing and financing activities to remain solvent (Martin, 1991).

2.4. SME's and International Financial Reporting Standards (IFRS)

It was in 2001, that IASB formally started to develop accounting standards for the suitability of SMEs while keeping the emerging economies in focus. A discussion paper was designed for this purpose in 2004 with the title of Preliminary Views on Accounting Standards for Small and Medium-sized Entities and for this discussion paper comments were invited from around the world. Emphasis and proposal were directed to the core elements of accounting standards which are recognition, measurement, presentation and disclosure of financial information in financial reports. The first exposure draft of IFRS for SMEs was published by IASB in February 2007 with the aim to provide uncomplicated and easy to understand set of accounting principles for unlisted companies based on full IFRS. Based on this exposure draft field tests were conducted by IASB on a sample of 116 small firms from 20 different countries. On the basis of comments and reviews on exposure draft, and from the results of field tests the job for IASB was eased up in further enhancing and simplifying the

accounting standards for SMEs, and finally launching the official and final version of IFRS for SMEs on 9th July, 2009 (IASB, 2009). The IASB previously considered, in principle, full IFRSs as appropriate for all entities, but acknowledged at the same time the different user needs and cost consideration for SMEs. The IASB decided that its mission would permit it to extend its focus also to SMEs (IASB, 2004).

In July 2009 the International Accounting Standards Board (IASB) released a new accounting standard called the International Financial Reporting Standard for Small and Medium-Sized Entities, or IFRS for SMEs. It is intended for entities that publish General Purpose Financial Reports (GPFR), that are not large (to be decided by the standard setters of each country that adopts the standard) and are not “publicly accountable” - defined as not issuing public securities, and not holding funds in a fiduciary capacity for a wide group of people (IASB, 2009). The standard was created as an alternative to the full IFRS suite, which was created for the financial reporting of large, publicly accountable entities. It was produced from IFRS by removing some topics considered irrelevant to SMEs, and by reducing the accounting options available for reporting some items. There is opposition to this manner of creation, because the users and user needs of SME reports may be different to those of large, publicly accountable entities’ accounts, meaning that a standard created from full IFRS may have only limited relevance to SMEs (IASB, 2009).

There have been different arguments with regards to if Small and Medium scale enterprises (SME's) actually need to adopt international financial reporting standards (IFRS). Dixon, Thompson and McAllister (2002) argued that matters pertaining to large firms are not necessarily applicable to SMEs. In addition, the emphasis on global financial reporting standards due to international harmonization and business might not be a priority for SMEs because only a small percentage of the SME sector has a global focus. Mourik (2007) concluded that globalization and internationalization are products of multinational companies and SMEs involvement in globalization is often limited to those that engage in some form of exporting to economies that are geographically close to each other and culturally similar.

Nonetheless, the International Accounting Standards Board (IASB) developed a global accounting standard for use by the SME sector. In developing the IFRS for SMEs, one of the objectives was to develop, in the public interest, a single set of high quality, understandable and enforceable global accounting set of standards for the SME sector. The IASB (2007) was committed to take into account the special needs of SMEs and in deciding the content of the proposed IFRS for SMEs, the IASB focused on the types of transactions and other events and conditions typically encountered by SMEs with approximately 50 employees (IASB, 2007).

The IFRS for SME standards are generally based on the full-IFRS principles and framework. IASB has omitted certain topics or standards which are not relevant in financial reporting of SMEs", and in a way reducing both the number of standards and their complexities. The topics which have been omitted in IFRS for SMEs are: earnings per share as it is only required by the publicly accountable entities; interim financial reporting and segmental reporting have been skipped for SMEs; those assets which are termed as held-for-sale are treated in the same manner as other long-term assets for measuring their impairment and presentation (Munter, Anderson & Mellentine, 2009).

Price-Waterhouse-Coopers (PWC, 2012) provides in their publication "**Similarities and differences: A comparison of 'full IFRS' and IFRS for SMEs**" provides explanation with regards to the requirements of IFRS for SME's. The table below shows a presentation of the key requirements for SME financial reporting using IFRS.

Table 1: Some general information for IFRS for SMES and for non-SMES (Full IFRS)

Item	IFRS FOR SME	FULL IFRS
Components of financial statements	A set of financial statements comprises: (a) A statement of financial position. (b) A single statement of comprehensive income (including items of other comprehensive income),	Similar as IFRS for SMEs. The entity may use titles for the statements other than those used in the standard. In addition, management includes a statement of financial position as at the

	<p>or a separate income statement and a separate statement of comprehensive income. (c) A statement of changes in equity. (d) A statement of cash flows. (e) Notes comprising a summary of significant accounting policies and other explanatory information. Under certain circumstances, the statements under (b) and (c) may be combined into one statement of income and retained earnings. [IFRS for SMEs 3.17-3.18]</p>	<p>beginning of the earliest comparative period when an entity applies an accounting policy retrospectively or makes a retrospective restatement or when it reclassifies items in its financial statements. [IAS 1.10]</p>
Business combinations	<p>There is no prescribed balance sheet format. However, the following items are required to be presented on the face of the balance sheet as a minimum: Assets: Cash and cash equivalents, Trade and other receivables. Financial assets. Inventories. PPE. Current tax assets. Deferred tax assets. Liabilities and equity: Trade and other payables. Financial liabilities. Current tax liabilities. Deferred tax [IFRS for SMEs 4.2]</p>	<p>The following additional line items are required on the balance sheet: Total of assets classified as held for sale and assets included in disposal groups classified as held for sale. Liabilities included in disposal groups classified as held for sale. Only those investments that are to be accounted for using the equity method are presented as a line item. [IAS 1.54]</p>
(Combined)	A combined statement of	Not permitted

<p>statement of income and retained earning</p>	<p>income and retained earnings can be presented instead of both a statement of comprehensive income and a statement of changes in equity if the only changes to the equity of an entity during the period are a result of profit or loss, payment of dividends, correction of prior-period errors or changes in accounting policy. In addition to the line items required in the statement of comprehensive income, the following items are presented in the (combined) statement of income and retained earnings: [IFRS for SMEs 6.4, 6.5]</p>	
<p>Statement of cash flow</p>	<p>The cash flow statement presents the generation and use of cash by category (operating, investing and finance) over a specified period of time. Operating activities are the entity's principal revenue-producing activities. Investing activities are the acquisition and disposal of non-current assets (including business combinations) and investments. Financing activities are changes in the equity and borrowings.</p>	<p>Same as IFRS for SMEs. [IAS 7.10-7.17]</p>

	[IFRS for SMEs 7.1, 7.3, 7.4-7.6]	
Reporting cash flow from operating activities	Operating cash flows may be presented by using either the direct method (gross cash receipts and payments) or the indirect method (adjusting net profit or loss for non-operating and non-cash transactions, and for changes in working capital). Examples of non-cash transactions are acquisition of assets by means of a finance lease, or conversion of debt to equity. [IFRS for SMEs 7.7, 7.18-7.19]	Same as IFRS for SMEs; however, IFRS allows certain cash flows to be reported on a net basis. In addition, the direct method is encouraged. [IAS 7.18-7.20, 7.22]
Income taxes	A deferred tax asset is only recognised to the extent that it is probable that there will be sufficient future taxable profit to enable recovery of the deferred tax asset.	A valuation allowance is recognised so that the net carrying amount of the deferred tax asset equals the highest amount that is more likely than not to be recovered. The net carrying amount of deferred tax asset is likely to be the same between full IFRS and IFRS for SMEs.

Source: PWC, (2012)

2.5 Review of Prior Studies

A study involving more than 1,000 SMEs in Australia, found that majority of the respondents (85.7%) has a computer-based in-house general ledger accounting system (McMahon 1998). Larger enterprises tend to statistically use more of computer-based general ledger accounting system compared to smaller enterprises. Study examined private limited companies in the UK found that 57 per cent of the respondents had a computerised accounting system and 25 per cent had a partly computerised system suggesting moderate level of sophistication of accounting system (Collis and Jarvis 2002). Similarly other study found that SMEs that are concerned with procedural controls activities and use financial plan as part of their preparation for start-up are more likely to employ computerized accounting system (Gorton 1999). In addition to their internal accounting staff, SMEs often employ outside professionals to provide accounting advice. It has been found that the most frequently form of outsourced accounting services are for taxation purposes and preparation of accounting reports (Collis and Jarvis 2002, McMahon 1998).

Studies conducted in Nigeria and UK with a sample size of forty-five (45) questionnaires each between the UK and Nigeria and conducted two (2) Semi-structured interviews each between the UK and Nigeria. Out of the forty-five (45) questionnaires administered each in the UK and Nigeria, thirty five (35) was returned in the UK and thirty (30) returned from

Nigeria. The study conducted by having the variable that was measured with the question: “Do you agree that Poor Accounting and Book Keeping practices lead to SMEs failure in your country?” and the results showed that 68 percent and 57 percent of the respondents in the UK and Nigeria respectively agreed that it influenced SMEs failure. This reflects that in both countries, the respondents quite agree that poor accounting and book-keeping practices influenced SMEs failure (Kamla-Raj, 2009).

In Australia, there have been a large number of empirical studies conducted on SMEs such as (McMahon and Davies 1994), (McMahon 1998). These studies investigate the types of financial reports produced by SMEs, the frequency of their preparation and their perceived usefulness for management purposes. The findings indicate that financial reports for SMEs are prepared predominantly by external accountants at annual intervals, and they normally comprise just the balance sheet and the profit and loss statement. The content and presentation of financial reports appear to be greatly influenced by taxation and corporate statutory reporting requirements.

Based on a literature review on financial management practices of SMEs in North America, McMahon and Holmes (1991) concluded that “the state of knowledge about financial management and the exercise of financial controls and techniques remain inadequate in small businesses.” Study conducted on 200 manufacturing firms employing less than ten

people in the U.K. which provides evidence that only one third of business formally monitored profits and applied any form of budgeting (Nayak and Greenfield 1994).

Collis and Jarvis (2002) notes that small firms make greater use of cash-based management information and this points to the importance that owner-manager placed on controlling cash. A similar finding was found by Jarvis et al. (1996). The lesser use of published industry data, credit rating agency data and statutory accounts could be explained by their relevance more to larger companies as small firms tend to have more close and personal relationships with their customers. They further noted that small firms use the services of external accountant for the preparation of the annual statutory accounts.

Keasy and Short (1990) and Bohman and Boter (1984) report that small firms use professional accounting firms for preparation of annual reports and for other accounting needs. Marriot and Marriot (2000) argue that the professional accountants should develop their services to also include graphic presentations and comments and interpretation of the amounts in financial statements.

Everaert, Sarens, and Rommel (2006) and Jayabalan and Dorasamy (2009) however argue that the high cost of hiring professional accountants leaves SME owner-managers with no option but to relegate accounting information management. Zhou (2010) proposes the use of accounting

software by owner-managers in SMEs to improve accounting practices but laments that developers of accounting software are yet to produce the medium-sized software for SMEs.

Ingram, Guy, Merei and Justis, (1997), provide empirical data on the disclosure practices of small or closely held businesses in the US, by analyzing the unaudited financial statements of small businesses with which CPAs have been associated. The analysis of 169 statements shows a considerable number of inconsistencies with the disclosure requirements prescribed by GAAP that apply to both audited and unaudited financial statements of both large and small enterprises. The authors conclude that disclosure in the sampled financial statements is just as inadequate for items that are basic to fair presentation, such as alternative accounting procedures, as it is for items that may be irrelevant in most cases, such as earnings per share.

3. CONCLUSION

Basically, the primary concern in SME financial reporting generally relates to preparation and use of general purpose financial reports such as the balance sheet, the profit and loss statement, and the cash-flow statement. The Poor record keeping, inefficient use of accounting information to support their financial decision-making and the low quality and reliability of financial data are part of the main problems in financial management concerns of SMEs. The reality is that in the structure of the reporting terrain for SME's as

circumscribed within what may be considered as a continuum of motives for reporting. The owner-manager decisions regarding financial reporting are multifaceted which influences the extent of financial accounting practices adopted and there appear to be a variety of explanations for why this may be so. The study concludes that with the introduction of IFRS for SME's, the bar has been raised for SME's financial reporting. Hence there is an urgent need for capacity building especially for SME's to equip them with current expectations and the skills needed for effective reporting.

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