

**International Financial Reporting Standards for Small, Medium and Enterprises
(IFRS for SMEs) and the quality of financial reporting: Some evidence
from the Limpopo Province**

by

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ABSTRACT

Small and Medium-sized Enterprises (SMEs) play a vital role in the South African economy. South Africa's Companies Act (71 of 2008) requires companies to follow either full International Financial Reporting Standards (IFRS) or IFRS for SMEs. IFRS for SMEs was introduced by the International Accounting Standards Board (IASB) in 2009 as an alternative framework for eligible entities, offering an option instead of the complete set of IFRSs. Despite the introduction of IFRS for SMEs, there has been no comprehensive examination of its impact on the financial reporting quality (FRQ) of SMEs in South Africa. This study aimed to provide in-depth insights into the quality of financial reporting by SMEs in the Limpopo Province since the adoption of IFRS for SMEs in South Africa.

The study sampled twenty accounting firms, selecting five from each municipality to handle Annual Financial Statements (AFS) for five SMEs each, resulting in a total of 100 SMEs. Since there is no universally agreed-upon metric for assessing FRQ, the study used three previously employed measures and an aggregate measure. This approach served two purposes: firstly, to account for all facets of FRQ as a single proxy might fall short, and secondly, to enhance the generalisability of our findings.

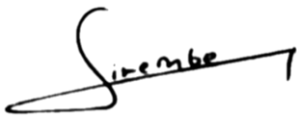
Ordinary Least Square (OLS) Regression analysis was employed to investigate the period post-IFRS for SMEs adoption. This investigation spanned two periods: the initial five years (2010-2014) and the last five years (2015-2019), with the objective of assessing whether FRQ improved over time. Several models were examined using linear regression to analyse the relationship between independent and dependent variables. The analysis was conducted using STATA 15 software. The study's findings offer evidence that precise accrual recording and the adoption of IFRS for SMEs have positively impacted the financial reporting quality of SMEs, leading to increased earnings levels and improved accounting conservatism. Furthermore, the findings accentuate the importance of adhering to accrual accounting principles and embracing standardised reporting practices for SMEs, as these contribute to the overall credibility and utility of financial information for stakeholders. This study offers valuable insights to accounting standard-setting bodies, professional associations, SME accountants,

owners, investors, and academics, enhancing their understanding of IFRS for SMEs' impact on SME financial reporting quality.

Keywords: Financial Reporting Quality, SMEs, earnings management, timely loss recognition.

DECLARATION

I, **Sirembe Ndivhuwo**, affirm that this Master of Commerce in Accounting dissertation, which I am submitting to the faculty of Commerce, Law, and Management at the University of Venda, has not been previously presented, either partially or entirely, for academic assessment leading to any academic degree, either at this institution or any other tertiary institution. I have independently authored this dissertation, and I have duly acknowledged all the reference materials included herein.



Sirembe Ndivhuwo
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Date

DEDICATION

This dissertation is sincerely dedicated to my dear mum, Ms. Mbedzi M.E. Thanks for your prayers, support, and constant love. Always know that no one can ever take your place in my life.

“All that I am or ever hope to be, I owe to Mother”.

(Abraham Lincoln)

ACKNOWLEDGEMENTS

The results of this investigation do not solely mirror the achievements of the researcher, nor do they stand as a symbol of personal acclaim. Rather, they embody the culmination of collaborative endeavours from a multitude of committed individuals. I convey appreciation to the subsequent individuals:

- The Divine Creator, for bestowing upon me the chance to embark on this academic journey and for offering the direction and fortitude that empowered me to triumphantly finish it.
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- My daughter, RendaYehova, who has been a constant source of support and motivation throughout this journey. Your resilience and determination have motivated me to lead by example, never giving up regardless of the challenges we face.
- My supervisor, Prof. V Moyo, and Co-supervisor, Prof. E.K Oseifuah. I extend my deepest appreciation for your unwavering support at every stage of this endeavour. Even during moments when self-doubt prevailed, your belief in me propelled me forward.
- My mentors, Prof. F Munzhelele, Dr. A Reynolds, and Mr. O Sinthumule, for the invaluable insights and guidance you provided throughout the dissertation process.
- The SMEs Accounting and Auditing firms that granted me permission to conduct my study.

Your collective contributions and unwavering support have been instrumental in bringing this study to fruition. Thank you all.



(Thank you! May the good Lord bless you all)

LIST OF ABBREVIATION AND ACRONYMS

IASB -International Accounting Standards Board

IFRIC -International Financial Reporting Interpretation Committee

IFRS -International Financial Reporting Standards

SAICA -South Africa Institute of Chartered Accountants

SMEs -Small and Medium Enterprises

FRQ -Financial Reporting Quality

AFS -Audited Financial Statement

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CHAPTER ONE: INTRODUCTION

1.1. Background

In contemporary business landscapes, most enterprises currently classified under corporate majors once operated as small and medium-sized enterprises (SMEs) in their earlier stages. The SME sector is universally acknowledged as a pivotal driving force in the economies of both developed and emerging nations (Hasseldine et al., 2012). Within the context of South Africa, SMEs constitute more than 98 percent of business entities, offering employment to 50 to 60 percent of the nation's workforce across diverse sectors and contributing to private sector job creation, accounting for a quarter of overall growth (Kalidas, Magwentshu and Rajagopaul, 2020). Hence, SMEs fulfill an essential function within the economic framework of South Africa.

Notably, the term 'small and medium-sized entities' encompasses distinct connotations within various authorities. Regarding the IFRS for SMEs, this term pertains to organisations without "a public accountability requirement that generate general-purpose financial statements for external parties" (IASB, 2009:10). Importantly, all entities bear a measure of accountability, primarily to their proprietors and local tax authorities. Public accountability, as defined, extends to entities engaged in or seeking participation in public securities markets or those primarily involved in holding assets in a fiduciary capacity. Consequently, this classification hinges on an entity's intrinsic nature rather than its scale.

The significance of maintaining high-quality accounting records cannot be overstated. Thorough and precise record-keeping empowers a business to appraise its assets, liabilities, income, and expenditures accurately. Recent times have witnessed a call from numerous stakeholders for comprehensive and relevant disclosure of financial information. As posited by Wömpener and Köhrmann (2012), accurate financial reporting not only facilitates the evaluation of company performance but also fosters transparency. One of the principal challenges confronting SMEs at their inception or during expansion phases is access to financial resources (Sanders, Lindberg and Seifert, 2013). A fundamental impediment preventing SMEs from accessing funds is the dearth of accounting proficiency needed to produce high-quality financial statements (O'Neil and Rajaram, 2009). Effective accounting and the production of high-quality financial statements alleviate information asymmetries within SMEs,

resulting in increased financial accessibility and reduced capital costs (Chand et al., 2015). To secure external investments, Small and Medium-sized Enterprises (SMEs) ought to follow rigorous financial reporting guidelines, like those set forth by the International Accounting Standards Board (IASB).

The IFRS for SMEs project began in 2003, under the guidance of the IASB, and the first version of IFRS for SMEs was officially published on July 9, 2009. This framework was conceived as an alternative to the comprehensive set of IFRSs to meet the unique reporting requirements of eligible entities within the SME sector. South Africa took a pioneering step by adopting the IFRS for SMEs on August 14, 2009 (Deloitte, 2010). Subsequent modifications were introduced, culminating in an updated IFRS for SMEs published in May 2015. The obligatory implementation of this revised standard started for reporting periods beginning on or after January 1, 2017, with the possibility of adopting it earlier. These changes were introduced in response to input received by the IASB during the initial thorough assessment, recognising that the IFRS for SMEs was still a relatively new standard. When compared to the original IFRS for SMEs, the updated version includes only minor adjustments.

IFRS for SMEs comprises a streamlined set of accounting regulations tailored for smaller enterprises, commonly referred to as SMEs. It is based on the full IFRS accounting principles but has been made easier for SMEs by removing some complex accounting treatments, getting rid of topics and disclosure requirements that do not apply to SMEs, simplifying how “assets”, “liabilities”, “income”, and “expenses” are recognised as well as measured (reducing the complexity by over 90% compared to full IFRS), and making the language clear and easy to understand. The standard also limits updates to once every three years.

This standard is organised by topic to make it user-friendly for people who prepare and use financial statements for SMEs. In cases where a transaction falls outside the scope of IFRS for SMEs, management is required to exercise their discretion in determining the appropriate accounting treatment. If the transaction is addressed by the complete IFRS, management has the option to consult that standard, but it is not obligatory.

The IFRS Foundation’s goal is to create a consistent set of high-quality financial reporting standards, which are easy to comprehend, and universally embraced, all for

the benefit of the public. These standards are intended to offer transparent and consistent financial data in financial reports, assisting investors and other participants in financial markets in making informed economic choices. Introducing IFRS for SMEs aims to achieve objectives like making financial statements more comparable, increasing confidence in financial reporting for SME users, and reducing the costs associated with national reporting standards.

The International Accounting Standards Board (IASB) does not give a precise definition of Financial Reporting Quality (FRQ). However, the Financial Accounting Standards Board Statement of Financial Accounting Concepts No. 1 (2010:9) states that “one of the main goals of financial reporting is to assist investors in making informed investment decisions and evaluating a company’s expected cash flows.” FRQ is often described as how accurately financial reporting conveys information to investors, especially about anticipated cash flows. The assessment of financial reporting quality depends on how effectively it satisfies the information requirements of its stakeholders.

It is important to stress that financial reporting achieves high standard when it demonstrates three essential qualities: transparency, comprehensive disclosure, and comparability (Mousa and Desoky, 2014). “Transparency pertains to the disclosure of information about events, transactions, judgments, and estimates, enabling users to understand the consequences and implications of the decisions, judgments, and estimates made by preparers” (Mousa and Desoky, 2014:23). Comprehensive disclosure entails furnishing all essential information for “sound decision-making, while comparability guarantees that similar transactions are consistently recorded”, both across various organisations and in a historical context (Barton and Waymire, 2014:117).

According to Paul (2008:78), one of the benefits of implementing IFRS for SMEs is that “SMEs can benefit from global standards. Implementing high-quality, globally recognised financial reporting standards consistently can be advantageous to investors, lenders, and other capital providers”.

According to Benyasrisawat and Khanagha (2011:44), “financial reporting quality (FRQ) is influenced by high-quality accounting standards and their appropriate enforcement”. According to a report by the Financial Reporting Council in June 2015,

investors in SMEs consider financial reporting quality as a critical factor in making investment choices. In contrast, directors of SMEs often regard financial reporting as a mere regulatory obligation. Exceptional financial reporting supplies analysts with valuable data for evaluating a company's performance and future potential, while subpar financial reporting consists of information that is incorrect, deceptive, or incomplete.

While FRQ have been extensively studied in large public companies (Healy and Wahlen, 2014; Dechow et al., 2015), the same topic in SMEs has long been neglected. The scarcity of research on the financial reporting quality of SMEs can be attributed to two primary factors. Firstly, there was and, in many cases, there still is a lack of public financial information on SMEs because they are not always required to file or render public their financial information (Ball and Shivakumar, 2015; Coppens and Peek, 2015). Secondly, due to their smaller size and private status, SMEs have a smaller number of financial statement users (MacMahon, 2010; Evans et al., 2015; Maingot and Zeghal, 2016; Son et al., 2016; Sian and Roberts, 2013; Rennie and Senkow, 2014), which renders the agency problem less pronounced in this context.

Furthermore, from a corporate governance perspective, the agency problem in SMEs can be different from public companies, because in this context, ownership and management are overlapping or in a strong relationship (Jensen and Meckling, 2015; Fama and Jensen, 2016) and firms are controlled by insiders, such as family members (Goplan and Jayaraman, 2012), who usually have a major or total control over the company. For a private firm, “capital providers and other stakeholders have greater insider access to relevant information and therefore presumably rely less on financial reporting” (Hope, 2011:131). Therefore, the unavailability of financial information restricts the ability to measure SMEs’ financial information quality with the traditional measures used in the mainstream literature on FRQ (Healy and Wahlen, 2014; Dechow et al., 2010). Moreover, the lower relevance of the agency problem may alter the traditional motivations and constraints for the manipulation of financial information, to the detriment of the FRQ (Ball and Shivakumar, 2015).

Prior research has employed various methodologies to assess Financial Reporting Quality (FRQ). Most studies have relied on three principal metrics for FRQ evaluation, specifically “value relevance”, “timely loss recognition”, and “earnings management”.

These metrics are deemed valuable as they furnish pertinent “financial information to stakeholders, particularly users within the equity market” (Ahmed et al., 2013:67)

Paglietti (2010) defines earnings management as the deliberate manipulation of financial information by management with the intention to provide stakeholders with inaccurate information regarding the company’s financial status, potentially affecting their compensation. Furthermore, he posits that accounting information of higher quality is characterised by reduced levels of earnings management. Conversely, value relevance research endeavours to examine the connection between accounting data and market values of capital (Khanagha, 2011). “A higher quality of accounting information, in this context, is associated with a strong relationship between earnings and returns” (Mousa and Desoky, 2014:67). Timely loss recognition, as defined by Outa (2011), pertains to a firm’s capability to promptly acknowledge losses as they occur, refraining from practices that defer losses to future periods. Coelho et al. (2017) contend that recognising incurred losses in earnings more promptly enhances the informativeness of financial reporting for investors and decision-makers.

Before adopting IFRS for SMEs, early studies demonstrated that management engaged in behaviours such as violating debt covenants through the maintenance of working capital (Sweeney, 2010). Additionally, Healy (2011) uncovered instances where management employed systematic accrual accounting policies to report higher net income, presumably in pursuit of higher bonuses. Local research (Hattingh, 2011; Cleminson and Rabin, 2012; Van Wyk, 2012; Wells, 2015) indicated that adhering to the previously accepted South African Generally Accepted Accounting Practice and IFRS standards outweighed the benefits for SMEs, a stance corroborated by research conducted through studies conducted by SAICA. This observation has received support at a global level, as demonstrated by research conducted by Maingot and Zeghal in 2006. Moreover, further studies have found that the time spent on adhering to regulations and the intricacies involved in compliance present substantial obstacles, possibly surpassing the actual financial burden of compliance, as highlighted by Stainbank’s research in 2008.

Studies concerning financial reporting quality predominantly focus on publicly traded firms. Yet, research on the financial reporting quality of SMEs is limited, even though these enterprises represent a significant portion of operational businesses in nearly all

nations. This disparity is evident in studies such as those by Ahmed et al. in 2013 and Jeanjean and Stolowy in 2008. The study conducted by Ongayi (2015) in Nigeria, in the early phases of IFRS engrossed the quality financial reporting system in SMEs. The results highlighted that the smaller the less the owners see the importance of keeping quality accounting records. The study conducted by Andrei Phillip (2014) in 34 European countries, focused financial reporting quality of SMEs and access to trade credit capital. The research also revealed that the connection between excellent financial information and trade credit is more pronounced when there is significant information imbalance and uncertainty regarding future cash flows, along with instances of credit being limited.

Jeanjean and Stolowy (2013) conducted a corresponding study in emerging economies, and their results show that improved financial statement quality reduces information disparities, resulting in banks offering reduced interest rates. In a separate investigation by Ahmed et al. in 2013, it was determined that the presence of a Board of Statutory Auditors, combined with a high level of leverage, could potentially enhance the quality of financial reporting (FRQ) in Small and Medium-sized Enterprises (SMEs). It is important to underscore that these studies were undertaken during the initial phases of implementing the International Financial Reporting Standards (IFRS) for SMEs. However, it is noteworthy that there is a significant dearth of research conducted in South Africa post the adoption of IFRS for SMEs, underscoring the necessity for further exploration. A substantial body of research indicates that accounting information quality often lags in less economically developed countries when compared to their more economically advanced counterparts.

Mohamed's (2019) study centered on investigating the perspectives of accounting practitioners ten years after the introduction of IFRS for SMEs. Conversely, Esaa's (2018) research aimed to assess whether the IASB's objectives for IFRS for SMEs, specifically its reduced complexity and enhanced cost-effectiveness, had been achieved. This study also examined whether the SME sector possessed the necessary understanding of financial reporting to effectively adopt IFRS for SMEs. It is important to underline that neither of these investigations aimed to evaluate the standard of financial reporting.

1.2. Problem statement

To the best of the researcher's knowledge, there have been no studies that have investigated the quality of financial reporting after the adoption of IFRS for SMEs in South Africa. While global research on financial reporting quality after IFRS for SMEs adoption have been conducted in developed countries like the UK, Turkey, and other European Union members (Ahmed et al. 2013; Andrei, 2013), the outcomes of these studies may not be directly applicable in an emerging nation like South Africa. This is due to differences in the qualifications and experience of accountants serving SMEs, especially in more rural regions like Limpopo.

Irvine and Lucas (2014) identified a lack of accounting education and training as a significant challenge for SMEs when they adopt accounting standards. Like many other developing countries, South Africa faces a severe shortage of technically skilled accountants and auditors capable of implementing IFRS, particularly at the SME level. Emerging economies often lack the resources required for the effective implementation of IFRS for SMEs (Chand et al., 2018). Furthermore, many of these emerging economies do not have established accounting systems of their own (Neag et al., 2009). Moreover, SMEs in developing nations frequently lack the support and guidance offered by professional organisations to ease their transition, in contrast to the situation in developed countries where SMEs enjoy the aid of numerous well-established professional bodies (Chand et al., 2015).

This research seeks to bridge the existing research gap by examining the quality of financial reporting in the SME sector following the adoption of IFRS for SMEs. The current study is particularly pertinent now, as a significant amount of time has passed since the standard's implementation. The investigation is focused on the Limpopo region due to its status as the second-lowest contributor to South Africa's GDP and its ranking as the second-smallest economy in the country for the year 2020/2021, as reported by the Limpopo Provincial Government. Consequently, Limpopo is recognised as one of South Africa's rural provinces. The primary objective of this research is to assess whether IFRS for SMEs has effectively reached intended goals of improving the standard of financial reporting in SMEs.

The consequences of the lack of quality financial reporting can be severe for small businesses. Without accurate and transparent financial reporting, businesses may

struggle to attract investors, secure loans, or even comply with legal and regulatory requirements. Poor financial reporting can lead to inefficient decision-making, and an inability to effectively plan for the future. Additionally, lacking quality financial reporting can damage a business's reputation and trust in the marketplace, leading to a loss of customers and potential partnerships. Overall, prioritizing quality in financial reporting is essential for small businesses to maintain their credibility, stability, and long-term success.

It is crucial for accounting standard-setting bodies like the IFRS Foundation, professional accounting organisations, accountants serving SMEs, SME owners, investors, and academics to gain insight into the impact of IFRS for SMEs on the quality of financial reporting in SMEs.

1.3. Purpose Statement

This study attempts to provide insights on the quality of financial reporting of SMEs in the Limpopo Province since South Africa adopted IFRS for SMEs in 2009. The findings of the study will assist in addition of knowledge about the impact of the IFRS for SMEs on the quality of financial reporting.

1.4. Objectives

The primary objective of this study was to investigate whether the adoption of IFRS for SMEs adds value to the financial reporting quality in the Limpopo Province.

This objective was achieved through:

- i. Investigating the Financial Reporting quality of SMEs, post the adoption of IFRS for SMEs.
- ii. Evaluating whether the Financial Reporting quality of SMEs improved over time.
- iii. Determining the extent of earning smoothing in SMEs post IFRS for SMEs implementation.
- iv. Determining the extent of accounting conservatism in SMEs post IFRS for SMEs implementation.

1.5. Research hypotheses

The hypotheses for the study were given as follows:

Hypothesis 1: Financial Reporting quality of SMEs improved post adoption of IFRS for SMEs.

Hypothesis 2: Financial Reporting quality of SMEs improved over time.

Hypothesis 3: SMEs levels of earnings smoothing has decline post IFRS for SMEs implementation.

Hypothesis 4: IFRS for SMEs standard increased accounting conservatism in SMEs.

1.6. Contribution of the study

Small and Medium-sized Enterprises (SMEs) hold a prominent position in the global economy, and the significance of the accounting information they furnish should be commensurate with their role. This research endeavour aims to contribute to the expansion of understanding regarding the quality of financial reporting among SME accountants, SME owners, investors, and academics. Additionally, it seeks to raise awareness among SMEs about the pivotal role of financial reporting quality in providing essential information for making informed investment decisions. Furthermore, this study may contribute to the assessment of the extent to which IFRS for SMEs has achieved its intended goal of enhancing financial reporting quality within the SME sector. Finally, it would serve as a reference document for future researchers who may be interested to embark on study of this nature.

1.7. Scope of the study

The research centered on evaluating FRQ of SMEs using the data collected from the audited AFS of the SMEs covering ten years post-IFRS for SMEs adoption, for which 5 years will be initial (2010-2014), and the last 5 years (2015-2019) to see if FRQ improved over time. While this study is confined to the Limpopo Province, its relevance extends to all other provinces throughout South Africa.

1.8. Outline of the study

The study is containing five chapters, with each chapter intended to achieve a specific objective as delineated in Table 1.1:

Table 1.1: Table of contents

Chapter	Content
1: Introduction	This chapter offers an overview of the conducted research, offering the study's contextual foundation. It delineates the issue under consideration, the research inquiry, research goals, and the study's valuable contributions. Additionally, the chapter acknowledges the constraints and boundaries of the research.
2: Literature review	This chapter delves into the prevailing body of literature concerning IFRS for SMEs and the financial reporting quality in the Small and Medium-sized Enterprise (SME) domain. It also pinpoints deficiencies in the existing literature.
3: Research methodology	In this chapter, the methodology used to achieve the study's objectives is outlined. It focuses on the research design, data collection methods, sample size determination, and the definition of the sample frame. Additionally, the statistical analysis techniques are detailed, and the hypotheses under examination are presented.
4: Research findings	This chapter is centered on the findings resulting from the conducted research. It offers an examination and discussion of the results obtained from the quantitative data analysis. These findings are critically assessed concerning the research goals and hypotheses formulated in Chapter 3.
5: Conclusion	The final chapter highlights the study's results in relation to its aims. It also recognises the study's

	constraints and provides suggestions for potential research directions in the field of IFRS for SMEs and SME financial reporting quality.
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1.9. Chapter Summary

This section serves as the introduction to the study, providing both a context and the rationale behind its execution. The significance of SMEs in the global economic landscape is underscored, highlighting the potential value that research in this domain can bring to the enhancement of the SME sector. The introduction of IFRS alleviates the complex and expensive financial reporting difficulties encountered by Small and Medium-sized Enterprises (SMEs). Consequently, this investigation seeks to determine the extent to which IFRS for SMEs has effectively achieved its objective of enhancing financial reporting quality within the SME sector. Subsequently, the following section conducts a comprehensive literature review to position the present study within the broader context of both local and international research endeavours.

CHAPTER TWO: LITERATURE REVIEW

2.1. Introduction

The introduction of IFRS for SMEs was driven by several objectives, including the enhancement of Financial Reporting Quality (FRQ) within the SME sector and the reduction of the financial reporting burdens encountered by SMEs, with an emphasis on the preparation of streamlined and cost-effective financial reports. IFRS for SMEs was officially implemented in 2009, underscoring the need to assess its effectiveness in achieving its intended goal of elevating the FRQ within SMEs. The subsequent literature review section will encompass a comprehensive exploration, including the definition of SMEs and FRQ, an examination of FRQ measurement techniques employed in accounting research, and an extensive review of studies pertaining to FRQ in SMEs. These studies are scrutinised in both pre- and post-IFRS for SMEs adoption contexts, commencing with developed nations, followed by emerging economies, and culminating with a focus on the Republic of South Africa (RSA).

2.2. Definition and Background of Small and Medium Sized Enterprises (SMEs)

In the context of international discourse, the recognition of the significance of both the Small and Medium-sized Enterprises (SME) sector and the informal sector is widespread. However, establishing a precise delineation of what constitutes an SME presents a formidable challenge, given that each country adheres to its own distinctive criteria. It is imperative to note that there exists no universally accepted global standard for SME classification (Hooi, 2016). SMEs exhibit substantial variations in their levels of capitalisation, sales turnover, and workforce size. Consequently, the utilisation of size-based metrics, such as the number of employees, revenue generation, profitability, and net assets, may yield divergent outcomes when applied across different sectors.

According to the United Nations Industrial Development Organisation (UNIDO), the definition of SMEs emerges as a pivotal concern in the formulation and execution of policies, and its exact delineation is contingent upon the intended purpose of such classification. In the context of policy formulation, UNIDO recommends that nations consider both quantitative and qualitative indicators when embarking on the task of SME classification.

In the South African context, a small enterprise is legally characterised by the Small Business Amendment Act as “an independent and separate business entity, including its branches and subsidiaries, if any, including cooperative enterprises. It is primarily engaged in any sector or subsector of the economy specified in column I of the schedule and classified as micro, very small, small, or medium enterprise based on the criteria outlined in columns 3, 4, and 5 of the Schedule” (The Republic of South Africa, 2004). These criteria encompass both quantitative and qualitative factors.

Quantitative factors include “parameters such as the total full-time equivalent of paid employees, total annual turnover, and total gross asset value, excluding fixed property” (Rajaram, 2008). There are qualitative factors as well, which include:

- **Ownership:** The business entity should be under the ownership of an individual or a limited group of individuals, and it should be overseen by the owner or have their direct and active involvement in its operational management.
- **Organisational Structure:** The structure of the organisation should be simple and devoid of complexity.
- **Liability:** The owner(s) should assume joint or several liability for any financial obligations accrued by the company.

In contrast, the International Accounting Standards Board (IASB) adopts a different approach to define SMEs. The IASB avoids employing quantitative attributes because they have the potential to foster inflationary tendencies, demanding frequent revisions. The central element in the IASB’s delineation of SMEs centers on the absence of public accountability. Public accountability, according to the IASB, pertains to an entity which either “files, or is in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market or holds assets in a fiduciary capacity for a broad group of outsiders, such as a bank, insurance entity, securities broker/dealer, pension fund, mutual fund, or investment banking entity” (Stainbank, 2008:23).

2.3. IFRS for SMEs

Upon the implementation of full IFRS, both financial statement preparers and standard setters (regulators) recognised the inherent complexity and high costs associated with SME compliance. Consequently, a distinct reporting framework was devised

specifically for the SME sector, primarily in acknowledgment of the financial and procedural burdens that regular IFRS standards imposed on SMEs (IFRS Foundation b, 2013). “In 2009, the International Accounting Standards Board (IASB) introduced the IFRS for SMEs in recognition of the worldwide agreement that national accounting standard setters required a uniform and high caliber set of accounting standards designed specifically for smaller businesses” (IFRS Foundation b, 2013:23).

In 2009, the International Accounting Standards Board (IASB) introduced the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs) with the specific aim of providing a simplified financial reporting framework tailored to the needs of SMEs (Ciubotariu, 2013). When an auditor issues an audit report for an entity that adopts IFRS for SMEs, the audit report explicitly labels the accounting framework as the “IFRS Standard for Small and Medium-sized Entities” (Stainbank, 2008). All entities falling within the scope of IFRS for SMEs, meaning those without a duty of public accountability, are eligible to apply this standard. Notably, on August 14, 2009, “South Africa became the first country to globally adopt the IFRS for SMEs, an issuance by the IASB dated July 9, 2009” (Deloitte, 2010: n.d). While companies listed on the Johannesburg Stock Exchange are obliged to adhere to full IFRSs, SMEs have the choice to select either full IFRS or the IFRS for SMEs framework.

2.4. Perceived benefits of the IFRS for SMEs Standards

SMEs are strongly encouraged to adhere to the IFRS as it enables the streamlined in preparing financial reports, thereby facilitating the realisation of long-term economic advantages (SAICA, 2014). These advantages encompass several critical aspects, including the provision of “high-quality financial reporting, enhancing the comparability of financial statements” to support globalisation and investment, adhering to internationally recognised standards to bolster “the reliability of financial statements for all stakeholders, and simplifying access to capital and loans-resources often essential for the expansion and growth of most SMEs” (Sava, Marza and Esanu, 2013:56).

IFRS for SMEs was expressly designed by the International Accounting Standards Board (IASB) to cater to the distinct financial reporting requirements of SMEs (Lubbe

et al., 2014). These unique needs revolve around the necessity for less intricate reporting standards, the utilisation of “cost-effective and time-efficient resources for financial accounting record preparation, and the presentation of pertinent and valuable information to stakeholders”, thereby facilitating researched decisions and improving comprehension (Sanders et al., 2013:34).

Hussein (2015) astutely observes that FRQ should not merely be assessed by the accuracy of record keeping but also by the effectiveness of financial reporting in meeting the information demands of both stakeholders. The greater the quality of financial reporting within the SME context, the more substantial the advantages accrue to investors and users of these financial reports. Furthermore, it is crucial to recognise that FRQ constitutes a comprehensive concept encompassing “not only financial data but also valuable non-financial information” that plays important part in informed decision-making (Herath and Albarqi, 2017:14).

2.5. Definition of Financial Report Quality

According to Ball et al. (2003), the concept FRQ is frequently addressed in academic literature, often indirectly through discussions of “information quality”. There seems not to be a universally accepted definition for FRQ as evident in the diverse definitions employed by researchers. Agienhohowa and Ilaboya (2018) remark on the complexity and ambiguity surrounding FRQ, resulting in conflicting debates within “the global financial reporting and accounting standard-setting arena”. In their observation, Mbobo and Ekpo (2016) report that there is either disagreement or a notable absence of a clear consensus regarding the definition of FRQ among researchers, practitioners, and regulators.

One potential factor contributing to this definitional challenge is the divergent objectives and information requirements of different financial report users. According to Mai (2013), the assessment of information quality is subjective, with users forming their own judgments about its quality. Consequently, early researchers have struggled to establish a universally explication for FRQ or a set of unequivocal quality evaluation criteria.

For example, Jonas Blanchet (2015) provides a definition of FRQ as including thorough and clear financial information that is meant to be straightforward and not

misleading for users. In contrast, the Financial Accounting Standards Board (FASB, 2012) describes FRQ as having attributes such as transparency, top-notch quality, internal coherence, a genuine and fair depiction, and trustworthiness. These attributes align with the favourable qualitative aspects of financial information, specifically relevance and faithfulness in representation, which are further improved by comparability, verifiability, timeliness, and comprehensibility.

The Chartered Financial Analyst Institute (CFA, 2019:23) defines FRQ as pertaining to a “firm’s financial reports, with adherence to generally accepted accounting principles (GAAP) in the jurisdiction of operation serving as the primary criterion”. However, compliance with GAAP alone does not ensure the highest-quality financial reporting, as high-quality reporting should furnish decision-useful information (Herath and Albarqi, 2017). It is evident from these definitions that researchers interpret and examine FRQ in a multifaceted manner, reflecting the complexity and varying perspectives inherent in this concept.

The IASB emphasizes that the cornerstone for assessing the quality of financial reporting hinges on the precision of the objectives and the quality of information revealed in a company’s financial statements. These qualitative characteristics enhance the ease of appraising the worth of financial reports, ultimately elevating their quality. To meet this standard, financial reports must accurately represent information, be comparable, verifiable, timely, and comprehensible. Hence, the focus is on generating transparent financial reports that provide accurate information to users without misleading them, while also recognizing the importance of accuracy and predictability as indicators of high financial reporting quality (FRQ) (Gajevszky, 2015).

Additionally, when defining FRQ, a crucial question emerges: “Does the concept of FRQ exclusively relate to financial data found within the financial statements, or does it encompass all information, both financial and non-financial, disclosed in the entire annual report?” It is important to note that annual reports encompass a wide range of information, spanning from financial to non-financial, and from quantitative to qualitative. In their pursuit of informed decision-making, users may draw upon various types of information, whether derived from the financial statements or the narrative sections of the reports.

The significance of financial statement information is magnified when it is examined in conjunction with and contextualised by the other narrative reports encompassed within annual reports. To illustrate, an investor interested in assessing the profitability of an entity for the purpose of buying or selling shares would logically scrutinise financial information pertaining to past and projected profitability. Simultaneously, they would scrutinise this financial data in conjunction with the entity's historical and prospective strategies, as well as the effectiveness of the governing board in implementing these strategies.

Therefore, when defining FRQ with an emphasis on its role in aiding decision-making, it becomes evident that the concept should cover not just financial data as well as non-financial data. Concerning practical terms, the financial reports are essential elements within annual reports, and their significance is closely linked to other narrative disclosures. Together, they provide a holistic view of the entity.

2.6. Elements of financial reports Quality

Prior research has investigated the practical application of Qualitative Characteristics (QC) in financial reporting (FRQ) from a qualitative perspective, as evidenced in a study by Beest et al. (2009). Notably, Jonas and Blanchet (2000) implemented QC by aligning them with the framework proposed by the Financial Accounting Standards Board (FASB) in 1980, while McDaniel et al. (2002) and Lee et al. (2002) based their operationalisation on the framework put forth by the International Accounting Standards Board (IASB) in 1989. In contrast, Beest et al. (2009) derived their interpretation of QC from the Exposure Draft (ED) released by the IASB in 2008.

These frameworks collectively delineate the QC of financial reports, encompassing attributes such as "relevance", "faithful representation", "understandability", "comparability", and "timeliness". Beest et al. (2009) further classified these attributes into two distinct categories: fundamental and enhancing QC. Within this framework, relevance and faithful representation constitute the fundamental QC, representing the core qualities that exert primary influence over information in the financial report. In contrast, "understandability", "comparability", "verifiability", and "timeliness" are designated as enhancing QC, contributing to the overall utility of financial information for decision-making.

It is important to underscore Beest et al., (2009) argument that the fundamental QC hold paramount significance and hold sway over the substance of financial reporting information. In the absence of a strong foundation in fundamental QC, the enhancing QC, while valuable, do not possess the capacity to singularly assess financial reporting quality (Beest et al., 2009).

2.6.1. Relevance

Relevance is intricately interwoven with the concepts of utility and materiality, serving as a manifestation of information's capacity to steer decision-making among its users. When the information encapsulated within financial reports exerts influence on the economic choices of users, it signifies the possession of the characteristic of relevance. Furthermore, when this information facilitates users in the appraisal, correction, and validation of both current and historical events, it embodies value within the realm of utility.

In decision-making, utility assumes a central role within the broader domain of relevance, harmonising with the tenets expounded in the theoretical frame (Cheung, Evans, Wright, 2010). Importantly, 'fair value' stands out as a highly salient benchmark of relevance. When an entity adopts fair value as the foundational basis for measurement, it conveys an elevated level of relevance within the realm of financial reporting information (Beest, Braam, and Boelens, 2013). Annual reports, through their disclosure of prospective insights, revelations regarding business prospects and risks, and the provision of insights into the repercussions of significant market events and transactions on entities, assume a pivotal position in shaping the extent of relevance (Beest, Braam and Boelens, 2012).

2.6.2. Faithful Representation

Faithful representation involves the core idea of faithfully and accurately depicting the true economic condition of the financial information being reported. This principle holds inherent value in elucidating the extent to which obligations, economic resources, including transactions and events, are faithfully depicted within financial reporting. Furthermore, faithfulness in representation encompasses the sub-notion of neutrality, emphasising objectivity and equilibrium in the reporting process. As noted by

Willekens (2013:56), “research findings have indicated that auditors' reports enhance the worth of financial reporting information by furnishing a reasonable assurance regarding the extent to which the annual report faithfully represents economic phenomena”.

Additionally, the fidelity of representation quality is influenced by the governance and direction of business organisations, particularly when “comprehensive disclosures pertaining to corporate governance issues are present in the annual report” (Beest, Braam and Boelens, 2012:12). Moreover, annual reports serve as a platform for elucidating assumptions, estimates, and the transparent articulation of accounting principles employed by the company. They also shed light on both positive and negative developments and events, discussing these aspects within the context of annual results. Another important element that strengthens this characteristic is the presence of an unqualified auditor’s report in the annual report.

Reliability, once regarded as the primary quality of accounting information, held a central position in the previous framework established by the FASB. In this framework, reliability encompassed representational faithfulness, neutrality, and verifiability as its key components. Nonetheless, in the new framework, faithful representation has been promoted to the primary and fundamental quality, surpassing reliability in importance. Furthermore, faithful representation now encompasses completeness, neutrality, and accuracy as its essential components. Nevertheless, FASB still considers reliability as one of the crucial aspects of accounting information (Downen, 2014).

2.6.3. Reliability

Reliability stands as a fundamental element in ascertaining the quality of financial reporting. In the realm of financial reporting, information must possess reliability to be deemed valuable. This attribute is attained when the information, upon which users rely, is devoid of bias and substantial errors. The evaluation of reliability hinges on the criteria of faithful representation, verifiability, and neutrality, as articulated by Cheung, Evans, and Wright (2010).

2.6.4. Comparability

Comparability is a core idea that allows users to make meaningful comparisons among financial statements, making it easier to evaluate an entity’s financial status, cash flow,

and performance. This ability to compare applies not only to different time periods but also to other companies operating in the same reporting period. As aptly noted by Cheung, Evans, and Wright (2010:45), “comparability necessitates that similar transactions in two distinct situations are reflected through congruent accounting facts and figures, while divergent events are portrayed with discrepant accounting facts and figures that quantitatively represent those distinctions in a manner conducive to facile interpretation”.

To emphasize this aspect, financial reports should carefully detail and explain any modifications in accounting policies, clarifying the consequences of these changes. Moreover, the significance of maintaining consistent application of accounting policies and principles should not be underestimated. Furthermore, it is imperative to enable the comparison of the current accounting period’s results with those from preceding periods. Lastly, the presentation of financial index numbers and ratios plays a pivotal role in facilitating comparisons with other organisations (Beest et al., 2012).

2.6.5. Understandability

Understandability stands as a fundamental imperative among the characteristics of data contained within reports on financials. Understandability hinges upon the adeptness of communication. Consequently, the greater the clarity with which information is comprehended by users, the higher the quality it attains, as observed by Cheung, Evans, and Wright (2010). This attribute constitutes one of the enhancing qualitative characteristics, and its enhancement is contingent on the clear and comprehensive presentation and classification of information. Well-organised annual reports play a pivotal role in ensuring that users can discern and meet their informational needs (Beest, Braam and Boelens, 2012). The thoughtful use of charts and tables helps in presenting information clearly, and using language without technical jargon allows users to follow and comprehend the content more easily.

2.6.6. Timeliness

Timeliness is another crucial qualitative characteristic that significantly enhances reporting quality. This underscores the significance of providing information to decision-makers in a timely manner, preventing it from becoming obsolete and less useful. When appraising the quality of reporting in an annual report, the evaluation of

timeliness relies on the period on the timeframe from the end of the fiscal year to the issuance of the report from the auditor, the number of days it takes for the auditor to finalise and approve the report after the conclusion of the financial year (Beest, Braam and Boelens, 2012).

2.7. Methods and models of measuring FRQ used in accounting research

There is a notable difference between a model, which functions as the mathematical representation of a theoretical framework, and a method, which refers to a systematic procedural approach. However, in the context of Financial Reporting Quality (FRQ) literature, these two terms are often used interchangeably. It is worth noting that there is no universally accepted metric for assessing FRQ, as emphasised by Dechow et al. (2010). Previous studies employ various measures of FRQ for several reasons. First, the exploration of FRQ in the context of private firms remains relatively uncharted territory, making it valuable to provide empirical evidence across multiple dimensions of FRQ (Dechow et al. 2010). Secondly, depending solely on a single proxy is unlikely to cover the full scope of FRQ, and using multiple proxies helps in generalising the research outcomes. Third, the adoption of alternative measures serves to mitigate the possibility that outcomes derived from one proxy may inadvertently capture factors other than FRQ, potentially confounding the interpretation of the results.

Within the realm of measuring FRQ, three distinct approaches emerge, which encompass accounting quality or earnings quality, as expounded by Chua, Chong, and Gould (2012). These approaches include earnings management (related to earnings quality), value relevance (associated with earnings quality), timely loss recognition or timeliness, and conditional conservatism.

2.7.1. Earnings management-based approach

Earnings management, as described by Schipper (1989), involves purposeful actions conducted in the external financial reporting process to secure personal gains. Accrual-based models employ the degree of earnings management as a substitute indicator for the quality of financial reporting (FRQ). One well-known example among the models frequently employed by researchers is the Jones model (1991), which has been applied by scholars like Gul et al. (2003), Dowdell and Krishnan (2004), and

Beneish (2001). This model considers quality reporting to be inversely related to earnings quality.

The Dechow and Dichev (2002) model, hereafter referred to as DD, is another prominent model that evaluates abnormal accruals by considering the discrepancies obtained from regressions involving working capital accruals and past, present, and future operating cash flows. Since its introduction, the DD model has solidified its position as a fundamental measure for assessing the quality of earnings, playing a central role in numerous research studies within the domains of accounting and finance.

Kothari and colleagues (2005) have presented ROA matched models that calculate discretionary accruals for datasets that include companies with diverse performance levels. Their objective is to minimize the likelihood of Type I errors. Nonetheless, it is noteworthy that many researchers employ such models for samples that are not skewed in terms of performance (Michael, 2011). The approach based on “discretionary accruals operate on the idea that accruals contribute to the richness of earnings information and has been widely employed in academic literature” (Biddle et al., 2009:35).

According to the “Earnings management-centered models” a company’s earnings, considered the most critical element in financial statements, reflect the quality of reporting. It is suggested that earnings management negatively affects the quality of financial reporting by reducing its usefulness in decision-making (Van Tendeloo and Vanstraelen, 2005).

The advantages of using discretionary accruals as an indicator of earnings management include the ability to observe how firm characteristics influence the “extent of earnings management and the relative ease of data collection and measurement” (Dechow, Sloan, and Sweeney, 2005:103). Consequently, according to Mbobo and Ekpo (2016), this approach is favored by numerous analysts when assessing a company's performance. Be that as it may, it is essential to note that “this model only provides an indirect measure of FRQ, and distinguishing between discretionary and non-discretionary accruals presents challenges” (Healy and Wahlen, 2009:11). Moreover, “earnings management methodologies emphasize the

importance of earnings quality rather than FRQ and do not consider non-financial information in the decision-making process” (Biddle et al., 2009:35).

2.7.2. Value relevance approach

Value relevance models delve into the correlation between stock performance and financial data disclosed in financial reports. The primary goal of this examination is to establish whether particular accounting metrics transmit insights that investors consider when assessing a company’s ownership stakes (Barth et al., 2001). Additionally, it seeks to explore the association between stock values and accounting parameters (Beaver, 2002). One notable set of models frequently employed in value relevance investigations is the Ohlson models (2009), which have found application in various studies spanning multiple domains. Notable examples of the Ohlson model’s use in the context of Financial Reporting Quality (FRQ) include Aboody et al. (2002), Burgstahler and Dichev (2007), and Yasas and Perera (2019).

In the value relevance approach, the stock price is considered reflective of the firm’s market value, while accounting figures represent the firm’s value derived from accounting data. Consequently, these models assess FRQ by examining the relationship between accounting data and stock market reactions. However, it’s important to note that “in the absence of a well-developed and efficient capital market, changes in accounting information may not perfectly align with shifts in the market value of companies” (Yasas and Perera, 2019:344). Additionally, the framework primarily adopts a perspective that focuses on the needs and interests of investors. While it provides insights into the economic significance of earnings figures, Mbobo and Ekpo (2016:35) further argue; “it does not differentiate between the relevance and reliability of reporting information, offering only an indirect measure of FRQ”.

Critics such as Beest et al. (2009) have raised concerns about both accrual models and value relevance models, primarily because they rely on variables that traditionally assess information found exclusively within financial statements. Beest et al. further argue that FRQ encompasses a broader range of factors, including the impact of information present in the sections of an annual report that do not pertain to financial matters. They assert that to comprehensively measure FRQ, such information should be integrated into these models to avoid biased results. Similarly, Abdullahi and

Abubakar (2017:445) point out that the value relevance and timely loss recognition approaches concentrate solely on the financial aspect of reporting quality while overlooking “non-financial attributes like understandability and comparability”.

Numerous prior investigations into Financial Reporting Quality (FRQ) have predominantly adopted a quantitative approach (e.g., Barth et al., 2008; Chen, Tang, Jiang and Lin, 2010; Dechow et al., 2010; Fox, Hannah, Helliar, and Veneziani, 2013). Brüggemann, Hitz, and Sellhorn (2013) have observed that the majority of these studies, relying on quality metrics sourced from commercial databases, frequently overlook the broader implications that extend beyond mere numerical aggregates. A critical constraint inherent in quantitative models lies in the challenge of distinguishing whether their outcomes are influenced by variations in financial reporting characteristics or, conversely, by shifts in the economic landscape or a firm's motivation structure.

2.7.3. Timely Loss Recognition

According to Outa (2011:45), timely loss is the “firm’s capacity to promptly acknowledge losses as they transpire, refraining from actions that postpone these losses to subsequent reporting periods”. In contrast, Ball et al. (2000) characterises timeliness as “the extent to which accounting income mirrors economic income”. Assessing timely recognition of losses can be accomplished using two measures. The initial measure focuses on the possibilities of reporting a substantial negative net income, referred to as LNEG. Enhanced Financial Reporting Quality (FRQ) is evident when significant losses are recognised in the financial statements “as they occur, rather than being postponed to future periods”, as explained by Zhou et al. (2009:123). In instances where earnings are smoothed by management, significant losses should be relatively infrequent. Consequently, a heightened frequency of timely loss recognition serves as an indicator of superior FRQ.

Previous research argues that the prompt acknowledgment of losses in accounting profits empowers lenders, shareholders, and boards of directors to identify unprofitable projects, thereby allowing them to compel managers to terminate such projects before substantial value erosion ensues. However, it is important to note that this hypothesis has yet to be empirically examined.

2.8. A review of studies on FRQ in SMEs

Research concerning financial reporting quality predominantly concentrates on publicly traded companies. In contrast, investigations into the financial reporting quality of small and medium-sized enterprises (SMEs) are infrequent, even though these businesses constitute a larger portion of operating enterprises in nearly all countries (Ahmed et al., 2013; Jeanjean and Stolowy, 2008). The limited number of studies on SMEs' FRQ can be attributed to two primary factors. Firstly, there was, and, in many cases, there is still a lack of public financial information on SMEs because they are not always required to file or render public their financial information (Ball and Shivakumar, 2015; Coppens and Peek, 2015).

Secondly, due to their smaller size and private status, SMEs have a smaller number of financial statement users (MacMahon, 2010; Evans et al., 2015; Maingot and Zeghal, 2016; Son et al., 2016; Sian and Roberts, 2013; Rennie and Senkow, 2014), which renders the agency problem less pronounced in this context. Furthermore, from a corporate governance perspective, the agency problem in SMEs can be different from public companies, because in this context, ownership and management are overlapping or in a strong relationship (Jensen and Meckling, 2015; Fama and Jensen, 2016) and firms are controlled by insiders, such as family members (La Porta et al., 2014; La Porta et al., 2012; Goplan and Jayaraman, 2012), who usually have a major or total control over the company.

Ahmed et al. (2013) found that the presence of a Board of Statutory Auditor, as well as a high level of leverage, can improve FRQ of SMEs. The study provided evidence the factors determining the FRQ of SMEs and advances the knowledge on the role of financial information of SMEs by significantly contributing to the limited research in this field. Bamidele et al. (2013) conducted research on the Financial Reporting Quality (FRQ) of small and medium-sized enterprises (SMEs) in Belgium following the implementation of IFRS for SMEs. They used accruals quality as an indicator of the quality of financial reports produced by SMEs. The study's findings revealed a negative relationship between the quality of SMEs' financial statements and their effective interest costs. Importantly, this result had significant economic implications.

These findings aligned with the notion that earnings play a vital role for creditors in predicting SMEs' ability to repay debts, which is tied to their future cash flows. Moreover, the study suggested that lower estimation errors in accruals improve the capacity of earnings to forecast future cash flows. Furthermore, the research indicated that companies with lower-quality financial reporting tended to rely more on trade credit. It is important to highlight that this research was carried out in the initial phases of the implementation of IFRS for SMEs.

Gajevszky (2005) conducted research on FRQ of SMEs in Nigeria before the implementation of IFRS for SMEs. The study identified several challenges that SMEs faced in preparing and presenting financial reports, including inadequate accounting books and records, limited manpower, deficient accounting systems, and the practice of conducting transactions outside the banking system. One of the study's recommendations was that professional accounting bodies in Nigeria, such as ICAN and ANAN, should encourage their members to provide pro bono professional services to SMEs in Nigeria, emphasizing the importance of maintaining proper books of account and preparing financial records.

Agienohuwa and Ilaboya et al. (2018) conducted a study on the adoption of IFRS for SMEs and its impact on FRQ in Nigeria. Their research aimed to assess changes in FRQ following the adoption of IFRS in Nigerian SMEs, using the qualitative characteristics of financial reports outlined in the IASB conceptual framework. The study's findings indicated a statistically significant improvement in the quality of financial reporting between the pre and post IFRS adoption periods in Nigerian SMEs. FRQ improved across all five qualitative characteristics examined, which include "relevance", "faithful representation", "comparability", "understandability", and "timeliness".

Mensah (2020) conducted a study on the effects of pre- and post-IFRS for SMEs adoption on the FRQ of listed manufacturing firms. The study used data from the audited annual reports of eleven SMEs, observing the period from 2006 to 2008 for the pre-adoption era and 2009 to 2014 for the post-adoption era. Earnings management, measured through modified Jones' discretionary accruals, served as a proxy for FRQ. The regression results revealed a significant negative effect of IFRS for SMEs adoption on earnings management, indicating an improvement in FRQ. The

study also found a decrease in earnings management practices in the post-adoption era compared to the pre-adoption era, indicating an enhancement in accounting quality after the adoption of IFRS. These findings suggested that the adoption of IFRS for SMEs improved the quality of financial reporting by SMEs in Ghana, which could enhance investor confidence and attract more capital.

Yurisandi et al. (2013) conducted a study that focused on Financial Reporting Quality (FRQ) both before and after the adoption of IFRS for SMEs. They used qualitative characteristics as a measurement. The study determined that the quality of financial reporting in SMEs exhibited enhancement following the adoption of IFRS for SMEs when compared to the period prior to its implementation. The results indicated an increase in the levels of qualitative characteristics such as relevance, understandability, and comparability following the adoption of IFRS for SMEs. However, there was a declining trend in the faithful representation level, and the timeliness level remained unchanged in the period before and after the adoption of IFRS for SMEs. In summary, the adoption of IFRS for SMEs led to an enhancement in the financial reporting quality of Indonesian SMEs.

Salah and Abdel-Salam (2019) conducted a study to assess whether financial reporting under IFRS for SMEs exhibited higher quality compared to full IFRS for Taiwan SMEs. They investigated various facets such as earnings management, characterized by efforts to achieve favourable earnings outcomes and the smoothing of earnings, prompt recognition of losses, as indicated by the asymmetric treatment of economic gains and losses and significant negative net income, and the significance of accounting information for valuation. The research revealed that SMEs that implemented IFRS for SMEs displayed reduced earnings smoothing. Nevertheless, there was no noteworthy disparity detected in either the timely recognition of losses or the relevance of accounting information for valuation when comparing the periods before and after the adoption of IFRS for SMEs.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1. Introduction

This chapter presents the methodological approach that was used to evaluate how IFRS for SMEs affects the standard of financial reporting in SMEs situated in the Vhembe District. This chapter covers the chosen research paradigm, research design, philosophical approach, research strategy, target population, as well as discussions on validity and reliability. In addition, the ethical considerations adhered to in primary quantitative research have been discussed. The research methodology explains the exact approach for selecting, identifying, processing, and analysing data in an efficient and effective manner (Basias and Pollalis, 2019). As a result, this section provides readers with the opportunity to critically evaluate the overall validity and trustworthiness of the study in terms of the research methodology employed.

3.2. Research Philosophies

Research philosophy consists of a system of convictions concerning the gathering, examination, and utilisation of evidence pertaining to phenomena (Heidi et al., 2021). The term “epistemology” encompasses various research approach philosophies, focusing on what is recognised as true, in contrast to “doxology”, which relates to what is believed to be true. Ryba and colleagues (2022) have distinguished four central research philosophies, namely the positivist, interpretivist, pragmatic, and realistic research philosophies.

i. **Positivist research philosophy**

The positivist research philosophy asserts that it is possible to objectively comprehend the social world (Irshaidat, 2022). Within this research paradigm, the researcher assumes the role of an impartial analyst, distancing themselves from personal beliefs and working independently. Consequently, positivism contends that only “empirical” knowledge acquired through observation (the senses), including measurement, is dependable. In positivist research, the researcher’s function is confined to the objective gathering and analysis of data (Iqbal and Skinner, 2021).

ii. **The pragmatist research philosophy**

The pragmatist research philosophy is fact-based (Kende, 2021). The philosophy asserts that the research challenge largely dictates the choice of the research approach. Furthermore, Allemang, et al., (2021) this research philosophy places a premium on practical outcomes. Thus, this enables pragmatic researchers to conduct research in novel and dynamic methods to solve research challenges.

iii. Interpretivism research philosophy

Interpretivism is a “social science method that believes that understanding the ideas, intentions, and reasoning of individuals in a social setting is necessary for deciphering the meaning of data that can be gathered about a phenomenon” (Nickerson, 2022:44). Subsequently, interpretivism employed both qualitative and quantitative approaches to study a phenomenon (Nickerson, 2022). However, they believe that there is no single correct way to knowledge, hence rejecting the notion that there is a single method that consistently reveals the truth of a phenomenon (Allemang, et al., 2021). As such, interpretive research methodologies differ from positivist methodologies in their emphasis on qualitative data and context-based analysis.

In line with the above philosophies, the study adopted the positivism philosophy. The positive approach emphasises the importance of employing quantitative methods, such as large-scale social surveys, to provide an overview of society and uncover general social tendencies, such as receiving a decent education and socioeconomic class. This strategy emphasises patterns and trends over specific individuals.

3.3. Research Methods

Three commonly employed metrics in prior research to gauge FRQ include timely loss recognition, earnings management, and value relevance. However, this study exclusively utilised timely loss recognition and earnings management to assess FRQ in SMEs, omitting the use of value relevance. These measures are chosen because data for all their variables can be obtained from the financial statements of SMEs. Value relevance as a measure of FRQ is inapplicable to SMEs as their share prices are not publicly available. The assessment of SMEs’ financial reporting quality after implementing IFRS for SMEs involved the application of methods for recognising losses in a timely manner and managing earnings. Measuring FRQ poses a challenging task, leading this study to adopt a methodology in line with Lang et al.

(2006), Barth et al. (2008), and Zhou et al. (2009), which employs a diverse set of FRQ measures. Lang et al. (2006) have highlighted the industry's influence on accruals, prompting us to account for industry-related effects on accounting data characteristics in this research. The subsequent section outlines the research design.

3.4. Research Design

A research design is a principal plan used to integrate the many components of a scientific investigation, ensuring that the research problem is properly addressed (Siedlecki, 2020). As a result, a research design outlines the procedures for data collecting and analysis quantitative (Kumar, 2018). This section focused on qualitative and quantitative research designs as they are commonly used in social sciences research. The last section presented the justification for the current study's selected design.

3.4.1. Qualitative research design

Qualitative research is described as a research approach that centers on acquiring information through open, conversational interactions (Turner and Hagstrom-Schmidt, 2022). One of the strengths of this approach is its capacity to yield precise insights into individuals' beliefs and motivations. With a skilled researcher, posing the appropriate questions can facilitate the collection of valuable data. Several methods can be used in qualitative research include grounded theory, ethnographic, and narrative research. historical, case studies and phenomenology.

3.4.2. Quantitative research design

Quantitative designs related with the positivism paradigm and applied behavioural analysis include single-subject experiments in which experimental treatment is provided over time to one individual or a small number of similar or different participants (Almeida, 2018). This type of research compares two or more groups based on a predetermined reason (or independent variable). Rather than conducting an experiment, researchers utilise correlational statistics to describe and assess the degree of link (or relationship) between two or more variables or sets of scores

(Creswell, 2012). Quantitative designs include surveys, descriptive, correlational, and experimental designs, which are all addressed in more depth below.

i. Experimental research

Experimental research is a scientific method of measuring the effectiveness of one or more factors on one or more dependent variables. Experimentation is used to test a treatment's efficacy (Pandey and Mishra, 2015). The researcher analyses this by giving one group a certain treatment while withholding it from another, and comparing the results later (Creswell and Hirose, 2019).

ii. Descriptive research

According to Doyle, McCabe, and Keogh (2019), descriptive research design “helps to provide answers to the questions of who, what, when, where, and how related with a specific study problem”. Descriptive research serves the purpose of depicting the “current state” of variables or conditions within a given scenario. It is a technique employed to portray the characteristics of a population or phenomenon (Doyle et al., 2019). In terms of the research subject, descriptive research focuses on the “what” rather than the “why” (Hunter et al., 2019). Finally, descriptive statistics include measurements of central tendency and variability.

iii. Correlational research

A correlational research strategy can examine relationships between variables because the researcher does not control or influence any of the variables (Alfalou and Brosseau, 2017). Uncertainty in one or more variables is indicated by a correlation, which is a mathematical expression (Myers, Well and Lorch, 2010). The direction of a correlation can be positive or negative, according to Alfalou and Brosseau (2021). Statistical patterns between two variables that appear to be associated are identified via correlative research. Seeing two variables in their natural state allows you to connect them (Myers et al., 2010). The correlational study can be done by naturalistic observation, survey, or archival research. “The Pearson correlation, Kendall rank correlation, Spearman correlation, and Point-Biserial correlation are all statistically significant relationships” (Creswell and Hirose, 2019:134).

Therefore, the appropriate research framework for this study is a descriptive research design, as it enables the gathering of both quantitative and qualitative data, allows for hypothesis formulation, and provides a substantial amount of valuable information to guide future research efforts.

3.5. Population, sample size and sampling Procedures

Population refers to a defined collection of items, or the objects utilised to collect the data (Kumar, 2018). Kankam (2019) emphasised the need for homogeneous people. So, the study population is the group from whom a sample is taken. A large population is often discovered, making research on the entire population impractical or impossible. In this study, SMEs located in Vhembe District are considered as the population of the study. Vhembe district is divided into four local municipalities namely Thulamela, Makhado, Musina, and Collins Chabane. The population for the study will be total accounting firms in the Vhembe District registered with either SAICA or SAIPA. The total SME's accounting firms as per SAICA and SAIPA register for 2021 for Vhembe District Municipality was 69 and their estimated clients (SMEs) that they audit are approximately 311 (SEDA, 2021).

3.5.1. Sampling procedure

Sampling involves choosing a pre-determined quantity of study subjects or observations from a larger population (Kankam, 2019). The two primary categories of sampling are probability and non-probability sampling methods.

3.5.1.1. Probability sampling

As defined by Kuma (2019), probability sampling is any approach used in the selection of sample size that makes use of some sort of random sampling to ensure that all units of the total population have equal chances or have an equal probability of selection. In mixed method techniques, there is an acknowledgment that quantitative data frequently involves random sampling, so that everyone has an equal chance of being selected and the sample can be extended to the larger population, as is done in scientific research (Cresswell, 2003).

i. Simple random sampling

Utilising randomness, this sampling approach ensures that each element in the population has an identical opportunity of being selected for inclusion in the sample (Lauren, 2020). As the name implies, simple random sampling is a method of selecting a random sample. This is the simplest probability sampling approach because it just requires one random choice and requires little prior knowledge of the population (Kumar and Chhparwal, 2020). As a result of the randomisation process, any study carried out on this sample should exhibit strong internal and external validity.

ii. Stratified random sampling

It is employed to partition a large population into non-overlapping, yet representative, subgroups (Kumar, 2019). Stratified random sampling divides the population into homogeneous groupings called strata. Stratified random sampling, according to Allan (2018), varies from simple random sampling, which includes selecting data from an entire population at random. Some stratification criteria, like income or residence, are utilised to categorise the population. Applied research studies can employ simple random sampling to choose items from each stratum to include in the sample group (Kumar and Chhparwal, 2020).

iii. Cluster sampling

Participants in cluster random sampling are all members of a cluster-sampled population. The distinctions between cluster sampling and cluster random sampling, as well as the definition, selection, and examples of cluster random samples explained. Random cluster sampling, on the other hand, is a method for picking distant individuals at random. Simple random sampling is the most basic form of sampling, according to Kumar and Chhparwal (2020). It is like drawing names from a hat (Lauren, 2020). As a result, researchers can use cluster sampling to select their subjects while still reaching a cross-section of the community. Lauren (2020) describes a cluster sample as a way of dividing a population into clusters. As a result, cluster sampling requires two characteristics: the groups must be mutually exclusive, with no single

person belonging to more than one, and the clusters must comprise all members of a population.

iv. Systematic sampling

Systematic sampling is “a type of probability sampling that selects members from a larger population at random intervals” (Aguinis and Solarino, 2019:41). When systematic sampling is performed, the *n*th object or participant is chosen. The study may choose the fifth individual in the poll. An estimate frame, but not the whole list (Allan, 2018). To determine the sample percent, each participant or object must be labelled.

3.5.2. Non-probability sampling

This is a method of selecting a sample size that does not require any computations and uses an unusual method of sample size selection. The researcher’s subjective judgment is used in this sort of sampling (Yin, 2015). This method does not rely on a random selection of population elements, so it is reliant on the researcher’s skill to pick sample elements (Auspurg *et al.*, 2020). The sampling outcome may be unjust to all elements of the population who are equally represented in the sample. Non-probability or non-random sampling is the name given to this kind of sampling. Non-probability sampling includes the approaches listed below.

i. Convenience Sampling

Convenience samples are chosen because they are readily available and thus handy (Lauren, 2020). This strategy is used in research when sample availability is expensive and limited. Samples are chosen based on their convenience to save money. Edgar and Manz (2017) define convenience sampling as selecting respondents “suitable” for the researcher’s needs. There is no pattern in how these respondents are recruited, as they can be approached in the street, in a public building, or at work (Lauren, 2020). Nonetheless, there is occasional confusion surrounding this concept, as some mistakenly associate it with random sampling, assuming that participants are chosen “randomly” or arbitrarily. Unlike the accurate definition of random sampling, which involves selecting individuals from a sampling

frame in a statistically impartial manner, a convenience sample is marked by a notable degree of bias stemming from its arbitrary selection.

ii. Quota Sampling

Quota sampling is based on a predetermined standard, and the elements are selected until enough data in various areas has been acquired (Evans et al., 2020). When using quota sampling, the decision to sample is made based on convenience or a predetermined quota size. Quota sampling is utilised because it helps researchers to select subgroups that are of particular interest to them to conduct research on them (Lauren, 2020). When a researcher wants to determine the link between two or more subgroups, this method is used.

iii. Purposive Sampling

Like random sampling, purposeful sampling is a non-random method that relies solely on the study's intent and chooses samples from the population that best align with the study's goal (Auspurg et al., 2020). Therefore, a purposive sample is a non-probability sample that is chosen in accordance with the demographics and study objectives of a given community. It is distinct from convenience sampling and is also referred to as judgemental, selective, or subjective sampling, depending on who is conducting it (Aguinis and Solarino, 2019).

iv. Referral or Snowball Sampling

Referral or snowball sampling is used when a population is unknown or uncommon, and the sample selected is related to one another, spreading throughout the community like a snowball (Parker, Scott and Geddes, 2019). Snowball sampling is a method used by researchers to identify other potential subjects. In some situations, researchers will allow researchers to leverage current study participants to attract new research volunteers. According to Krchherr and Charles (2018), the protocol must justify the method's usage in the context of the study and the population being

examined. The technique that decreases risk the most is preferred. If a researcher wishes to look at informal leadership tendencies in a community, they can ask people to describe others who stand out. as in (Parker et al., 2019).

In this study, purposive sampling was employed. This sampling approach enables the researcher to maximise the utility of a limited population of interest while still obtaining valuable research outcomes for the study. Purposive sampling is divided into several subtypes, each with its own set of pros and downsides. Overall, one key advantage of this sort of sampling is that generalisations about your sample are easier to establish than they are with other types of sampling such as random sampling where not all participants have the attribute you are studying. Vhembe district is divided in four local municipalities namely Thulamela, Makhado, Musina, and Collins Chabane. Therefore, this study employed a sample of 20 accounting firms. 5 accounting firms were selected from each municipality, and each provided AFS for 5 SMEs. The sample size of the study was 100 SMEs.

3.6. Data Analysis and Empirical Model

Data analysis may be defined as the process of cleansing, manipulating, and modelling data to uncover usable information for research (Scott and Williams, 2015). The objective of data analysis is to extract usable data assess it and make decisions based on the outcomes (Dufour and Richard, 2019). The study aims to evaluate FRQ of SMEs, and data for the study was acquired from the audited AFS of the SMEs covering ten years post-IFRS for SMEs adoption, for which 5 years will be initial (2010-2014), and the last 5 years (2015-2019) to see if FRQ improved over time. The audited financial statements are obtained from the Accounting and Auditing firms in the Vhembe district. This excludes the Covid pandemic years (2020-2021). The COVID-19 pandemic has disrupted everything from consumer behaviour to supply chains, and the economic fallout caused further changes (BDO,2021). There were number of financial reporting matters that have impacted by COVID-19. These include asset impairment, revenue recognition, penalties, debt restructurings, and reimbursements (BDO,2021).

There is no universally agreed-upon way to measure FRQ (Financial Reporting Quality). In this study, the researcher utilised three different measures that had been

previously used in research, along with an overall aggregate measure. This approach was chosen for several reasons. First, it is unlikely that a single measure can adequately capture all aspects of FRQ. Second, using multiple measures allows us to make more general conclusions based on our findings. Lastly, employing various measures helps to reduce the risk that our results might be influenced by factors other than FRQ. We conducted Ordinary Least Square (OLS) Regression analysis to examine the adoption of post-IFRS (International Financial Reporting Standards) for SMEs. We assessed the initial 5-year period (2010-2014) and the subsequent 5-year period (2015-2019) to determine whether FRQ improved over time, as recommended by prior research (Ball and Shivakumar 2006; Givoly et al., 2010).

This study employed two measures to assess Financial Reporting Quality (FRQ) and evaluate the impact of IFRS for SMEs on SMEs in the Vhembe District. The first FRQ measure used in the study is based on performance-adjusted discretionary accruals, which follows the model developed by Kothari et al. (2005):

$$\text{Accr}_{(i,t)} = \alpha_0 + \alpha_1 (1/\text{Assets}_{(i,t-1)}) + \alpha_2 \Delta\text{Rev}_{(i,t)} + \alpha_3 \text{PPE}_{(i,t)} + \alpha_4 \text{ROA}_{(i,t)} + \varepsilon_{(i,t)} \quad (1)$$

The study employed the residuals from industry-specific regression models to approximate discretionary accruals. In the tests, the absolute values of discretionary accruals were utilised as a proxy for FRQ. To ensure higher values represented higher FRQ, the study multiplied the absolute values of discretionary accruals by -1, denoting it as DisTA. The variables used in the Kothari et al. (2005) model is defined in Annexure A.

The second measure of FRQ in the study is based on accruals, using a modified version of the cross-sectional Dechow-Dichev (2002) model. Specifically, the study adapted the Dechow-Dichev (2002) model as modified by McNichols (2002) and Francis et al. (2005), with adjustments made for negative cash flows as suggested by Ball and Shivakumar (2006) and Givoly et al. (2010). The Dechow-Dichev (2002) measure focuses on assessing the relationship between current accruals and past, present, and future cash flows. In this context, Dechow and Dichev (2002) developed a model for expected accruals and interpreted deviations from this expected value as the estimation error in accruals, which serves as a measure of earnings quality. The modified Dechow-Dichev (2002) model is expressed as follows:

$$WCA_{(i,t)} = \alpha_0 + \alpha_1 OCF_{(i,t-1)} + \alpha_2 OCF_{(i,t)} + \alpha_3 OCF_{(i,t+1)} + \alpha_4 \Delta Rev_{(i,t)} + \alpha_5 PPE_{(i,t)} + \alpha_6 DOCF_{(i,t)} + \alpha_7 OCF_{(i,t)} \times DOCF_{(i,t)} + \varepsilon_{(i,t)} \quad (2)$$

The discrepancies arising from Equation (2) indicate inaccuracies in present accruals that lack connections to operating cash flows and defy explanation through shifts in revenue or property, plant, and equipment levels. In this research, the absolute values of these discrepancies were employed as a stand-in for the quality of accruals. Similarly, to the prior metric, the research negated the absolute values of the revised Dechow-Dichev measure, labelling it as DisWCA, where elevated values signify superior accrual quality. The variables used in the Dechow and Dichev (2002) model, as modified by McNichols (2002) and Francis et al. (2005), are defined in Annexure A.

To calculate the third proxy, the study employed discretionary revenue based on the model proposed by McNichols and Stubben (2008) and Stubben (2010), which is specified as follows:

$$\Delta AR_{(i,t)} = \alpha_0 + \alpha_1 \Delta REV_{(i,t)} + \varepsilon_{(i,t)} \quad (3)$$

To align with the method described by Hope et al. (2013), the absolute values of discretionary revenues were negated by multiplying them by -1 (DisRev) to signify that greater values indicate superior accrual quality. The variables for the McNichols and Stubben (2008) and Stubben (2010) model are defined in Annexure A.

3.7. Reliability and Validity

Dependability in statistics refers to the degree of consistency in results over time and the accuracy in representing the entire examined population (Kathryn et al., 2020). Another aspect to consider is whether the study's findings can be replicated using a similar approach, which would indicate the reliability of the research instrument.

In this study, linear regression was employed to establish the relationship between independent variables and dependent variables for each of the models. To further assess validity and reliability, the goodness of fit for the fitted model was evaluated through ANOVA results and R-Squared statistics for each of the models. Specifically, the ANOVA model assessed whether the fitted model was statistically different from the Null model (the model containing only the intercept). Meanwhile, the R-Squared

statistic estimated the proportion of variation in the dependent variable that was explained by the linear relationship with the independent variables in each model.

Additionally, chi-square tests and other relevant assessments were utilised to examine the validity and reliability of the data analysis methods applied in this study, as well as the reliability of the tests themselves.

ANOVA is a statistical test that compares group means to assess significant differences, while R-squared measures the proportion of variance explained by independent variables in a regression model. Chi-square is a statistical test comparing observed and expected frequencies in categorical data to determine significant associations (Kathryn et al., 2020).

3.8. Ethical Considerations

Application of suitable ethical principles is regarded as important in research especially when dealing with human subjects (Arifin, 2018). The University of Venda Research Ethics Committee was consulted to obtain approval for the project. Following that, written consent to conduct the study was provided to all SMEs and accounting firms who have been selected to participate in the research. SME's appropriate offices were provided with information sheets that include an overview of the study's aims and approach as well as the results, implications, conclusions, and recommendations for policy and practice suggestions for policy and practice. According to Arifin (2018), ethical issues pertaining to research study must include, voluntary participation, right to privacy, informed consent, and protection from any harm. This study addressed the same ethical principles as it is the same stipulated by the University of Venda Research Ethics Committee.

3.8.1 Permission for data collection

Permission for data collection was requested and obtained at the University of Venda Research Ethics Committee. Upon the receipt of the letter thereof, the collection of data took place accordingly.

3.8.2 Informed consent

Per Burns and Grove (2001), the principle of self-determination is rooted in the ethical concept of showing respect for an individual. Consequently, the SMEs' auditors and accountants (participants) will receive comprehensive information about the research project, affording them the autonomy to decide whether they wish to participate or not.

3.8.3 Voluntary participants

The participants were informed that they can participate freely and allowed to withdraw from participating without any negative impact on them. All responses will be voluntary in nature.

3.8.4 Privacy and Confidentiality

As per Burns and Grove (2001), confidentiality involves the researcher's handling of sensitive information provided by participants, which should not be disclosed to external parties without the participants' consent. All information (data) provided by participants will be kept confidential, and no one will have access to it except the researcher, supervisor, and project administrators. Data were encrypted, and a researcher developed a password that was known only by study project officials.

3.8.5. No harm to the participants

The researcher guarantees that no participants were put in situations where they could be harmed because of their involvement, either physically or psychologically. If this occurs, a researcher ensured that a participant receives free counselling.

3.8.6. Anonymity

This is when participants in the study remain anonymous (Jackson, 2015). Therefore, in this study, personal information regarding all participants will remain secured so that no one has access to their personal information such as names. Names of the entities or individuals involved did not appear to the findings.

3.9. Chapter Summary

This chapter provided an overview of the research design and philosophy that will be employed in the study. It went on to say that data for the study was acquired from the audited AFS of the SMEs covering ten years post-IFRS for SMEs adoption. The following procedures were followed: identification of the target population, sampling,

and data processing. Furthermore, the validity and trustworthiness of the data were discussed in detail. The chapter concluded with an examination of ethical concerns, which were all developed and carried out to support and achieve the study's aims. The results of the data analysis and investigation will be discussed in the following chapter four.

CHAPTER FOUR: DATA ANALYSIS AND RESULTS INTERPRETATION

4.1. Introduction

This Chapter presents the study's findings, followed by a comprehensive discussion and interpretation of those findings. This phase of the research process is crucial for gaining insight into the findings and their significance, as well as a better understanding of their implications within the context of this study. Also, the researcher discusses the findings by comparing them with earlier research or theoretical frameworks. The aim is to situate the findings within the existing body of knowledge, highlighting any similarities, contrasts, or surprising discoveries that came from the study. In addition, the researcher analysed the significance and meaning of the results to provide a deeper understanding of their importance. This involves assessing the observable patterns, trends, and relationships in the data and determining their implications in the broader context of the study. In addition to resolving unexpected or contradictory results, the interpretation phase may also provide viable explanations or options for further research.

4.2. Summary statistics

One of the important aspects of data analysis is the descriptive statistics of the variables under investigation. To this end, Table 1 presents the descriptive statistics of the variables that will be fitted. The minimum and maximum Accruals (Acc) over the study period is respectively -764669 and -19979 with a mean value of -3529756. However, the standard deviation is 231879.8, which indicated a lot of variation in the accruals over time. On the other hand, the Assets range from a minimum of 24331 to a maximum of 68535, with a mean and standard deviation of 31268.45 and 20519.9. Regarding the Change in revenue, Property, Plant and Equipment (PPE), Net Income (ROA), Cash flow from operations (OCF) all range from negative minimum values of -105542, -40986, -149972.5, and -65939.6 respectively to maximum values of 35568, 50498, 237631, 516013. It is relevant to note the ROA has the smallest range of 387606. The descriptive statistics results indicate that the data satisfies the requirements for a dataset to have a normal distribution, as demonstrated by the findings. Utilising descriptive statistics enables us to examine the distribution of the data by offering important insights into the central tendency and dispersion of the

acquired data. The central location of the data may be determined using important metrics such as the mean, median, and mode, whilst the dispersion of the data can be comprehended using measures such as the standard deviation and the range. Around this instance, the values of these statistics indicate that the data follows a symmetrical pattern around the mean, with most observations clustered in the middle of the distribution. Based on the descriptive statistics and visual analysis that we performed; we can thus conclude that the data exhibits behaviour consistent with a normally distributed dataset.

Table 1: Summary statistics

Table 1 below presents the descriptive statistics of data obtained from only annual accounting reports from 2010 to 2019. The total of 100 SMEs-year observations. All the variables are defined in Annexure A of the dissertation.

Variable	Range	Minimum	Maximum	Mean	Std. Deviation
$Accr_{i,t}$	744689	-764669	-19979	-3529756	231879.8
$Assets_{i,t}$	661027	24331	68535	31268.45	20519.9
$\Delta Rev_{i,t}$	141110	-105542	35568	-27674.82	228719
$PPE_{i,t}$	545973	-40986	50498	210910	14936.1
$ROA_{i,t}$	387606	-149972.5	237631	41142.67	48241.84
$OCF_{i,t}$	117540.43	-65939.6	516013	-17749.39	259078.26
$DOCF_{i,t}$	1.00	0.00	1.00	0.12	0.33

The empirical results of the study are presented and discussed below.

4.3. Empirical Results

When conducting statistical analyses, a significance level is set to determine the level of confidence required to consider a result statistically significant. The most used significance level is 0.05 (5%). If the p-value associated with a parameter estimate is greater than this threshold, it implies that the observed effect is not statistically significant (Albu, et al., 2010). The results presented in this section are based on this set parameters.

Linear regression was used to establish the association between the independent variables and the dependent variables for each of the models. For each of the models

(1, 2, 3) described in the previous chapter, the goodness of fit of the fitted model is assessed through the ANOVA results and the R-Squared statistics. Specifically, the ANOVA model tests if the fitted model is statistically different from the Null model (the model containing only the intercept). On the contrary, the R-Squared statistic calculates the fraction of variability in the dependent variable within each model that can be accounted for by the linear association with the independent variables.

4.4. Financial Reporting quality of SMEs using performance-adjusted discretionary accruals.

With respect to model 1 which defines a model for performance-adjusted discretionary accruals (Acc), a comparison between the fitted model and the Null model produces the results depicted in Table 2.

Table 2: ANOVA test results for model 1

Table 2 below presents the ANOVA test results for model 1 of the period from 2010 to 2019. All the variables are defined in Annexure A.

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	533263811	5	1066527	210.04	<.001 ^b
Residual	528078872	104	5077676		
Total	1061343909	109			

The findings presented in Table 2 highlight the significance of the F-statistic in assessing the model's performance. In the case of Model 1, the ANOVA results reveal that the calculated F-statistic stands at 210.042, with an associated p-value of less than 0.001. These results indicate highly significant findings at the 5% significance level.

Consequently, the null hypothesis, which posits that there is no substantial relationship between the predictor variables and the response variable, was rejected. The study concluded that there is indeed a significant relationship between the predictor variables and the response variable. This suggests that Model 1, as fitted, effectively captures, and explains the interactions among the variables under investigation and is well-suited for the data.

Further analysis, depicted in Table 3, reveals that Model 1 explains approximately 91% of the variation in the performance-adjusted discrepancy accruals associated with each company at a given time. The adjusted R-Square, which considers the number of predictor variables, is reported to be 90.6%. This high level of explained variance indicates that Model 1 is a good predictive model for the data. In summary, the results demonstrate the validity and reliability of Model 1, showing its ability to explain the relationships between the variables effectively. The model's high explanatory power suggests that it can be relied upon for estimating the amount of variation in the performance-adjusted discrepancy accruals explained by the specified model.

Table 3: Model 1 summary results

Table 3 below presents the summary results for model of the period from 2010 to 2019. All the variables are defined in Annexure A.

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.954 ^a	.910	.906	9223.37

Since the goodness of fit of model 1 is established, the parameter estimates can be interpreted. Table 4 depicts the parameter estimates of the fitted model.

Table 4: Parameter estimates of model 1.

Table 4 below presents the results for parameter estimates of the period from 2010 to 2019. All the variables are defined in Annexure A.

Model		Unstandardised Coefficients N = 109		Sig.
		B	Std. Error	
1	(Constant)	-10713167.503	2158068.375	<.001
	$(1/Assets_{i,t-1})$	2542659.07	933641.45	.008
	$\Delta Rev_{i,t}$.312	.054	<.001
	$PPE_{i,t}$	-.944	.094	<.001
	$ROA_{i,t}$	-.578	1.463	.694
	Time	348058.855	253402.208	.173

From the results in Table 4, the time component was added into the model to investigate if there are any significant changes in the Accruals over time. The following hypothesis was considered in this section.

Hypothesis 2: Financial Reporting quality of SMEs improved over time.

To assess the FRQ quality of SMEs has improved or not over time, the study assessed the size of accruals in each period can fluctuate. The value of -10713167.503 represents the average accruals for a SMEs for the first 5 years (2010 to 2014). However, in terms of the second phase, 2015 to 2019, accruals have not increased significantly over time, with a yearly rise of 348058.855 being statistically insignificant at 5% level of significance. This suggests that SMEs, on average, have consistent accrual quality. The average magnitude of accruals is relatively stable, indicating a consistent pattern in recording non-cash transactions. Furthermore, the volatility of accruals, at 5% level of significance, is relatively low, suggesting a reduced likelihood of significant fluctuations in reported accruals from period to period. In line with these results, it stands to reason that the stability in accruals indicates a certain level of consistency and reliability in financial reporting practices among SMEs in Vhembe District municipality. Thus, during the period under consideration, the study concludes that the FRQ of SMEs did not improve over time. This is corroborated by the research of Habib et al. (2013), who discovered that there was some indication of favourable market pricing associated with discretionary accruals in the non-crisis period. However, they observed a significant reduction in pricing coefficients during the global financial crisis period.

To gain a deeper understanding of the elements influencing accruals, the study analysed the impact of numerous variables. Accruals for SMEs are accounting entries that record revenues earned or expenses incurred, regardless of whether cash has been received or paid. The most relevant aspect is the variable $(1/\text{Assets}) (i, t-1)$ which indicates the inverse of the company's assets in the preceding period. A unit change in $(1/\text{Assets}) (i, t-1)$ significantly increases accruals by 2542659.07, suggesting a strong positive relationship assets and accruals. On the other hand, the variable $\text{PPE}_ (i, t)$, which represents property, plant, and equipment, shows a statistically significant negative association with accruals. A unit increase in $\text{PPE}_ (i, t)$ is linked to a decrease of 0.944 in mean accruals. This finding suggests that companies with higher levels of investment in tangible assets tend to have lower accruals. The results are consistent with Dejong and Ling (2013) who conducted a study on the effects of managers and firm investments on accruals and firm policies. Additionally, the variable $\Delta \text{Rev}_ (i, t)$, representing the change in revenue, demonstrates a statistically significant positive

impact on accruals. A unit increase in $\Delta Rev_{(i, t)}$ corresponds to an increase of 0.312 in mean accruals. This implies that companies experiencing higher revenue growth tend to have higher accruals. Likewise, a study by Lewellen and Resutek (2019:113) assessed the reason why accruals predict earnings and the results reviewed that “higher accruals are associated with lower subsequent earnings and accruals also predict an increase in future competition, suggesting that accruals are correlated with abnormally high and, in equilibrium, transitory true profitability that attracts new entrants to the industry”. Interestingly, the variable $ROA_{(i, t)}$, which represents the return on assets, does not exhibit a statistically significant impact on mean accruals at a given time. This suggests that the profitability of the company, as measured by ROA, does not directly influence accruals.

These findings align with prior literature on accruals and their determinants. Studies such as Yadav, et al., (2022); Esaa (2018); Mohamed (2019) have shown that factors related to company size, investment in tangible assets, and revenue growth can significantly impact accruals. However, the relationship between accruals and profitability, as indicated by ROA, is less clear-cut and can vary depending on the context and specific characteristics of the companies studied. As such, the results indicate that accruals in each company at a specific time do not exhibit a significant increase over time. The inverse of assets in the previous period, investment in property, plant, and equipment, and changes in revenue play important roles in determining accrual levels. These findings contribute to the existing literature on accruals and provide insights into the factors influencing accrual behaviour in companies. Thus, although the accruals increase over time, it is statistically insignificant. This means that the higher the accruals the higher the magnitude of FRQ of the SMEs. The positive bearing of accruals on the FRQ for SMEs in Vhembe District is evident when considering the relationship between these two factors. As described by Bananuka (2018) accruals represent non-cash transactions recorded in financial statements, play a crucial role in reflecting the underlying economic activities and performance of a SMEs. Thus, in Vhembe District, accurate and reliable accruals contribute to the overall quality and usefulness of financial information, providing stakeholders with insights into the financial health and performance of SMEs.

Since the implementation of International Financial Reporting Standards (IFRS) established specifically for SMEs, the quality of financial reporting by Small and Medium-Sized Enterprises (SMEs) has received substantial attention. This modification in accounting regulations was intended to increase the uniformity and comparability of financial reporting for small and medium-sized businesses by bringing them in line with global reporting trends. The implementation of IFRS for SMEs provides a uniform structure for the preparation of financial statements by SMEs. The results indicate that financial reporting transparency, reliability, and precision might be improved, hence improving the overall quality of the financial data provided by SMEs. Important research topics include the degree to which SMEs have successfully accepted the requirements of IFRS for SMEs and their capacity to achieve the required reporting standards. Examining whether SMEs have applied the applicable accounting procedures, provided the required data, and adhered to the standard's guiding principles was another focal point of the study. SME's can demonstrate their dedication to providing investors, creditors, and other stakeholders with high-quality financial data by using the proper format and capturing the correct variables. In accordance with the study's findings, it can be deduced that over the period analysed, there is no evidence to suggest an improvement in the Financial Reporting Quality (FRQ) of SMEs. As such, the null hypothesis of FRQ of SMEs improving over time is rejected. This shows that while accruals have a direct bearing on FRQ of SMEs, the quality did not improve over time.

4.5. Financial Reporting quality of SMEs using working capital accruals.

The second measure of financial report quality of SMEs proposed a model to address working capital accruals. Like the previous case, a comparison between the fitted model for working capital accruals and its determinants is compared with the Null model. The result of this comparison produces the results depicted in Table 5.

H3: SMEs levels of earnings smoothing has decline post IFRS for SMEs implementation.

Table 5: ANOVA test results for working capital accruals (model 2).

Table 5 below presents the results of ANOVA test for working capital accruals (model 2) of the period from 2010 to 2019. All the variables are defined in Annexure A.

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	533263811	5	1066527	210.04	<.001 ^b
Residual	528078872	104	5077676		
Total	1061343909	109			

The ANOVA result below shows that the model is statistically significant different from the null model with an F- statistic of 210.04, and a p-value < 0.001. To assess the amount of variation in the working capital accruals over time that is explained by model 2, Table 6 depicts this amount of variation. Here, it is estimated that 92.2% of the variation in the working capital accruals associated with each company at a given time is explained by the model specified, with an adjusted R-Square of 91.6%. This represents a high level of explained variance, indicating a good predictive model.

Table 6: Working capital accruals (model 2) summary of fit

Table 6 below presents the summary of fit for working capital accruals (model 2) of the period from 2010 to 2019. All the variables are defined in Annexure A.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
	.960 ^a	.922	.916	9223.37

Since the goodness of fit of model 2 is established, the parameter estimates can be interpreted. Table 7 depicts the parameter estimate of the fitted model for working capital accruals.

Table 7: Parameter estimates of working capital accruals (model 2)

Table 7 below presents the parameter estimates for working capital accruals (model 2) of the period from 2010 to 2019. All the variables are defined in Annexure A.

Model	Unstandardised Coefficients N = 109		T	Sig.
	B	Std. Error		
(Constant)	-1598005.043	1379092.3	-1.159	0.249
$OCF_{i,t-1}$	-1.176	0.468	-2.511	0.014
$OCF_{i,t}$	-0.364	0.513	-.709	0.480

	OCF_{it+1}	0.580	0.468	1.238	0.219
	$\Delta Rev_{i,t}$	0.306	0.046	6.651	<.001
	$PPE_{i,t}$	-0.695	0.072	-9.681	<.001
	$DOCF_{i,t}$	-6.4404	2.49.5	-2.474	0.015
	$OCF_{i,t} \times DOCF_{i,t}$	-1.411	.814	-1.734	0.086
	Time	2.5185	2.3504	1.208	0.230

The regression model's results shows that the constant term, $OCF_{i,t}$, OCF_{it+1} , $OCF_{i,t} \times DOCF_{i,t}$, and the time component are statistically insignificant. Thus, only the $\Delta Rev_{i,t}$, $PPE_{i,t}$, and $OCF_{i,t-1}$ are statistically significant. Specifically, a unit change in $OCF_{i,t-1}$ reduces the mean $WCA_{i,t}$ by 1.176, while a unit increase in $\Delta Rev_{i,t}$ increases the mean $WCA_{i,t}$ by 0.306. This indicates a statistically significant positive correlation between the change in revenue and working capital accruals. Conversely, there is a statistically significant negative correlation between $[[OCF]](i,t-1)$ and $[[PPE]](i,t)$ with working capital accruals.

Accordingly, if small businesses aim to reduce expenses and increase revenue, one possible approach is to adjust their Operating Cash Flow (OCF) and Property, Plant, and Equipment (PPE) over a period. The findings demonstrate that accruals play a crucial role in presenting a more precise portrayal of the financial performance and position of SMEs. This aligns with the research conducted by Albu et al. (2010), who revealed that accruals allow SMEs to recognise their revenues by modifying their plant, property, and equipment, regardless of the timing of cash inflows and outflows. Thus, modifying PPE and OCF can be utilised to manipulate Working Capital Accruals (WCA) and attain accuracy in the financial outcomes of SMEs.

Furthermore, by ensuring consistency in accruals, PPE and OCF can be utilised to enhance revenue. This consistency enables a more accurate depiction of financial performance and position. Accrual accounting principles maintain uniformity over time, enabling SMEs to comply with recognised standards and provide reliable financial information. The results indicating that working capital accruals are not statistically significant in this context have important implications for understanding the relationship between accruals and financial performance in (SMEs). The results that working capital accruals are not statistically significant suggest that changes in working capital accounts may not have a significant impact on the financial

performance of SMEs in this study. This implies that other factors or variables may have a more substantial influence on the financial outcomes of these businesses.

It is worth noting that statistical significance does not necessarily imply practical significance or real-world importance. In this case, while working capital accruals may not have shown statistical significance, they could still have practical relevance in other contexts or industries. Thus, an increase in accruals may lead to increase in FRQ for SMEs. The next proxy to financial reporting quality is the annual change in accounts receivable, which we discuss next.

4.6. Financial Reporting quality of SMEs using change in account receivables

The third proxy to assess the financial quality of SMEs was the model 3 on the annual change in account receivables. As before, a comparison between the fitted model for change in account receivables and its determinants is compared with the Null model. The result of this comparison produces the results depicted in Table 8.

Table 8: ANOVA results for change in account receivables (model 3)

Table 8 below presents the results of ANOVA test for change in account receivables (model 3) from 2010 to 2019. All the variables are defined in Annexure A.

Model		Sum of Squares	Df	Mean Square	F	Sig.
	Regression	15464167.4	1	15464177.4	3.656	.059 ^b
	Residual	45683785.97	108	42302255.5		
	Total	61147953.3	109			

The ANOVA results show that the proposed model three for the change in account receivables for the specified period does not statistically differ from the null model with an F-statistic of 3.656 and a p-value of 0.059. This is further emphasised by the parameter estimates in Table 9. Here, the change in revenue is not statistically significantly affecting the change in accounts receivable. Additionally, it was also identified that this does not change over time (time parameter was statistically insignificant).

Table 9: Parameter estimates of the change in account receivables (model 3)

Table 9 below presents the parameter estimates for the change in account receivables (model 3) of the period from 2010 to 2019. All the variables are defined in Annexure A.

Model		Unstandardised Coefficients N = 109		T	Sig.
		B	Std. Error		
1	(Constant)	242301.1	97608.850	2.482	.015
	$\Delta REV_{i,t}$.005	.003	1.912	.059

The results in Table 9 reveal that the estimated change in revenue is statistically insignificant at the 5% level of significance, from a statistical analysis, which includes the estimated change in revenue. This indicates that the anticipated change in income may have been the result of chance or is too tiny to be considered significant based on the available data. Noting that the predicted revenue change may not be statistically significant does not imply that there is no effect. It simply indicates that the evidence from the available data is insufficient to establish a correlation between the evaluated components and the change in revenue. This is consistent with Hill et al (2019) theory that even if there is no statistically significant association between the variables, they are likely to have a relationship that affects a company's revenue. Furthermore, researchers and decision-makers should interpret these findings with caution and consider other factors, such as the magnitude of the estimated change, the sample size, and the specific context of the analysis, to make informed judgments. In addition, additional research or data collecting may be required to gain more conclusive conclusions and comprehend the genuine influence of the elements under examination on income. However, as was identified in each model assessing the financial reporting quality, while there was an overall increase in each of the indices over time, it was statistically insignificant. Therefore, the null hypothesis that claims that financial reporting quality of SMEs improved over time is not rejected. In line with the results obtained in this chapter, it makes sense that accruals play a crucial role in

the financial reporting of SMEs, as they enable a more accurate depiction of financial performance and position.

Hypothesis 4: IFRS for SMEs standard increased accounting conservatism in SMEs

Accrual accounting principles maintain consistency over time, ensuring that small and medium-sized enterprises (SMEs) adhere to recognised standards and provide reliable financial information. Based on a study conducted from 2010 to 2019, the findings indicate that the proper recording of accruals has contributed to an improved Financial Reporting Quality (FRQ) for SMEs, enhancing the trust and usefulness of financial reports for stakeholders. Therefore, the study supports the acceptance of the null hypothesis that the FRQ of SMEs has improved following the adoption of IFRS for SMEs. The results demonstrate an overall enhancement in the FRQ of SMEs over the study period. However, the hypothesis suggesting IFRS for SMEs standard increased accounting conservatism in SMEs is rejected. Instead, the study reveals an increase in SMEs' earnings levels, indicating that implementing IFRS for SMEs standards has led to improved quality of FRQ for SMEs. Consequently, the study also supports the hypothesis that IFRS for SMEs standards has increased accounting conservatism in SMEs. In summary, the research findings endorse the notion that precise tracking of residual accruals boosts the Financial Reporting Quality (FRQ) of Small and Medium-sized Enterprises (SMEs), consequently enhancing the dependability and value of financial statements for those interested.

The study affirms that the implementation of International Financial Reporting Standards for SMEs (IFRS for SMEs) has yielded favorable outcomes for SMEs' financial reporting quality, leading to higher profits and a heightened level of prudent accounting practices.

4.7. Chapter Summary

The descriptive statistics analysis suggests that the dataset meets the conditions for a normal distribution. This indicates that the majority of observations cluster in the centre of the distribution, forming a symmetrical pattern around the mean. The analysis

employed key metrics such as mean, median, and mode to determine the data's central placement, and measurements such as standard deviation and range to comprehend its dispersion. Both the descriptive statistics and visual analyses undertaken support the conclusion that the data is regularly distributed. Using performance-adjusted discretionary accruals, the second section presented findings about the FRQ of SME's. The results indicated that Model 1 successfully captured and explained the relationships between the predictor factors and the response variable. At a significance level of 5%, the computed F-statistic and associated p-value (0.001) show a high level of significance between PPE, OCF and WCA. The conclusion was the rejection of the null hypothesis that there is no meaningful association between PPE and OCF which can be utilised to manipulate Working Capital Accruals (WCA) and attain accuracy in the financial outcomes of SMEs. Overall, the results support the validity and dependability of Model 1, demonstrating that it can be relied upon to estimate the amount of variation in the performance-adjusted discrepancy accruals that it explains. In terms of the FRQ of SMEs improving over time, the results indicate that there was no significant rise in accruals during the second phase (2015-2019) compared to the first five years (2010-2014), indicating that SMEs have maintained constant accrual quality hence increase in FRQ for SMEs. The stability and low volatility of accruals further bolster the dependability and uniformity of FRQ for SMEs. However, it was discovered that the quantity of accruals favourably increases the FRQ of SMEs due to high residuals. Additionally, the impact of various variables on accruals was studied. It was noted that the inverse of the previous period's assets, investments in property, plant, and equipment, and revenue fluctuations were key determinants determining accrual levels. However, the company's profitability, as measured by return on assets (ROA), had no direct effect on accruals. Only Rev, PPE, and OCF are statistically significant in relation to working capital accruals in terms of the amount of earnings smoothing decline following the implementation of IFRS for SMEs, according to the data (WCA).

A unit change in OCF results in a 1.176-unit decrease in the mean WCA, while a unit rise in Rev results in a 0.306-unit increase in the mean WCA. This indicates a considerable positive correlation between revenue fluctuations and working capital accumulations. On the other hand, there is a considerable negative correlation between OCF, PPE, and working capital accumulations. This indicates that adjusting

Operating Cash Flow (OCF) and Property, Plant, and Equipment (PPE) over a period can help SMEs reduce expenses and increase revenue. Accruals play a crucial role in providing a more precise depiction of the financial performance and position of SMEs, allowing them to recognise revenues and adjust their plant, property, and equipment regardless of cash flow timing. Consistency in accruals brought about by PPE and OCF adjustments can increase revenue and assure a more accurate portrayal of financial performance. However, the results also indicate that working capital accruals may not be statistically significant in this specific context, suggesting that other factors or variables may have a more substantial influence on the financial outcomes of these SMEs. It is important to note that while some variables may not show statistical significance, they can still have practical relevance in different contexts or industries. Even if working capital accruals are not statistically significant in the present study, they may nevertheless be of practical value. As such, the study conducted from 2010 to 2019 indicates that the proper recording of accruals has contributed to an improved Financial Reporting Quality (FRQ) for small and medium-sized enterprises (SMEs). The implementation of International Financial Reporting Standards for SMEs (IFRS for SMEs) has led to enhanced quality of financial statements, increasing the trust and usefulness of financial information for stakeholders. The results support the acceptance of the null hypothesis, showing that the FRQ of SMEs has improved following the adoption of IFRS for SMEs. The study also reveals an increase in SMEs' earnings levels, indicating that implementing IFRS for SMEs standards has positively impacted financial reporting quality. Additionally, the study supports the hypothesis that IFRS for SMEs standards has increased accounting conservatism in SMEs. In summary, accurate accrual recording and adopting IFRS for SMEs have positively influenced the financial reporting quality of SMEs, resulting in increased earnings levels and improved accounting conservatism.

CHAPTER FIVE: CONCLUSION, RECOMMENDATIONS, LIMITATIONS AND AVENUES FOR FURTHER RESEARCH

5.1. Introduction

Chapter five concludes the study based on the findings from the previous chapter. This chapter also outlines the limitations of the study and offers recommendations for further research on the said topic. The results carry significant implications for various stakeholders, including practitioners, international standard setters, and regulatory bodies, underscoring the importance of IFRS for SMEs. Moreover, these results hold relevance for analysts and investors operating within emerging markets, as they seek to gain a comprehensive understanding of both IFRS for SMEs and the intricacies surrounding FRQ.

5.2. Research summary

5.2.1. Research methodology

The researcher presented the methodology that was used to investigate the effect of IFRS for SMEs on the quality of financial reporting among Vhembe District SMEs. The research adheres to the positivist philosophy of research. The positive approach prioritises the application of quantitative methods, such as large-scale social surveys. The descriptive research design was deemed suitable for this investigation because it enabled the collection of quantitative data, permitted the formulation of hypotheses, and provided a wealth of valuable data for the development of future investigations. The population of this study consists of 100 Vhembe District SMEs. Regarding sampling technique and sample size, this investigation will utilise purposeful sampling. The sampling strategy allows the researcher to maximise a small population of interest while still producing valuable study results. There are numerous subtypes of purposeful sampling, each with their own benefits and drawbacks. It is easier to establish generalisations about your sample than with other sampling methods, such as random sampling, in which not all participants possess the studied attribute. The Vhembe district consists of four municipalities: Thulamela, Makhado, Musina, and Collins Chabane. This study utilised a sample of twenty accounting firms. Each municipality selected five accounting firms, and each firm provided AFS to five small

and medium-sized enterprises. The sample size for the study was 100 SMEs. For the following reasons, a survey, three measures utilised in previous research, and an aggregate measure were used to collect data. First, it is highly unlikely that a single proxy will cover all FRQ-related aspects. Secondly, the application of multiple surrogates facilitates the generalisation of our findings. Lastly, utilising alternative measures decreases the probability that results based on a single proxy capture factors other than FRQ and that these other factors are driving our results. The study utilised Ordinary Least Square (OLS) Regression analysis to investigate post-IFRS for SMEs adoption, using the first five years (2010-2014) and the last five years (2015-2019) to determine if FRQ improved over time.

5.3. Summary of the results of the study

5.3.1. Descriptive statistics

The descriptive statistics analysis reveals that the dataset meets the criteria for a normal distribution. This indicates that the data is symmetrically distributed around the mean, with most observations concentrated in the middle of the distribution. Key metrics like the mean, median, and mode were used to assess the central tendency of the data, while measures like standard deviation and range were employed to understand its spread. Both the descriptive statistics and visual examination provide strong evidence that the data behaves in a manner consistent with a normal distribution.

5.3.1.1. Model validation

The study's findings demonstrate that Model 1 is highly effective in capturing and explaining the relationships between predictor variables and the response variable. This is evident from the significant computed F-statistic of 210.042, which yields a very small p-value (less than 0.001) at the 5% significance level. Consequently, the null hypothesis, which assumes no significant relationship between the variables, is rejected, indicating that there is indeed a meaningful connection between them. Model 1 proves to be a robust predictive model as it accounts for approximately 91% of the variation in performance-adjusted discrepancy accruals associated with each company at any given time, as represented by the high adjusted R-Square of 90.6%.

This signifies that the model provides valuable insights into the interactions among the variables, making it a reliable tool for explaining the data's behaviour. As such, the results strongly support the validity and reliability of Model 1, affirming its capability to effectively explain the data's behaviour and allowing for accurate estimation of the variation in the performance-adjusted discrepancy accruals explained by the model.

Hypothesis 1: Financial Reporting quality of SMEs improved post adoption of IFRS for SMEs.

The research, spanning the period from 2010 to 2019, underscores the significance of precise accrual recording in augmenting the FRQ of SMEs. The incorporation of IFRS for SMEs has proven to be a pivotal factor in ameliorating financial reports, instilling heightened trust and utility in the financial information furnished to stakeholders. The findings robustly validate the null hypothesis, indicating that the FRQ of SMEs has indeed witnessed enhancement after the implementation of IFRS for SMEs.

Furthermore, the investigation unveils a noteworthy upsurge in SME earnings, signifying a positive repercussion of IFRS for SMEs standards on financial reporting. Additionally, the study furnishes empirical substantiation corroborating the hypothesis that IFRS for SMEs standards have contributed to a heightened level of accounting conservatism among SMEs. Consequently, the meticulous recording of accruals and the adoption of IFRS for SMEs have assumed pivotal roles in positively shaping the financial reporting quality of SMEs, culminating in augmented earnings levels and elevated accounting conservatism. These outcomes underscore the significance and effectiveness of these standards in enhancing the financial reporting practices of SMEs.

Hypothesis 2: Financial Reporting quality of SMEs improved over time.

The primary aim of this research was to assess the Financial Reporting Quality (FRQ) of Small and Medium-Sized Enterprises (SMEs) in the Vhembe District municipality over a duration of time. The findings indicate that there was no substantial increase in accruals during the second phase (2015 to 2019) in comparison to the initial five years (2010 to 2014), implying a consistent level of accrual quality among SMEs. The stability in accruals and their low volatility further substantiate the dependability and uniformity in financial reporting practices. However, it was revealed that the magnitude of accruals positively influenced the FRQ of SMEs. The study also examined the

impact of various variables on accruals. It was observed that the reciprocal of assets in the previous period, investments in property, plant, and equipment, and changes in revenue were significant factors influencing accrual levels. Nonetheless, the company's profitability, as measured by the return on assets (ROA), did not directly affect accruals. The introduction of International Financial Reporting Standards (IFRS) for SMEs was considered a potential catalyst for enhancing financial reporting quality, aiming to augment transparency, reliability, and precision in financial reporting. However, the results did not demonstrate a substantial enhancement in the FRQ of SMEs over time. The study posits that while accruals have a favourable impact on FRQ, other factors may have contributed to influencing the overall quality of financial information furnished by SMEs in the Vhembe District municipality. Consequently, the null hypothesis that the FRQ of SMEs would improve over time was rejected.

Hypothesis 3: SMEs levels of earnings smoothing has decline post IFRS for SMEs implementation

The outcomes of the regression model reveal that, among the variables examined, only ΔRev , PPE, and OCF exhibit statistical significance concerning working capital accruals (WCA). An increment of one unit in OCF leads to an average decrease in WCA by 1.176 units, while a one-unit increase in ΔRev results in an average increase in WCA by 0.306 units. This indicates a substantial and positive association between changes in revenue and working capital accruals. Conversely, a noteworthy and negative relationship exists between OCF, PPE, and working capital accruals, suggesting that adjusting Operating Cash Flow (OCF) and Property, Plant, and Equipment (PPE) over time can enable SMEs to curtail expenses and augment revenue. Accruals play a crucial role in providing a more precise depiction of the financial performance and position of SMEs, enabling them to recognise revenues and adjust their plant, property, and equipment regardless of cash flow timing.

Consistency in accruals achieved through PPE and OCF adjustments can enhance revenue and ensure a more accurate representation of financial performance. However, the results also suggest that working capital accruals may not be statistically significant in this specific context, indicating that other factors or variables may have a more substantial influence on the financial outcomes of these SMEs. It is important to note that while some variables may not show statistical significance, they can still

hold practical relevance in different contexts or industries. In this case, working capital accruals might still hold practical importance even if they are not statistically significant in this study. Moreover, the rejection of the null hypothesis, which states that SMEs' levels of earnings smoothing declined post IFRS for SMEs implementation, indicates that SMEs' levels of earnings smoothing increased after the implementation of IFRS for SMEs.

Hypothesis 4: IFRS for SMEs standard increased accounting conservatism in SMEs

The application of accrual accounting principles is pivotal in upholding consistency and compliance with established standards for small and medium-sized enterprises (SMEs), ensuring the provision of reliable financial information consistently over time. The research, spanning from 2010 to 2019, underscores the significant role of accurate accrual recording in bolstering the Financial Reporting Quality (FRQ) of SMEs, thereby bolstering confidence among stakeholders, and enhancing the utility of financial reports. In summary, the study affirms that the FRQ of SMEs has improved since the adoption of IFRS for SMEs, aligning with the null hypothesis (IFRS for SMEs). The results exhibit an uptrend in the FRQ of SMEs throughout the study duration. However, the hypothesis asserting that IFRS for SMEs standards have increased accounting conservatism in SMEs remains unrefuted. Conversely, the investigation reveals an upswing in SME earnings, signifying a positive influence of IFRS for SMEs standards on financial reporting.

Nonetheless, the study furnishes evidence that IFRS for SMEs standards have contributed to a heightened level of accounting conservatism among SMEs. In conclusion, the research offers substantial proof that meticulous accrual recording enhances FRQ, thus amplifying the reliability and utility of financial reports for stakeholders. The study concludes that the adoption of IFRS for SMEs has engendered a favourable impact on the financial reporting quality of SMEs, culminating in increased earnings and improved accounting conservatism.

5.4. Conclusion

According to the study's results, adherence to accrual accounting principles has been crucial in maintaining consistency and complying with recognised accounting standards among small and medium-sized businesses (SMEs). The study strongly supports the idea that proper accrual accounting has significantly improved the quality of financial reporting (FRQ) for SMEs, leading to increased confidence among stakeholders and greater usefulness of financial reports. The results indicate that the data is distributed normally, with data symmetrically centered around the average, which reinforces the validity of the analysis. The significant F-statistic and the high adjusted R-Square suggest that the regression model (Model 1) used in this study effectively captures and explains the relationships between predictor variables and the response variable. These findings reject the null hypothesis, confirming a meaningful connection between the variables.

Furthermore, the adoption of International Financial Reporting Standards (IFRS) for SMEs has positively impacted the quality of financial reporting. The study's findings reveal an increase in SME earnings, supporting the idea that implementing IFRS for SMEs standards has improved the quality of financial statements. Additionally, the study provides evidence to back the hypothesis that IFRS for SMEs accounting standards have fostered greater accounting conservatism among SMEs. In conclusion, the study offers substantial evidence that accurate accrual accounting and the adoption of IFRS for SMEs have boosted the quality of financial reporting for SMEs, leading to higher earnings and increased accounting conservatism. These findings underscore the importance of adhering to accrual accounting principles and embracing standardised reporting practices for SMEs, as they enhance the overall credibility and utility of financial information for stakeholders.

5.5. Recommendations arising from the study

Based on the results presented in the study, the following recommendations are suggested:

Continued Emphasis on Accrual Accounting to enhance FRQ for SMEs: The study underscores the importance of precise accrual accounting in enhancing the

quality of financial reporting for small and medium-sized enterprises after they implement IFRS for SMEs. As a result, it is recommended that SMEs persist in following accrual accounting principles to guarantee the uniformity and dependability of their financial data, as this significantly contributes to improving their financial reporting quality.

Awareness and Adoption of IFRS for SMEs: The results robustly endorse the favourable influence of IFRS for SMEs on the quality of financial reporting. It is recommended that small and medium-sized enterprises acquaint themselves with and embrace these standardised reporting methods to enhance the trustworthiness and usefulness of financial reports for their stakeholders.

Monitoring Working Capital Accruals: Even though some variables lacked statistical significance, the study suggests that working capital accruals may still have practical value. It is recommended that SMEs continue to monitor and analyse their working capital accruals, as they can provide valuable insights into the company's financial performance and position.

Further Research on Accounting Conservatism: The study provides evidence that IFRS for SMEs standards may have contributed to a rise in accounting conservatism among small and medium-sized enterprises. To better comprehend this relationship and its implications, additional research is suggested.

Continuous Improvement in Financial Reporting: While the results demonstrate overall improvement in FRQ over time, it is essential for SMEs to continue striving for better financial reporting practices. Regular evaluations and adjustments to reporting processes can lead to more accurate and informative financial information for stakeholders.

5.6. Limitations

i. The study's sample size was restricted to 100 due to the absence of an extensive SME database. This limitation arose because SMEs often do not widely disclose their financial statements to the public, as they are not always obligated to file or make their financial information public.

ii. The study's sample is confined to the SME sector in the Vhembe District of Limpopo province, primarily due to resource limitations. Expanding the study to encompass other SME sectors from various provinces across South Africa could enhance its scope and applicability.

iii. Regrettably, Pre-IFRS for SMEs data were not accessible for comparison with the post-IFRS period. Such a comparison would have been highly valuable in assessing the extent to which IFRS for SMEs has achieved its intended goal of enhancing financial reporting quality within SMEs.

5.7. Recommendations for further research

Here are potential areas for additional research:

i. A larger sample size should be considered for future studies. The current study employed a sample size of 100, which is acknowledged as a limitation.

ii. Future research may explore other municipalities within Limpopo and potentially extend the investigation to different provinces across South Africa.

iii. Subsequent research endeavours may involve comparing the Pre-IFRS for SMEs era with the post-IFRS for SMEs period for a similar study.

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ANNEXURE A: Variable Definitions

The variables used in this study are defined as follows:

Variable	Definition
$Accr_{i,t}$	total accruals, measured as the change in non-cash current assets minus the change in current non-interest-bearing liabilities, minus depreciation, and amortisation expense for firm i in year t , scaled by lagged total assets; (Kothari et al. 2005)
$\Delta Rev_{i,t}$	annual change in revenues scaled by lagged total assets; (Kothari et al. 2005)
$PPE_{i,t}$	property, plant, and equipment for firm i in year t , scaled by lagged total assets; (Kothari et al. 2005)
$ROA_{i,t}$	net income for firm i in year t scaled by average total assets; (Kothari et al. 2005)
$WCA_{i,t}$	working capital accruals, measured as the change in non-cash current assets minus the change in current liabilities other than short-term debt and taxes payable, scaled by lagged total assets; (Dechow and Dichev et al. 2002)
$OCF_{i,t-1}$	cash flow from operations, measured as the sum of net income, depreciation, and amortisation, minus WCA, where all amounts are scaled by lagged total assets (Chen et al. 2011)

$DOCF_{i,t}$	an indicator variable for negative operating cash flows (Dechow and Dichev et al. 2002)
$\Delta AR_{i,t}$	represents the annual change in accounts receivable (McNichols and Stubben et al. 2008)
DisWCA	A proxy of discretionary revenues developed by McNichols and Stubben (2008)
DisRev	A proxy of discretionary working capital accruals developed by Dechow and Dichev (2002)
DisTA	A proxy of discretionary total accruals developed by Kothari (2005).
FRQ (measured by DD)	the absolute residual of the modified Dechow and Dichev model as implemented by Francis et al. (2005) and Srinidhi and Gul (2007), multiplied by -1;

ANNEXURE B: Research Schedule

SURNAME : Sirembe

NAME : Ndivhuwo

STUDENT NO : 17002833

MODULE : Mcom in Accounting

Activity	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2021												
Writing and editing of the research proposal												
2022												
Writing and editing of the research proposal												
Presentation of the research proposal at the departmental level												
Effecting corrections and recommendations from departmental level												
2023												
Evaluation of the research proposal at the school higher degrees' committee												
Effecting corrections and recommendations from school higher degree's committee												
Data collection, analysis and writing of dissertation												
Editing of dissertation												
Printing, photocopying, Corrections, final binding, and submission dissertation												
Expected graduation date												

ANNEXURE C: Ethics Certificate

ETHICS APPROVAL CERTIFICATE

RESEARCH AND INNOVATION
OFFICE OF THE DIRECTOR

NAME OF RESEARCHER/INVESTIGATOR:

Mr N Sirembe

STUDENT NO:

17002833

PROJECT TITLE: **IFRS for SMEs and the quality of financial reporting:
Some evidence from the Limpopo Province.**

ETHICAL CLEARANCE NO: **FMCL/23/ACC&AUD/05/0601**

SUPERVISORS/ CO-RESEARCHERS/ CO-INVESTIGATORS

NAME	INSTITUTION & DEPARTMENT	ROLE
Prof V. Moyo	UNIVEN, Accountancy	Supervisor
Prof E.K. Oseifuah	UNIVEN, Accountancy	Co-Supervisor
Mr N Sirembe	UNIVEN, Accountancy	Investigator – Student

Type: **Masters' Research**

Risk: **Straightforward research without ethical problems (Category 1)**

Approval Period: **May 2023 – May 2024**

The Research Ethics Social Sciences Committee (RESSC) hereby approves your project as indicated above.

General Conditions

While this ethics approval is subject to all declarations, undertakings and agreements incorporated and signed in the application form, please note the following.

- The project leader (principal investigator) must report in the prescribed format to the REC:
 - Annually (or as otherwise requested) on the progress of the project, and upon completion of the project.
 - Within 48hrs in case of any adverse event (or any matter that interrupts sound ethical principles) during the course of the project.
 - Annually a number of projects may be randomly selected for an external audit.
- The approval applies strictly to the protocol as stipulated in the application form. Would any changes to the protocol be deemed necessary during the course of the project, the project leader must apply for approval of these changes at the REC. Would there be deviated from the project protocol without the necessary approval of such changes, the ethics approval is immediately and automatically forfeited.
- The date of approval indicates the first date that the project may be started. Would the project have to continue after the expiry date; a new application must be made to the REC and new approval received before or on the expiry date.
- In the interest of ethical responsibility, the REC retains the right to:
 - Request access to any information or data at any time during the course or after completion of the project,
 - To ask further questions; Seek additional information; Require further modification or monitor the conduct of your research or the informed consent process.
 - withdraw or postpone approval if:
 - Any unethical principles or practices of the project are revealed or suspected.
 - It becomes apparent that any relevant information was withheld from the REC or that information has been false or misrepresented.
 - The required annual report and reporting of adverse events was not done timely and accurately,
 - New institutional rules, national legislation or international conventions A it necessary

ISSUED BY:

UNIVERSITY OF VENDA, RESEARCH ETHICS COMMITTEE

Date Considered: May 2023

Name of the RESSC Chairperson of the Committee: Prof TS Mashau

Signature



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OFFICE OF THE DIRECTOR
RESEARCH AND INNOVATION

2023 -06- 01

Private Bag X5050

ANNEXURE D: Language Editor Letter

EDITOR'S LETTER

14 September 2023

To whom it may concern

Dear Sir/Madam

This is to confirm that I, Zitha Innocent have proof-read and edited a dissertation for the degree of Master of Commerce in Accounting in the Faculty of Management, Commerce and Law at the Department of Accountancy at the University of Venda, entitled: **IFRS for SMEs and the quality of financial reporting: Some evidence from the Limpopo Province**

by


Sirembe Ndivhuwo

Student Number: 17002833

I have further suggested several amendments which the student has undertaken to effect before the dissertation is finally submitted: Spelling, Grammar, Structure, and Format of chapters. This dissertation was Inspected meticulously for consistency and correctness in academic language usage and Citations.

should there be any inquiry, please do not dither to contact me.

Best Regards



Zitha I

Cell Phone: 0715430998/ 015 962 8922

Email: Innocent.Zitha@univen.ca.za

***BA (English), BA (Hons) English, MA English
Lecturer (English) at Science Foundation
University of Venda***