



## **The Challenges Small and Medium-Sized Entities Face in Adopting and Implementing International Financial Reporting Standards for Small and Medium-Sized Entities: A Case of Windhoek Central Business District**

Kamotho Daniel W.<sup>1</sup>, Kaudo P.K.<sup>1</sup>

<sup>1</sup> Namibia University of Science & Technology

**Abstract:** The study's objective was to identify the barriers preventing SMEs in Namibia from adopting and implementing IFRS for SMEs. The research employed a quantitative methodology. A questionnaire with closed-ended questions was utilized to obtain data from respondents. A sample of 169 respondents was drawn from 300 SMEs using a straightforward random sampling technique. The sample size was determined using the Slovin Formula. The study finds that SMEs in Namibia are not fully adopting IFRS for SMEs due to a lack of training, the inability to recruit professional accountants due to the high cost of doing so, the lack of experienced employees in SMEs, and the unwillingness of SME owners to reveal their financial transactions to third parties. The further study demonstrates that it is only possible to monitor SMEs' success if they fully embrace and execute IFRS for SMEs. This is due to the poor maintenance of accounting records, inadequate compilation of financial statements, and the use of inexperienced and underqualified employees in accounting. This report offers regulators and relevant stakeholders a foundation upon which to develop strategies for assisting SMEs to fully embrace and apply IFRS for SMEs for the benefit of the Namibian economy.

**Keywords:** IFRS, IFRS for SMEs, Small-Medium Enterprises (SMEs), Accounting standards, Reporting, Namibia

### **1. Introduction**

Small and Medium Enterprises (SMEs) are widely acknowledged as the economic growth engines and are the most thriving business community, especially in developing countries Nematiere (2016). Through job creation, political and social stability encouragement, entrepreneurship motivation, poverty alleviation, and income creation, SMEs have enormously benefited the economies of most countries (Ebogbue, 2016). Although SMEs are the drivers of growth, they usually face challenges in but not limited to financing and taxation issues mainly because of their inapt financial statements. These companies have an obligation to prepare sufficient financial statements and appropriate accounts to cater to users' needs and maintain stakeholders' assurance. The International Accounting Standards Board (IASB) developed a single set of accounting standards for SMEs. It ruled that various SMEs can apply to advance the understandability and comparability of financial articulations (IASB, 2018). Adoption of the International Financial Reporting Standards (IFRS) by SMEs remains a significant challenge across many developing countries, and Namibia is no different (Haufiku, 2017).

In 2009, the international accounting standards board (IASB) presented IFRS for SMEs (IASB, 2018). The main goal of IASB was to supply the SME segment with a bookkeeping system that is less costly and less complex than full IFRS. According to Ebogbue (2016), there is a need for substantial modifications to the financial reporting of SMEs. Nevertheless, challenges and willingness to adopt IFRS are significant factors influencing the quality of financial information by SMEs; for example, SMEs' financial statements need to be standardized, making it difficult to compare. In 2010 IFRS for SMEs was approved as a generally accepted accounting principle (GAAP) for SMEs by the Namibian Chartered Accountants Institute (ICAN) (ICAN, 2010). Although 86 countries, many developing countries, have

accepted or allowed the IFRS to be used in SMEs (Pais & Bonito, 2018). IFRS for SMEs is not being used in or is under review in 69 countries (IASB, 2018). Institutional factors exist in IFRS implementation for small and medium-sized enterprises (Haufiku, 2017). For instance, due to its contradictions with European Accounting Directive, the European Union continues to remain against its use of it (Pais & Bonito, 2018). Australia also expressed concerns about the complications of IFRS for SMEs and has not adopted the standard (Perera & Chand, 2015).

Before the issue of IFRS for SMEs, Namibian SMEs were using full IFRS in their reporting. According to Haufiku (2017), it became difficult for users to make informed judgments based on IFRS because drafting these reports needed to be consistent with the business operations of SMEs. Haufiku (2017) argues that this created difficulties for SMEs to obtain finance from financial institutions. When Namibia approved the IFRS for SMEs after its issue by the IASB, awareness campaigns were carried out advocating for adopting and implementing these standards. A local auditing firm still conducts training sessions for IFRS for SMEs to any interested parties. However, despite the awareness campaigns and training sessions, the responses still need to be higher from the targeted population. According to Haufiku (2017), SMEs in Namibia have a myriad of challenges that hinder them from fully adopting and implementing IFRS for SMEs. Therefore, this study investigated the challenges in adopting and implementing IFRS for SMEs in Namibia, Windhoek CBD area.

## **2. Literature Review**

### **2.1. Definition of SMEs**

Globally, SMEs' definitions prescribe financial reporting responsibilities. Regional or national classifications usually include quantitative criteria like workforce, income, assets, and other variables (IASB, 2015). According to the literature, SME definitions are only sometimes agreed upon. A single definition of a small or medium-sized business contains only some of the spectrum, and it could only be expected to encompass inequalities between enterprises in different industrial sectors or nations with varying development rates. Most size classifications are based on annual income, financial status, number of employees, or quantity of capital used (World Bank, 2017)

In Namibia, Haufiku (2017) defined a small and medium-sized business as "any small business participating in the trade of products and services." A small firm in Namibia is defined as having a net turnover between N\$0 and N\$10 million and employing one to 100 employees (MITSMED, 2020). The Ministry defines SMEs by the amount of capital deployed, the number of employees, and turnover (MITSMED Report, 2016). The study used MITSMED's definition of SMEs.

### **2.2. IFRS for SMEs**

Mandaza (2016) described IFRS as a standard accounting system introduced by the IASB for SMEs and private and non-government firms. IFRS for SMEs is an independent worldwide accounting and financial reporting standard for small and medium-sized institutions in numerous countries. IFRS for SMEs enhance financial reporting by simplifying the rules for SMEs while preserving international recognition. (IASB, 2020)

### **2.3. Full IFRS vs IFRS for SMEs**

According to Solanke et al. (2017), the development of IFRS for SMEs was mainly based on the fundamental theories and guidelines from the IASB framework and full IFRSs, with adjustments to account for SMEs' specific financial reporting needs and from a cost-benefit perspective. In preparing the IFRS for SMEs, the following modifications were done to full IFRS: some topics were eliminated, recognition and measurement simplifications were built, comparatively simple alternatives were included, simplified redrafting was done, and significant reductions on disclosures were made (IASB, 2016). Among the many variations between full IFRS and IFRS for SMEs is that the latter does not cover the following topics:

- Earnings per share
- Segment reporting
- Interim financial reporting
- Accounting for assets held for sale
- Insurance contracts

IFRS for SMEs includes a transition provision that permits exemptions the first time applying IFRS (ACCA, 2018). The requirements include exemptions for impracticability and repeating the opening statement balances of the financial position (ACCA, 2018). Under IFRS for SMEs, goodwill is amortized and only assessed for impairment if a prompting event occurs, rather than being subjected to a complete impairment test every year. When using IFRS for small businesses, development costs are expensed, while, under full IFRS, they are capitalized, amongst other simplifications made.

#### **2.4. Challenges for Adopting and Implementing IFRS for SMEs**

According to Gebhardt (2016), professional accountants with a reputation, such as chartered or financial accountants certified by the Namibia Institute of Professional Accountants (NIPA), charge SMEs substantial accounting and audit fees. According to Rudzani (2016), one of the obstacles SMEs have in effectively implementing IFRS for SMEs in producing their accounting records is the need for sufficient accounting education and training to equip the accountants with vital technical skills before applying the standard.

Unlike the four significant accounting firms' players (Deloitte, KPMG, Price Waterhouse Coopers, and Ernst & Young), non-big Four firms typically need more expertise, global networks, and necessary professionals to help them shift to international standards. As a result, we conclude that non-big Four firms experience too many difficulties compared to Big 4 firms in adopting IFRS for SMEs (Ezeagba, 2017).

Furthermore, IASB stated that huge costs would be incurred whenever there is a need to adopt a reporting framework for the first time (Barya, 2017). Such costs are typically a barrier to emerging economies' adoption of IFRS for SMEs. While accountancy bodies could carry the expenses of conveying the standards and providing mentorship and academic support to its stakeholders, SMEs may face considerable costs in revamping and upgrading information systems, staff training, and professional and legal fees, among others (Barya, 2017).

#### **2.5. Previous Empirical Studies**

In South Africa, Rudzani and Charles (2016) found that 67% of South African SMEs had adopted IFRS SMEs but had yet to implement the guidelines thoroughly. They found that the failure to implement IFRSs in most organizations was attributable to unawareness, inadequate accounting knowledge and training, and difficulty acquiring necessary resources, notably technology. Since SMEs are start-ups, they cannot make significant expenditures in financial statement equipment or software. Therefore, they invest in business operations.

Rudzani and Charles (2016) also found that most SMEs prepare financial statements due to taxation and finance issues. SME owners believe adequate financial reporting will reveal their healthy worth. They fear their activities will be jeopardized, and the government will closely monitor them to ensure they declare accurate income and pay accurate taxes. Rudzani and Charles (2016) suggested reducing IFRS complexity in SMEs by offering online resources, conducting awareness campaigns, and teaching IFRS in secondary schools.

In Ghana, Mawutor, Williams, and Oduwaa (2019) studied SMEs in Madina, East Ghana, and found that only some have adopted IFRS for SMEs. The majority of SMEs in the country need to be made aware of IFRS for SMEs, according to the study, and therefore, SMEs cannot use the recommendations' solutions for adopting IFRS for SMEs. The results indicate that IFRS for SMEs standard provides no worldwide advantage support as envisaged by the IASB's goal of allowing SMEs to get global competitive capital as a distant goal. The study also finds that SMEs are challenged by the high cost of implementation and lack of competent staff to use IFRS for SMEs, supporting the widely held belief that there is a dearth of qualified accountants and other financial management specialists in the country, with the few available charging exorbitant fees. The research also observes that SMEs anticipate government entities to adopt rules to help them implement the standard, even if no such effort is ongoing. Mawutor et al. (2019) argued that the study's conclusions could be erroneous since a limited sample size influenced the results, coupled with an unclear description of SMEs in Ghana.

Further, Arhin, Perprem, and Hulede (2017) examined the adoption and application of IFRS for SMEs in Ghana's Kumasi Metropolis. They found that adoption and implementation were appallingly low, but accounting record-keeping was more significant. Their findings also reveal that the central adoption and implementation issues observed by SMEs that have already adopted the standard need more skill sets and technical know-how on IFRS for SMEs due to a lack of awareness

development and education by regulatory and professional bodies. Arhin et al. (2017) proposed that the government engage with the Institute of Chartered Accountants-Ghana to educate SMEs' management and accounts clerks on financial accounting. The association should teach SMEs IFRS accounting basics. They suggested that professional bodies must begin educating SMEs about the need to retain financial records, which will help equip SMEs with the necessary knowledge and skills for preparing financial records in accordance with IFRS for SMEs and reduce the additional cost of outsourcing professional accountants from consulting firms, thereby increasing the adoption and implementation of IFRS for SMEs.

In Turkey, Kilic, Uyar, and Ataman (2016) studied Turkish SMEs' readiness to adopt IFRS for SMEs. This Turkey-wide study found that SMEs need to prepare to use IFRSs. Kilic et al. (2016) said business size, independent audit, and accounting department existence affected SMEs' willingness to adopt and execute IFRSs in Turkey. In Kenya, Chege & Muturi (2016) found that education and training affected IFRS for SMEs in Thika, Kenya, through inadequate management skills. They found that preparers and users of financial statements must have the technical capacity to implement IFRS for SMEs. According to Chege & Muturi (2016), the high fees registered accountants and auditors demand to make it difficult for SMEs to implement IFRS. SMEs only recruit experts if they can afford accountants. Instead, they hire ordinary bookkeepers to fill the gap, contributing to IFRS implementation issues for SMEs. Chege & Muturi (2016) concluded that this was not universal, as IFRS implementation for SMEs depended on various factors beyond the scope of their analysis. They suggested training SMEs' finance managers. Governments should invest in SMEs by offering education and training to employ unemployed youngsters. The study indicated that awareness of IFRS for SMEs is low, which affects implementation. Policymakers in Kenya can arrange seminars to raise awareness of IFRS for SMEs.

In Zimbabwe, Nematiere (2016) investigated SMEs' adoption of IFRS in Zimbabwe. The author found that SMEs' most significant difficulty is not knowing about standards. Other obstacles identified in the study include a lack of appropriate skills and training, failure to identify managers from owners, and excessive training costs. The study also found that accounting regulators needed to make more efforts to investigate the barriers SMEs face when implementing IFRS in Zimbabwe. Nematiere (2016) suggested renaming IFRS for SMEs to IFRS for Non-Public Interest Entities to overcome adoption issues. SMEs are called small, yet they consider themselves big players in the business and want to be seen as such. The researcher suggests that SMEs train their personnel in accounting so they understand financial reporting. The study further observed that SMEs could not retain financial records and advocated incorporating IFRS for SMEs into university education curricula as graduates will be bookkeepers, managers, accountants, and sometimes SME owners.

## 2.6. Conceptual Framework

This study constructs the conceptual framework by selecting the independent variables identified by the above empirical studies. This study aligns with the conceptual framework depicted in Figure 1 below.

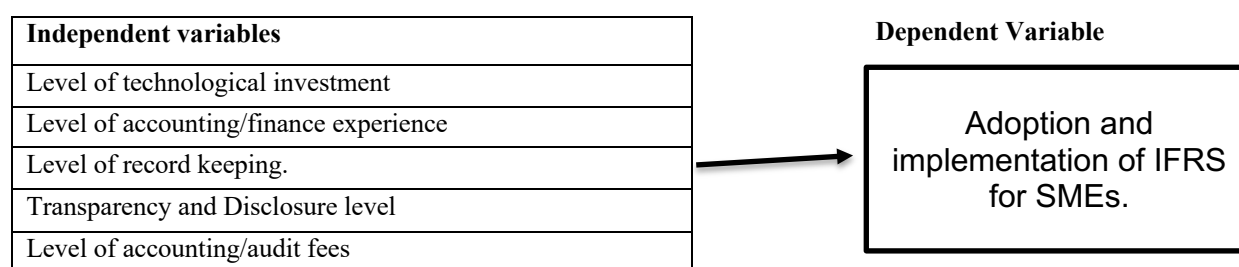


Figure 1: Conceptual Framework

## 3. Methodology

### 3.1. Research Design

This study utilized a quantitative method influenced by a positivist stance to emphasize the difficulties of adopting IFRS for SME financial statement preparers. The quantitative research design allowed the researcher to collect data with a closed-ended questionnaire and interpret it numerically for statistical analysis and conclusions (Chege & Muturi, 2016). This research design allowed the researcher to quickly generalize or apply data to SMEs in different areas (for instance, the same findings in the tourism sector SMEs can be used in SMEs that are in any other economic sector)

### **3.2. Population**

This study included 300 tourism SMEs in Windhoek CBD registered with the Namibia Tourism Board (NTB) (NTB Report, 2020). Tourism contributes 10-16% of Namibia's GDP, second only to mining (NTB Report, 2021). Most companies in this industry are SMEs, whereas large corporations dominate the mining sector.

### **3.3. Data Sources**

Primary and secondary data were utilized to investigate IFRS adoption and implementation problems for SMEs. Primary data is obtained from participants using surveys, interviews, or observations (Saunders, Lewis, and Thornhill, 2019). This study used a closed-ended questionnaire to acquire data from primary sources. This data was used because it provided answers to the problems SMEs in Namibia encounter when adopting and implementing IFRS for SMEs.

Additionally, secondary data was used. This data comes from the Ministry of Industrialization, trade, SME Development, IASB, journals, and Internet sources. Secondary data created conclusions, comparisons, and analyses against this study's findings.

### **3.4. Sampling Procedure**

Beck and Polit (2017) define sampling as selecting a representative subset of a population to determine its characteristics or traits. They argue that sampling can be probability or non-probability. Every population element has an equal chance of being selected in probability sampling. Random, stratified, and systematic sampling are probability methods. Non-probability sampling chooses population representatives non-randomly—convenience, judgment, quota, and snow bow sampling. Given time, resources, and cost constraints, sampling is the most practical way to study large populations.

This study used a random sample since it is easier than stratified sampling. Simple random sampling was used to reduce bias. The study identified 169 tourism-related SMEs using simple random selection. These offered research data. Slovin's Formula calculated the sample size. Slovin's Formula calculates random samples.  $n=N/(1+Ne^2)$

n = sample count (169)

N=population (300)

e = error margin (5%)

### **3.5. Data Collection Tools**

Data collecting tools are used to gather study data, according to Saunders et al. (2019). The study employed a structured, closed-ended questionnaire in this investigation. These are repeated questions that respondents must answer. Because of the large sample size, the researcher utilized a structured, closed-ended questionnaire. The questionnaire was prepared using google forms to ease administration costs and for convenience and adapted questions from previous studies elsewhere for the Namibian SMEs.

### **3.6. Data Collection Procedure**

A survey collected primary source data using a closed-ended questionnaire. A close-ended questionnaire was used since it was easy to generate objective responses, which suited the quantitative research approach of this study. To distribute the questionnaire, the researcher used google forms, where it was created. The link was emailed to chosen respondents over WhatsApp using NTB's database. This procedure is quick, and respondents got the questionnaire on time. Due to the current global pandemic of Corona Virus, where human interaction is restricted to prevent virus spread, electronic distribution was the best option.

Online services save money and time. No travel, printing, or stationery charges or special software is needed. Reaching a more vast audience quickly is another benefit. Also, participants can think about their answers without the researcher's influence, and data security is guaranteed as only the researcher will use it.

One hundred sixty-nine questionnaires were sent to responders. Respondents were called to confirm receipt of the questionnaire link. Electronic questionnaire responses were automatically collected through google forms when participants responded.

### 3.7. Validity and Reliability

According to Creswell et al. (2017), a questionnaire's validity is how well it assesses what it is supposed to. How well the study's findings meet the research goals. In this study, construct validity was ensured. The questionnaire was distributed to research unit members and data professionals. Their job was to validate the survey. The experts advised questionnaire changes to improve validity. The experts' corrections were made.

Beck and Polit (2017) say reliability assesses questionnaire uniformity. Cronbach's alpha was used to determine questionnaire reliability.

**Table 1:** Cronbach's alpha test

Reliability Statistics	
Cronbach's Alpha	No. of Items
0.711	10

*Source: Author's illustration*

Pilot research tested the questionnaire's consistency. Cronbach's alpha of 0.711 in Table 1 indicates the questionnaire's dependability. Beck and Polit (2017) consider 0.70 to 0.90 optimal.

## 4. Findings

The data extracted from the questionnaires was captured in SPSS ver to aid in the data analysis to draw conclusions and make recommendations in line with the study objectives, the literature reviewed, and providing answers to the research questions. The outcomes aimed to comprehend the difficulties encountered by SMEs in adopting and implementing IFRS for SMEs in Namibia. Findings were presented in the form of graphs and tables. Quantitative methods were used in the analysis.

### 4.1. Level of Education

The researcher asked the participants about their level of education. The findings are summarized in Table 2 below.

**Table 2:** Educational level

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2	2.2	2.2	2.2
Bachelor's degree	30	33.7	33.7	36.0
National Diploma	26	29.2	29.2	65.2
Post-graduate	16	18.0	18.0	83.1
Secondary school education	15	16.9	16.9	100.0
Total	89	100.0	100.0	

*Source: Authors' illustration*

The researcher asked the participants about their level of education. The findings are summarized in Table 2 below. Table 2 above reveals that 33.7% of respondents hold a bachelor's degree. 29.2% of responders hold a national diploma, and 18% have post-graduate degrees. Only 16.9% of respondents have a secondary education. More people with formal qualifications run SMEs, as demonstrated in the table. Shikongo (2018) discovered that despite having bachelor's degrees, only some SME employees or those who work for larger companies with better pay continue beyond that. In line with Mawutor et al. (2019), SMEs usually attract young university graduates with more theoretical than practical knowledge. SMEs' ability to adopt and apply IFRS for SMEs is therefore affected.

## 4.2. Work Experience

The researcher asked about the work experience of participants. The findings are summarized in Table 3 below.

**Table 3:** Working experience

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2	2.2	2.2	2.2
Below one	37	41.6	41.6	43.8
1 to 3 years	19	21.3	21.3	65.1
4 to 6 years	5	5.6	5.6	70.7
7 to 9 years	10	11.2	11.2	81.9
Ten and above	16	18.0	18.0	100.0
Total	89	100.0	100.0	

Source: Authors' illustration

From Table 3 above, 41.6% of respondents had less than one year of work experience, and 21.3% had 1 to 3 years. 5.6% have 4 to 6 years, 11.2% have 7 to 9 years, and 18% have ten or more. This shows that novices govern most SMEs. Chege & Muturi (2016) found that SMEs lose workers as they gain experience. As one gains experience, they are more likely to join larger companies with better pay. The SME must then hire a less-experienced worker. SMEs use general bookkeepers, often interns, to cover the gap, contributing to IFRS implementation issues for SMEs.

**Table 4:** Work Position

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	3	3.4	3.4	3.4
Intern	26	29.2	29.2	32.6
Junior Staff	27	30.3	30.3	62.9
Management staff	15	16.9	16.9	79.8
Others	7	7.9	7.9	87.6
Senior Staff	11	12.4	12.4	100.0
Total	89	100.0	100.0	

Source: Authors' illustration

## 4.3. Work Position

The researcher asked about the work positions of the participants. The findings regarding the work position of respondents are summarized in Table 4 below. The table shows SMEs have more junior personnel and interns. 30.3% are junior staff, and 29.2% are interns. 15% of the workforce is management, 12.4% is senior staff, and 7.9% are others. The data demonstrate that SMEs have more interns and junior personnel than other positions. These employees need more experience and are still learning to gain experience or qualify. Most interns are still in school, and recent graduates are paid less than market rates. Mawutor et al. (2019) discovered that the lack of competent employees to apply IFRS for SMEs and the fact that skilled specialists with many years of expertise in the business are very pricey contribute to the key factors contributing to the influence of IFRS for SMEs.

#### 4.4. Work Position

The researcher's findings on the operational period of SMEs are shown in Table 5 below.

**Table 5: Years in Operation**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2	2.2	2.2	2.2
1 to 3 years	27	30.3	30.3	32.6
Ten and above years	20	22.5	22.5	55.1
4 to 6 years	31	34.8	34.8	89.9
7 to 9 years	4	4.5	4.5	94.4
Less than a year	5	5.6	5.6	100.0
Total	89	100.0	100.0	

*Source: Authors' illustration*

Table 5 above shows that 5.6% of SMEs have been in business for less than a year, 30.3% for 1 to 3 years, and 34.8% for 4 to 6 years. 7.9 years is 4.5%, and 10+ is 22.5%. This indicates that most SMEs do not last long and should be examined in the future. This validates Shikongo's (2019) finding that SMEs fail due to high operational costs.

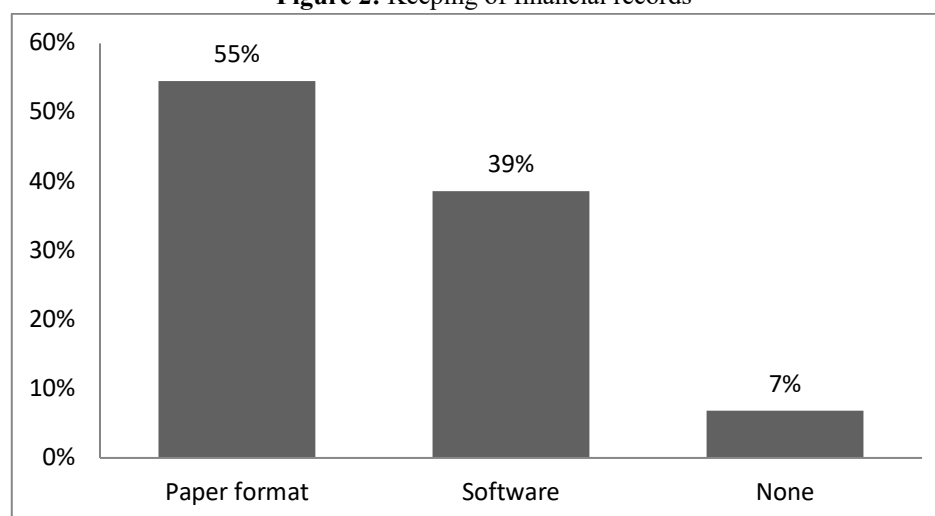
#### 4.5. Factors influencing IFRS for SMEs adoption

Section 2 of the questionnaire addressed variables that affect SME owners to embrace IFRS for SMEs. MCQs were utilized. Respondents could pick many answers. The results are as per the tables and graphs below.

##### 4.5.1. How Business Records are kept

The study asked how SMEs were keeping their financial records. The findings were summarized and presented in Figure 2 below:

**Figure 2: Keeping of financial records**



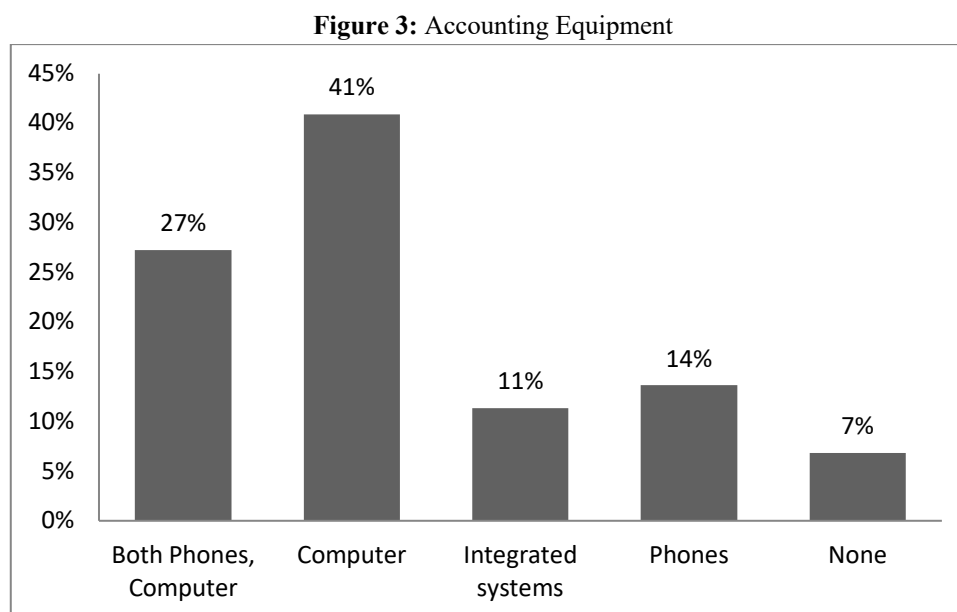
*Source: Authors' illustration*

The table above shows that 39% of SMEs use software (Pastel, QuickBooks) to keep records, while 55% use paper. 7% needed records. SMEs do not invest in technology that can store, generate, and analyze data records. Most SMEs keep their records on paper and do not utilize accounting software like Pastel. Rudzani & Charles (2016) found that SMEs need help acquiring the right resources, especially technology, which inhibits adopting and implementing of IFRS.



**4.5.2. Equipment**

Regarding which equipment SMEs use to prepare and store their financial records. The findings were summarized and presented in Figure 3 below:



Source: Authors' illustration

As shown above, 41% of companies use computers alone for accounting, 11% use integrated systems, 14% use phones only, and 27% use both. According to the study, 7% do not use any of the stated facilities and technology. Due to old-style bookkeeping and accounting, they may need help to adopt IFRS for SMEs. Rudzani & Charles (2016) found that SMEs need help acquiring the right resources, especially technology, which inhibits adopting and implementing of IFRS.

**4.5.3. Training**

The study asked participants if they had ever received training on applying IFRS for SMEs. The findings were summarized and presented in Table 6 below:

**Table 6: Training**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid				
No	4	4.5	4.5	4.5
Yes	54	60.7	60.7	65.2
Total	31	34.8	34.8	100.0
Total	89	100.0	100.0	

Source: Authors' illustration

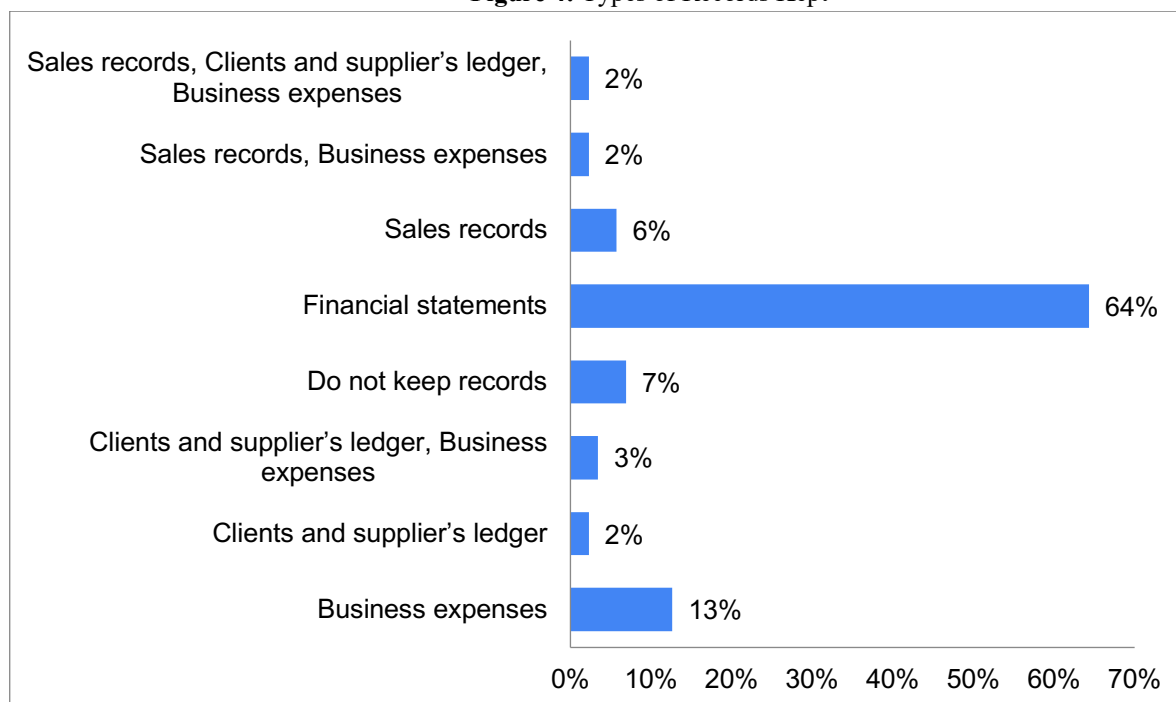
The table above shows that 60.7% of respondents did not receive training, while 34.8% did. This shows that SMEs recruit people who need more or give regular training. This is consistent with earlier studies that found training influences SME IFRS adoption. Arhin et al. (2017) and Chege & Muturi (2016) noted that SMEs need help to fully cover the training costs of their employees since the fees are costly. As a result, they find it challenging to adopt and apply IFRS for SMEs because their workforce will need to be trained on it.

## 4.6. Impact on SMEs' Performance

### 4.6.1. How Business Records are Kept

The researcher enquired about the type of records being kept by SMEs. The findings were summarized and presented in Figure 4.

**Figure 4: Types of Records Kept**

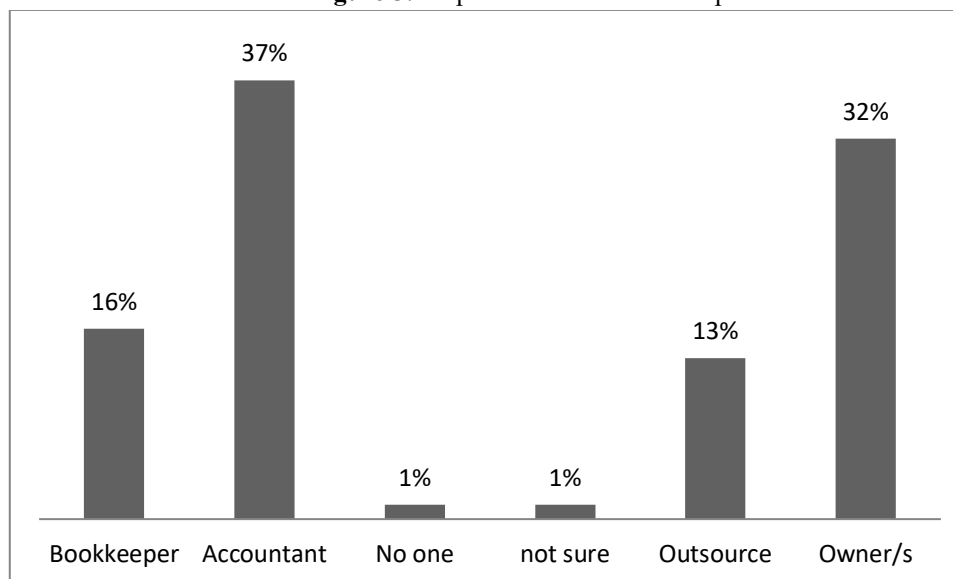


*Source: Authors' illustration*

2% of SMES keep sales, client & supplier, and business expense records, whereas the other 2% keep only the client & supplier ledger. 7% still need to keep records. Most SMEs in this area retain records. Contradicts Nematiere's (2016) findings and advice. Lack of training prevents SMEs from keeping adequate or comprehensive records, which hinders their adoption of IFRS. In this area, SMEs keep minimum financial statements for regulatory accreditation. This makes evaluating SMEs' performance difficult, which may lead to their failure. 13% keep only business expense records, 64% keep financial statement records, 12.4% business expenses, 6% sales records, 2% keep Sales.

### 4.6.2. Financial Reports Preparation

**Figure 5: Preparation of Financial Reports**



*Source: Authors' illustration*

The researcher asked participants who were responsible for preparing financial statements in their SMEs. The findings were summarized and presented in Figure 5 above.

16% of SMEs that create financial reports use bookkeepers, 37% have accountants, and 13% outsource accounting. Firm owners prepare 32% of financial statements; 2% are still determining. Nematiere (2016) said most SMEs' financial statements are created by outsiders or underqualified personnel. This complicates SMEs' performance evaluation. Chege & Muturi (2016) note that IFRS implementation for SMEs requires well-trained accountants. This improves SMEs' financial performance and reliability. When SMEs adopt IFRS for SMEs, performance may be easily monitored using benchmarks.

#### *4.6.3. Financial Reports Review*

The study participants had the responsibility to review financial statements in their SMEs. The findings were summarized and presented in Table 7 below:

**Table 1:** Financial Reports review

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	4	4.5	4.5	4.5
External qualified personnel	8	9.0	9.0	13.5
Finance director	1	1.1	1.1	14.6
Finance manager	1	1.1	1.1	15.7
Management	26	29.2	29.2	44.9
Owner/s	49	55.1	55.1	100.0
Total	89	100.0	100.0	

*Source: Authors' illustration*

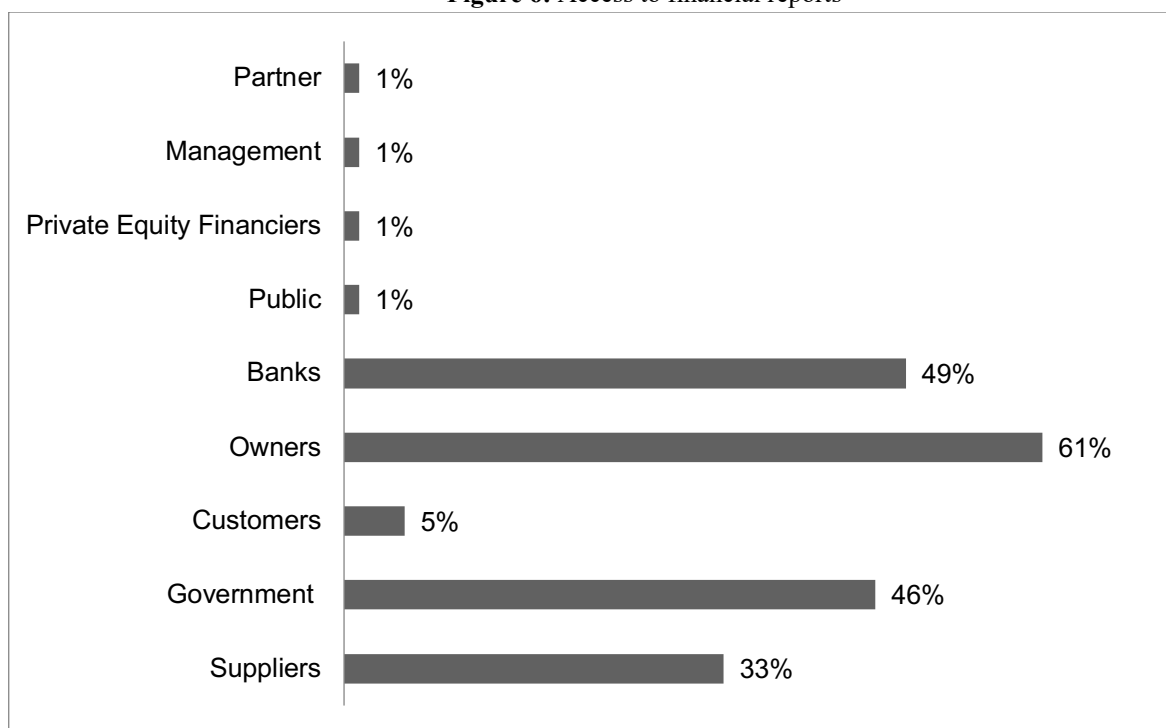
The study found that 9% of financial reports are evaluated by competent external personnel, 1.1% by the finance director or manager, 29.2% by management, and 55.1% by SME owners. Most SMEs do not use qualified accountants to review financial statements. This means SMEs need more qualified workers. 55% of SMEs rely on owners to review financials. This may impede the SME's performance analysis if the owner lacks accounting experience or has a divergent purpose. This agrees with Chege & Muturi (2016), who found that SMEs do not recruit professionals because they cannot afford accountants, which contributes to IFRS implementation issues for SMEs. Chege & Muturi (2016) note that a professional accountant or auditor must evaluate an SME's performance after adopting IFRS for SMEs.

#### *4.6.4. Access to Financial Reports*

33% of SMEs' suppliers have access to financial data, 46% of company owners have, and 5% of consumers do. 49% of SMEs offer banks and other lenders access to their financial reports, while the public, and private equity financiers, management, and partners each have 1%. Chege & Muturi (2016) note that SMEs must easily share stakeholders' financial information. The author says SME owners desire to keep their finances private. Nematiere (2016) found that SME owners always wish to keep their financial statements confidential, regardless of whether they have implemented IFRS for SMEs.

The researcher asked participants who had access to financial statements in their SMEs. The findings were summarized and presented in Figure 6 below:

**Figure 6:** Access to financial reports



*Source: Authors' illustration*

## 5. Conclusion and Recommendation

The study finds that Windhoek SMEs rarely adopt and implement IFRS. Similar to earlier studies, the findings show that SMEs need help adopting and implementing standards due to a lack of awareness, limited abilities, and technical know-how from insufficient training. High training costs and lack of ownership-management separation made it hard for SMEs to keep accurate accounting records. Diverse institutions rarely fund SMEs. Due to non-standardized financial accounts, SMEs cannot simply compare their efficiency and performance. Most SMEs need to learn about IFRS for SMEs and those who do have problems applying them. SMEs cannot access the standard's replies. SMEs need to gain IFRS knowledge. Lack of appropriate, sufficient skills and training, improper record keeping, lack of transparency, high costs of outsourcing or hiring experienced accountants, lack of isolation of managers and owners of the business, which prevents SMEs from preparing standard financial reports, and lack of investment in technology are also issues.

The study proposes the following to promote acceptance and application:

- ICAN and (PAAB) must provide cheap training and conferences to enhance awareness about keeping books of accounts and applying IFRS for SMEs. Professional institutions should provide soft or physical copies of IFRS for SMEs to directed organizations. Training and seminar providers must cut rates to attract more people. This will increase SME adoption of the standards.
- SMEs should send their employees to training or participate in CPD programs to ensure they have accounting knowledge and awareness. Most SMEs struggle with record keeping and recruiting interns and junior personnel since experienced professionals are too expensive. Small businesses need financial services from third parties, such as accounting firms, that keep up with evolving accounting standards and requirements and can apply them. SMEs must attend training like PWC's IFRS for SMEs to obtain knowledge. Accounting firms must not charge unreasonable costs for the seminar to encourage more participants, as doing so will lead to more SMEs adopting the standards.
- Organizations must detach control and ownership of business operations to ensure accountability and transparency and reduce management override of controls. It will also improve the interaction between the recipients (Owners) and the responsible party (Management) so that every time financial statements are prepared, management must conform to the accounting framework.
- IFRS for SMEs should be included in university curricula because graduate students will be hired as accounting professionals, management staff, and possibly as SME owners.

Despite Namibia being a middle-income country, Namibian SMEs need to catch up in financial reporting; according to the study's findings, SMEs' genuine worth may not be appropriately reported. The study further reveals SMEs' hurdles in adopting and implementing IFRS for SMEs, which should improve their performance reporting. The study's findings could be used to formulate a strategy to help SMEs in Namibia. Due to the limitation of this study, further research is needed on the impact of IFRS on Namibian SMEs in other areas. This is because the study focused on tourism SMEs. A qualitative study is needed to allow SME owners to communicate their feelings and attitudes towards IFRS openly.

## References

- Arhin, T., Perprem, A., & Hulede, A. (2017). The challenges of adoption and implementing ifrs for SMEs in Ghana: a case of SMEs in the Kumasi metropolis. *Research journal's journal of accounting*, 1-13.
- ACCA (2018). Companion guide for not-for-profits to the IFRS for SMEs. Retrieved from: [https://www.accaglobal.com/in/en/technical-activities/technical-resources\\_search/2018/october/the-global-smp-business-model-survey1.html](https://www.accaglobal.com/in/en/technical-activities/technical-resources_search/2018/october/the-global-smp-business-model-survey1.html) (3) (PDF) *The Problem of Training Specialists in the IFRS for SMEs*. Available from: [https://www.researchgate.net/publication/341540647\\_The\\_Problem\\_of\\_Training\\_Specialists\\_in\\_the\\_IFRS\\_for\\_SMEs](https://www.researchgate.net/publication/341540647_The_Problem_of_Training_Specialists_in_the_IFRS_for_SMEs) [accessed Oct 30, 2021].
- Barya H. (2017). Implementing IFRS for SMEs in Developing Countries, Afgan Economic Society, Volume 035 Bochum/Kabul. Retrieved from: <http://www.afghanecomonomicsociety.org/images/pdf/Bara.pdf> (3) (PDF) *The Problem of Training Specialists in the IFRS for SMEs*. Available from: [https://www.researchgate.net/publication/341540647\\_The\\_Problem\\_of\\_Training\\_Specialists\\_in\\_the\\_IFRS\\_for\\_SMEs](https://www.researchgate.net/publication/341540647_The_Problem_of_Training_Specialists_in_the_IFRS_for_SMEs) [accessed Nov 2, 2021].
- Chege, C. N. & Muturi, W. (2016). Factors Affecting the Implementation of International Financial Reporting Standards for Small and Medium Enterprises in Kenya: A Case Study of Small and Medium Enterprises in Thika Town International. *Journal of Management and Commerce Innovations*, 3(2).
- Creswell, J. W., & Creswell, J. D. (2017). *Research design: Qualitative, quantitative, and mixed methods approaches* (5<sup>th</sup> ed.) Sage Publications Inc.
- Ezeagba, C. (2017). Financial reporting in small and medium enterprises (SMEs) in Nigeria. Challenges and options. *International Journal of Academic Research in Accounting, Finance and Management Sciences*, 7(1), 1–10. *CrossRef*
- Ebogbue, C. (2016). Issues and Challenges in the Adoption of IFRS for SMEs in Nigeria.docx. Retrieved Nov 2, 2021, from [https://www.academia.edu/34147569/Issues\\_and\\_Challenges\\_in\\_the\\_Adoption\\_of\\_IFRS\\_for\\_SMEs\\_in\\_Nigeria\\_docx](https://www.academia.edu/34147569/Issues_and_Challenges_in_the_Adoption_of_IFRS_for_SMEs_in_Nigeria_docx)
- Haufiku, H. I. (2017). Constraints of financing small and medium enterprises in Namibia (Doctoral dissertation, University of Namibia).
- IASB (2018). Supporting materials for the IFRS for SMEs. Retrieved from: <https://www.ifrs.org/news-and-events/2018/04/new-supporting-materials-for-the-ifrs-for-smes-standard-available/> (3) (PDF) *The Problem of Training Specialists in the IFRS for SMEs*. Available from: [https://www.researchgate.net/publication/341540647\\_The\\_Problem\\_of\\_Training\\_Specialists\\_in\\_the\\_IFRS\\_for\\_SMEs](https://www.researchgate.net/publication/341540647_The_Problem_of_Training_Specialists_in_the_IFRS_for_SMEs) [accessed Sep 10, 2021].
- Kiliç, M., Uyar, A., & Ataman, B. (2016). Preparedness of the entities for the IFRS for SMEs: an emerging country case. *Journal of Accounting in Emerging Economies*. *CrossRef*
- Madhuri, S. (2016). An Effect of International Financial Reporting Standards (IFRS) in Small and Medium Enterprises (SMEs) and Comparison with Indian GAAP ELK Asia Pacific *Journals –Special Issue*.
- Mandaza, T. (2016). Effect of IFRS adoption on financial reporting quality of SMEs: a case of Harare CBD.
- Mawutor, J., Williams, S. and Oduwaa, M., 2019. Assessment of adopting and implementing IFRS for Small and Medium Scale Entities (SMEs). "A Study of Selected SMEs GA East of Ghana." *Asian Journal of Finance & Accounting*, 11(1), p.241. *CrossRef*
- Mukokoma, M. M. N., & NdyamubaTushabomwe-Kazooba, C. (2019). ENABLERS AND INHIBITORS OF IFRS FOR SMEs' ADOPTION IN UGANDA.
- Nematiere, M. (2016). An investigation into the challenges faced by small to medium enterprise operators when adopting and implementing IFRS for SMEs in Zimbabwe Retrieved Nov 2, 2021.

- Perera, D. & Chand, P. (2015). Issues in the adoption of international financial reporting standards (IFRS) for small and medium-sized enterprises (SMEs) *Advances in Accounting*,31(1). [CrossRef](#)
- Perera, D., Chand, P., & Mala, R. (2020). Confirmation bias in accounting judgments: the case for International Financial Reporting Standards for small and medium-sized enterprises. *Accounting & Finance*, 60(4), 4093-4119. [CrossRef](#)
- Pais, C. A. F., & Bonito, A. L. M. (2018). The macroeconomic determinants of the adoption of IFRS for SMEs: Los Determinantes macroeconómicos en la adopción de las IFRS para las pymes. *Revista de Contabilidad-Spanish Accounting Review*,21(2), 116-127. [CrossRef](#)
- Polit, D.F.& Beck, C.T. (2017). *Nursing Research: Generating and Assessing Evidence for Nursing Practice*, 10th Edition, Wolters Kluwer Health, Philadelphia, 784 p. [CrossRef](#)
- Rudzani, S., & Charles, M. D. (2016). An assessment of the challenges of adopting and implementing IFRS for SMEs in South Africa. *Problems and perspectives in management*, (14, Iss. 2 (cont. 1)), 212-221. [CrossRef](#)
- Saunders, M. N., Lewis, P, Bristow, A.& Thornhill, A. (2019). *Research Methods for Business Students: Understanding research philosophy and Approaches to theory development*. (8<sup>th</sup> ed) Harlow: Pearson Education.
- Valentinetti, D., Rea, M. A., & Basile, C. (2016). Differences between national reporting practices and IFRS for SMEs presentation and disclosure requirements: Evidence from Italy. *International Journal of Accounting and Financial Reporting*, 6(2), 146-174. [CrossRef](#)