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The effect of International Financial Reporting Standards (IFRS) on profitability performance of SMEs in developing countries: a case of Uganda

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Abstract

With an ever growing importance of SMEs in developing countries like Uganda, where they account for over ninety percent (90%) of the private sector output and contribute greatly to around seventy percent (70%) the GDP of the country, like in all other developing nations, their performance can no longer be ignored owing to the fact that majority of them fail before their first birthday due to a number of reasons. This study sought to find out how International financial reporting standards do affect the performance of SMEs in developing countries with particular interest in Uganda. Despite the existence of the so many facets to performance of SMEs, this particular study looked at it from a profitability point of view. With a broader aim of trying to find means of how to stem the ever growing and a high failure rate of SMEs, as earlier studies have indicated that majority of them always fail within their first year of existence. While those that survive the failure, remain struggling throughout their business lives .The results from the primary data collected in this study revealed a significant value of 0.00 which is less than 0.05 confidence level from Pearson's correlation. An implication that SMEs applying IFRSs are performing better from profitability perspective, a view many business and management scholars didn't look at closely, a gap that this study has sought to close. Policy makers in developing countries are grappling with the problem of SME failure rates. It's high time, they advocated for a compulsory and full compliance of SMEs to IFRSs, as this study has already highlighted it as a possible solution for the future, which might save a number of SMEs from possible failure, hence stabilizing many emerging economies.

Key words: International financial reporting standard (IFRS), Small and medium enterprises

Introduction

Global accounting standards known as the international financial reporting standards (IFRS) were introduced in United Kingdom by International Accountancy Standard Body (IASB) in Late 1990 but were not compulsorily adopted for used in Europe until in 2003 (FASB, 2016) by different nations, as was permitted by European Union, while abandoning or some time harmonizing it with the local GAAP, which had been in use before. Adoption and application of IFRS has been highly thought after in order for different countries to come in line with Global financial and accounting reporting due to the ever growing numbers of international cross border trades between nations from different continents and the need to harmonies all global financial reports. When we talk of IFRS, we equally mean international accounting standards, as they were previously referred to. These are accounting standards that were developed by the international accounting standards

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board to enable all firms worldwide to have uniform set of financial reports and harmonised ways of transacting in their business. There has been both compulsory and voluntary adoption of these standards by a number of countries globally to achieve the above goal as way of enhancing their international trade.

Tremendous success has been registered in developed countries, for all firms complying with these standards both medium and large ones, In developing countries the story has been a little different owing to the fact that some countries have come on board, while others are yet to, that's to say, still relying on their local GAAP. Developing countries like Nigeria officially came on-board` in as far as adoption of IFRS in 2012 (Onipe, Musa, & Dania, 2015) despite the fact that some of its private banks had adopted as early as 2007, While its counter parts like Uganda had embraced the standards much earlier in 1998 (IFRS, 2015). Finding from works of (Clementina, Onuoha, & Egu Isu, 2014) highlighted some advantages like quality of financial reports accountability and transparency and few challenges like cumbersomeness of adoption of IFRS

Like South Africa and Nigeria, which are some of the emerging, though the strongest and most vibrant economies in Africa and the rest of the developing world, SMEs in Uganda have been struggling despite efforts made by different national and private institutions like the private sectors foundation in using a cocktail of remedies to salvage and stem their never ending down ward performance and hence collapse over the years.

SMEs make up about 90% of entities in the private sector in Uganda alone (Rwakakamba, Lukwago, & Walugembe, 2014) , (Nangoli, Turinawe, Kituyi, Kusemererwa, & Jaaza, 2013) came up with a list of factors feared to be the leading causes of business failure in Uganda and these included excessive competition amongst business firms, poor management of the SMEs and lack of entrepreneur skills amongst people running these entities among others. Though it addresses the cardinal issues of SME failure in Uganda, its failure to acknowledge the fact that since. time in memorial, Traditional remedies have been tried and not so much success has been registered, hence paving way for the need to try out new remedies like the application of IFRS, as a future solution for the SMES performance. A different study by (IEG, 2009) as part of the IFC and World Bank shows, that SMEs in Nigeria make up to ninety percent (90%) of all business in the country while they constitute 98% of formal and inform all firms in Rwanda (MINICOM, 2016), an underlying factor of how important SMEs are to emerging nations.

While there are a number of factors, influencing the performance of SMEs in developing nations namely; economic size of their respective countries from which they originate and operate, economic climate and market competitiveness including availability of market for their products and services. This study is centered around analysing how IFRS positively impact on the performance of SMEs to boost economic development of emerging nations.

This study focuses on examining how adoption and application of IFRS in emerging nations. Specifically, the study examines the IFRS and how they affect the profit performance of SMEs in developing countries, a case of Uganda.

The paper is organized in the following sections: section; 1 comprising of the introduction of the study, with section 2; being the reviewed literature conceptualized into three phases that is to say: The implication of IFRS on Cost structure of SMEs in developing countries, Implication of IFRS on the firms earning and fund acquisition by SMEs in developing countries. Followed by section 3; constituting the methodology, which explains sample selection process, research design and hypotheses testing. Section 4; presents detailed analysis of empirical results and section 5; is the conclusion including practical implications, recommendations and area suggested for further study coupled with potential limitations of the study undertaken.

Objective of the Study

To ascertain the relationship between International Financial Reporting Standards and profitability performance of SMEs in Uganda

Specific Objective

To ascertain the relationship between International Financial Reporting Standards and cost structure of the SMEs in Uganda.

To ascertain the relationship between International Financial Reporting Standards and fund acquisition from financial institutions by SMEs in Uganda.

To ascertain the relationship between International Financial Reporting Standards and earnings of SMEs in Uganda.

Statement of Hypotheses

Null Hypothesis (H_0)

There is no significant relationship between International Financial Reporting Standards and profitability of SMEs in Uganda

Alternative Hypothesis (H_1)

There is significant relationship between International Financial Reporting Standards and profitability of SMEs in Uganda

Review of literature

The adoption of IFRS has come with its own challenges, but even its benefits are immense. A number of academic scholars have thoroughly examined this topic in reference to how it has impacted on the world of finance. IFRS were developed by the International Accountancy Standard Body (IASB) and they were meant to govern the way company accountants would come up with the books of accounts because, each country the world over was using its own local GAAP before. The Global Accountancy body saw a need to develop and have a single set of accountancy rule that would govern how all financial reporting is done the whole world over .Uganda precisely started application of IFRS in 1998 from its Local GAAP and compact act which had been in use before (IFRS, 2015), without any modifications and with the guidance of Institute of Certified Public Accountants of Uganda (ICPAU), which is the official accountancy body in Uganda. While this study has examined the relationships between International Financial Reporting Standards (IFRS) and profitability performance of SMEs in Uganda. Other scholars like (Neag, Masca, & Păscan, 2009) through their study on Actual aspects regarding the IFRS for SME opinions, debates and future developments thought the tackled IFRS and SMEs.

By properly applying IFRS, different SMEs would properly classify their expense and would report on revenues in the correct period under IFRS 15 Revenue from Contracts with Customers, because a firm's revenue is very important, in its financial, it's imperative that it is reported on correctly and these is the cardinal role of IFRS, otherwise sales and profits will be distorted. Profitability is the positive difference between firm's revenue and its related costs; that is to say, fixed and variable cost. For any SME to register a reasonable amount of profits, it has to manage the maximization of its revenues and minimization of its costs. Because the cost element is composed of fixed and variable costs, little can be done to alter the outlook of fixed costs, hence it is the variable costs that constitute major cost element, which can be altered in case the SMEs were to move from

a loss to a profit making position. Concerning the effect of IFRS on the profitability of SMEs, the available and reviewed literature offered very limited guidance on the subject matter, a gap this study aimed at closing, implying that further research was needed on how IFRSs affect the profitability performance of SMEs in developing countries, with Uganda in particular. Previous research focused on IFRSs and other areas with very little or no particular attention being paid to performance of SMEs through the IFRS lens.

However, for the purposes of this literature, profitability was not looked at in isolation, it was conceptualized in terms of costs incurred by SMEs, earning/turnover registered for a certain period and the ability to obtain fund from financial institutions because, the first two affect profit and the last is affected by profitability.

Implication of IFRS on Cost Structure of SMEs

The literature reviewed under this section paints a mixed picture on the implication of IFRS on the cost structure of SME as indicated by the studies conducted by the different scholars, that despite the advantages of IFRSs, like the timely and quality of financial reports produced, (Barth, 2006), revealed that standards were not associated with lower equity cost, hence a strong evidence depicting that their applications was found to be very costly (Kipchoge, 2015), especially for SMEs in developing countries and this had a lot to do with their small size as compared to large firms that majorly enjoy economies of scale and are able to spread these costs over their large scale production. These costs in turn have affected the level of profitability firms are able to obtain.

(Bertoni & Rosa, 2013) further asserts that one of the main benefits emanating from these global set of accounting standards for SMEs is the increased international comparability of financial reports, making a good incentive for attracting investors to developing countries, adding that, because costs of adoption have remained high, this has had direct impact on the profitability of these business entities making it rather a complex and paradoxical situation. Yet (Ikpefan & Akande, 2012), differed from (Bertoni & Rosa, 2013) by looking at IFRS and the numerous benefits they offer to listed companies globally, meaning that companies do not operate in isolation. Hence the need to adopt global reporting standards; in an attempt to streamline their financial reporting, to suite in current global finance and business arena. In the long run, this has helped to minimize reporting costs as a result of common reporting systems and consistency in statutory reporting.

Secondly, it will enable comparison and benchmarking with foreign competitors where possible. Besides, adoption, IFRS may offer companies an edge over their competitors in the eyes of users, customers and any other key stakeholders which is likely to increase market for their products and services. Thirdly, since the adoption of IFRS transcends national boundaries, acquisitions and joint ventures among firms are often made possible, making it quite easy access to foreign capital through attracting investors. Lastly, companies can trade their shares and securities on stock exchange markets worldwide (Ikpefan & Akande, 2012) but these in most cases are big global corporations. Contrary to that view, most SMEs in developing countries are not listed on the stock exchange markets because; they do not meet the requirements for listing. For example, non-compliance with the IFRS (Ali & Korkmaz, Missing). As far as this study is concerned, the fore mentioned benefits result into increased sales, reduced costs and hence better profit performance for SMEs.

(Bertoni & Rosa, 2013) Disagrees with (Ikpefan & Akande, 2012) and asserts that full compliance with IFRS is considered to be excessively burdensome and expensive for SMEs, although in some countries IFRS are applied by all entities. For example in Uganda, no matter the size, therefore the proposed IFRS for SMEs introduces several simplifications when applied by different SMEs. Given the mandatory fall back to full IFRS for those topics not covered by IFRS for SMEs, simplification is partly achieved by omitting from the proposed IFRS for SMEs some issues hence not losing out on the fact that this makes it relatively cheaper to adopt and apply.

Implication of IFRS on Revenue of stream SMEs

All firms are in fierce battle to grow their revenue or earning for that matter, but certainly it's not easy and it doesn't cheaply come, amidst limited resources and tight competition for the available clientele base. Revenue has always been understood as that variable needed to enhance profitability of a firm of course with care and management of cost both variable and fixed, while firms can deploy a number of techniques for to revise and enhance their sale /revenue for better performance; like growing their market segments beyond those available, increasing the number of products ranges available in the market place and adjusting product prices that's to say selling price. But for the purpose of this study we concentrated on the impact of IFRS on revenue. IFRS are supposed to create functional accounting system with a firm enabling a company to be viewed in a positive sense, hence more business for it.

Most SMEs in Uganda for example; that complied with these standards, their tax regulation and other national standards like in consultancy business have won some serious government contracts through bidding and tendering. As part of the requirements for tendering for these jobs, is submitting audited finance statement for about the past three years and up to date tax compliance certificates.

Enhancing revenues of the firm move hand in hand with cost alteration (GrantThornton, 2011) Supports (Bertoni & Rosa, 2013) and adds that the IFRS for SMEs is based on full IFRS, and a cost-benefit approach has been taken into consideration in order to reduce the burden on SMEs that do report using these accounting standards. Many IFRS recognition and measurement criteria have been omitted or simplified and topics not relevant to SMEs have been scrapped off, with major aim of improving the operating efficiency of SMEs and hence better performance in terms of their profitability because, cost of application will have reduced while revenues performing better.

As much as this study was cantered on IFRS for SMEs as a way of improving their profitability performance of a firm, it was also important to remember that there are a host of other factors which need to be taken into consideration in a bid to enhance profitability, these included expenditure analysis, better price negotiations with suppliers, product price reviews and location or area review. Despite the fact that an entity can comply with IFRS as a way of turning around its profits, this cannot happen in isolation of other factors, meaning that it is imperative that an SME applies a holistic approach to performance to achieve its intended goal in the long ran example is the sensitive issue of pricing company products, it has a great influence in as far as revenues of firm are concerned, if not properly handled revenues are bound to be affected

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The United Nations confirmed presence of possible difficulties that are encountered in applying IFRS to SMEs in developing countries than elsewhere (United Nation, 2009) and (Cortes, 2008) thinks SMEs from developing countries find it more difficult to cope with typical SME challenges such as limited financial and human resources. A view different from that of (Oberholster, 1999) who thinks that; the unique challenges and the heterogeneous nature of SMEs in developing countries like South Africa, are not necessarily accommodated in the International Accounting Standards docket, in case of adoption. Despite the fact that (Zeghal & Mhedhbi, 2006) see the suggested decisions to adopt IFRS by developing countries in particular as being influenced by economic growth, educational levels, the degree of external economic openness, cultural considerations and existence of active capital markets. Their study falls short on realization that revamping the performance through profitability enhancement of SMEs constitutes one of the key objectives of IFRS adoption, a gap this research sought to address.

The reduction in costs will in turn help to increase on the profits of the firm, the similar view supported by (Ochi, 2014) said in an Asian review, that the adoption of IFRS frees companies from restrictions and enables them to gain various options, like cross-border fund procurement, capital tie-ups and business collaborations. Furthermore, IFRS help multinational companies with consolidated subsidiaries abroad to standardize management barometers and achieve uniformity of control, thereby enhancing the quality of managerial infrastructure that is essential in strengthening their international competitiveness.

In the context of this study, these activities have positive effect on revenue which results in increased profit margins of all firms including SMEs.

To ground it all, studies previously carried out, examined most aspects of IFRS and SMEs, but this particular one is the first of its kind, to critically go into the nitty-gritties of what exactly happen to a firm's revenues, when these standards are applied. This debate rages on, but at least, preliminary results from the literature review of different academic global scholars necessary for this research have indicated better revenue performance unlike in the pre IFRS adoption period. A number of factors might be attributed to this performance, like better revenue performance, increased clientele, and better product costing for the different entities. But amidst all these, we cannot fail to underscore the importance of adoption and proper application of IFRS.
Implication of IFRS on Fund acquisition by SMEs

In a study on adoption of IFRS at firm level, (Meeks & Swann, 2008) demonstrated that firms adopting IFRS had exhibited higher quality their financial reporting in the post-adoption period, than they did in the pre-adoption period. (Iatridis, 2010). But despite all these tremendous strides and progresses seemingly achieved by SMEs in developing countries on various fronts, most of them are still finding it very difficult to secure funds (Zairani & Zaimah, 2013) from financial institution like banks. According to (World Bank, 2015). Malawi specifically has about 760,000 SMEs but Sixty percent 60% of these are unable to access funding and worse still, are not permitted to raise fund from the public through national stock market listing like Uganda stock securities exchange, as many of them lack the necessary stock market listing credentials, like proper books of accounts well done according to the IFRS and so much more, lack of proper management to oversee this process.

Globally most organizations are under financial strain and hence are in dire need of operational funds to grow and invest. Majority of them have limited in-house funds for such purposes. So in an attempt to bridge this financial gap, they have been tempted to look elsewhere to financial institutions for funding. certainly many firms have not been successful because, they don't have good and robust asset backing against which the loans will be secured, they will have obtained from the financial institutions like banks, microfinance companies, but all this has happened at the backdrop of the firm not having sound financial statement sets prepared according to IFRS as the accepted accounting, sound management and well laid down financial proposal detailing how these fund will be utilized.

But away from what the SMEs can do on their own to secure funds for operation, Parrot a British ACCA free-lance tutor and ACCA academic writer in Uganda thinks otherwise. In his article he demonstrates that different governments have devised the different ways of trying to ensure that they intervene and providing funding opportunities to SMEs to support their new innovation, profitable projects and lastly, through allowing SMEs tax breaks. Large proportions of loans advanced by banks are guaranteed by the government, equity investment many countries have government-backed venture capital organizations that are willing to invest in the equity of SMEs (Parrott, 2015) while (Obamuyi, 2007) through his exploratory study on loan delinquency among small and medium enterprises (SMEs) in Ondo State of Nigeria, sights factors like poor credit worthiness, lack of collateral security and the constraint imposed on banks' capital by regulations, undermine the acquisition of funds by SMEs from financial institutions. Despite the fact that (Parrott, 2015)'s view is oriented toward a purely government intervention, (Madawaki, 2012), concluded on the basis of data collected from firms listed on the London Stock Exchange, that IFRS implementation has favorably affected the financial performance of firms in different ways; profit performance measure being one of them and growth potentials, as it is with this study. While the study is good as a benchmark, extra care must be taken, as it was conducted in developed countries and it analysed performance of listed firms which were not constituents of SMEs

(Iatridis, 2010), also established in the earlier studies on the basis of data collected from firms listed on the London Stock Exchange that IFRS implementation has favorably affected the financial performance While the reviewed literature strongly focused on finding how profitability and other factors which influenced it,

this entire discussion was centred on how it has been affected by the application of the accounting standard. A number of scholars had mixed arguments with some urging for, while others against, but with the way SMEs have been performing lately in developing countries, it looks like IFRSs are poised to bring about positive response in the performance of SMEs in developing countries, more so, that other performance metric like government intervention in form of availing SMEs with subsidies, providing some of them with tax breaks to allow them grow. All these have already been applied to curb their failure rate; it is time to apply a tested trick that has worked well in developed countries, that is to say, the application of IFRSs as a technique of last resort to salvage the never ending plight of SMEs in emerging nations.

(Iatridis, 2010) Investigated the impact of implementation of IFRS on key financial measures of UK. His study noted impending volatility in financial statements which awaits the adoption and applicability of these standards, a setback many firms might not ready for, But the same study pointed to one of the positive impacts being their bearing on the profitability aspect of those financial statements, which is rather a plausible explanation in as far as this study is concerned, but to achieve this kind of performance a holistic approach to aiding financial stability of SMEs should be adopted. It is against this background, that the two Nigerian scholars namely; (Emmanual & Daniya, 2012) think in their study on development of small and medium enterprises, the role of government and financial institutions, that majority of the SMEs in Nigeria are not able to get the necessary funding from financial institutions because of the high interest rate levied on them by these financial institutions and the urge to have the finances being secured against huge collaterals, which SMEs do not have, making it a strong bottleneck for the development and growth of these firms. Furthermore (Emmanuel & Daniya A, 2012) did put a lot of emphasis on government policy formulation, an area, likely to put issues of accounting standards on the spot, top of establishing financial institutions and encouragement of public private partnerships, as alternative means to meeting SMEs financial needs.

Methodology

This section explains the approach that was used to get information on the research problem. It comprises of the; research design, study population, sample size and sample selection, sampling techniques and procedure, data collection methods and instruments, procedure of data collection, and data analysis. The study was cross-sectional research design because; it is a subset of the entire population of SMEs that are applying International Financial Reporting Standards in Uganda. It was adopted to establish the relationships between IFRS and profitability performance of SMEs in developing countries taking Uganda, as its case study for the period between 1994 and 2014, (Türegün & Kaya, 2014).

The unit of analysis included business owners, accountants, Finance managers and auditors of SMEs. It focused mainly on auditing firms, hotels, consultancy firms, engineering firms and telecom companies which are fall within the bracket of SMEs and have been applying IFRS since 1998 to 2014 in their books of Accounts, reference was made to (Masca, 2012) in the study on Influence of cultural factors in adoption of the IFRS for SMEs, considered public authorities, standard setters, organization of accountants and auditors, and other organization of stakeholders.

Sample determination table was adopted in getting the required sample size, because there was need for a proper representative sample of SMEs that are applying IFRS (Morgan & Krejcie, 1970). A sample of 110 SMEs constituted this study and Purposive sampling was used in selecting SMEs particularly those that are applying IFRS from group of SMES in Uganda, while the population was 160 SMEs in total, from which the sample of 110 SMEs was drawn And the Scope of the study looked at firms in and around Kampala it, the business district of Uganda, where a number of them are located and do operate.

The data collection methods and research instruments that were used during the process of data collection included, questioning and interviewing supported by questionnaires and interview guides making the study both qualitative and quantitative. Questionnaires were used because, they generates highly structured responses and can be easily coded (Türegün & Kaya, 2014). Coupled with interview guides, in-depth interviews also

encouraged capturing of respondents' perceptions in their own words, which is a very desirable strategy in qualitative and quantitative data collection, which is in line with this study. Questionnaires were designed in accordance with the objectives of the study, and they were both close-ended and open-ended. Questions required the respondents to answer on a five-point Likert-scale anchored by (1) indicating strongly disagree and (5) agree on this scale. Similar scales have found suitable and have been used by (Myburgh, 2001) .
Statistical /data analysis

The demographic data such as education level, professional qualifications attained, and the number of people employed in the SMEs, whether SMEs maintained accounting records and nature of accounting records maintained was analysed in terms of frequency counts (%), (Elo & Kyngas, 2007)aimed at building a model to describe the phenomenon in a conceptual form and cross section research design was employed as its suitability was based on that fact, similar study on enhancing Business Survival and Growth Rates in LDCs (An Exploratory Study of the Drivers of Business Failure among SMEs in Kampala, Uganda) by (Nangoli, Turinawe, Kituyi, Kusemererwa, & Jaaza, 2013) with more less the same variable applied the same design.

Primary data collected, was analysed through descriptive statistics (Trochim, 2006) in terms of mode, median and standard deviations as measure of central tendency. It provided more accurate description of the entire data as opposed to Inferential Statistics (Trochim, 2006), which make inferences from available data to more general conditions. Descriptive statistics measures were preferred because; they illustrated the strengths and weaknesses based on the indicators in terms of mode, median and standard deviation.

Multivariate none parametric data such as the relationship between International Financial Reporting Standards (IFRS) and profitability of Small and Medium Enterprises (SMEs) in developing countries, Pearson chi-square and correlation tests were used to establish the statistical relationship between the dependent and independent variable. Adjusted linear regression analysis was used to see how the independent factors predictor associated with profitability of SMEs at P_values<0.05 level of significance.

Empirical Results

Descriptive Statistics

	N	Min	Max	Mode	Median	Std. Deviation
My SME earnings have increased	110	1	5	4.00	4.00	1.33
Implementation of IFRS at the cost that does not exceed the benefits to users	110	1	5	4.00	4.00	0.854
Adoption of IFRS offers an edge over our competitors in the eyes of the users by the SME	110	1	5	4.00	4.00	0.823
Ease to access business funding due to IFRS compliance with the SME	110	1	5	4.00	4.00	0.974
Financial statements prepared with guidance from IFRs in Consideration can be presented fairly by the SME	110	1	5	4.00	4.00	0.898
Valid N (list wise)	110					

From the results in the Table 1 above, majority of the respondents agreed that, with the application international financial reporting standards, SMEs were able to increase their earning/turnover which is a great component in profit determination as indicated by mode and median of 4.00 and a standard deviation of 1.33. If any SMEs wants do well in other aspect, it has to be able to demonstrate, that its can generate reasonable sales figure to satisfy its need and those of its shareholders and other companies stakeholders, this together with better cost management SMES can register desired profits. It is also revealed that the implementation of IFRS can be achieved by any SMEs at a cost that does not exceed the benefits to the users as indicated by a mode and median of 4 plus a standard deviation of 0.854.which brings this study in line with an earlier one

by (Omoregie, Adeparubi, & Iboi, 2014) which confirmed that there is cost reduction for SMEs that apply these accounting standards, though it also equally raise a contradiction by scholars like whose study indicated that there are costs related to application of IFRS, But from a technical point of view, this is understandable, reasons being that on first time adoption and hence application the learning curve is normally very steep because of the technicality involved, but this tend to improve as time goes on hence the need to spend less and improve cost performance which in the end translate into profit improvement a status desired by most SMEs in developing countries and this study seems to have solved that mystery.

The results further went on to reveal that the adoption of IFRS offers a competitive edge in the eyes of the users and other SME stakeholders like creditors, banks, shareholders, clients as noted by mode of 4 with a standard deviation of 0.823. Most stakeholders in the business environment are oriented toward having business dealing with firms that are competitive in the marketplace and IFRS have empowered firms to do just that. The respondents agreed that there is ease to access business funding due to compliance with IFRS by SMEs as noted, majority response of a mode of 4, with standard deviation of 0.974, will countered the earlier position held by many pervious global reports and publications plus a number academic scholars that, SMEs were unable to secure funds from financial institutions in most developing countries.

But with the adoption of IFRS, there are signs, that this slowly changing (Obamuyi, 2007) and the results further revealed that Financial statements prepared with guidance from IFRS in Consideration can be presented fairly as indicated by a mode and median 4.00 and standard deviation of 0.898 an indication that the information of the face of these financial statement, is more correct than before. hence this gives investor an opportunity to make more informed financial decision about where they should invests their scare resources, this has saved them the pain of investing in defunct SMEs ventures, with IFRS in place, investor are able to screen them and choose the best for the purposes of investing and has gradually improved the SMEs business environment and because SMEs constitute the majority of firms in these emerging economies, such will benefit these economies greatly.

Hypothesis testing

H_0: There is no relationship between International Financial Reporting Standards and profitability of SMEs in Uganda.

H_1: There is a relationship between International Financial Reporting Standards and profitability of SMEs in Uganda.

Table 2: Shows the Pearson's correlation Tests for International Financial Reporting Standards and profitability of SMEs in Uganda.

Correlations		International Financial Reporting Standards by SMEs	Profitability of SMEs
International Financial Reporting Standards by SMES	Pearson Correlation	1	.950**
	Sig. (2-tailed)		.000
	N	110	110
Profitability of SMEs	Pearson Correlation	.950**	1
	Sig. (2-tailed)	.000	
	N	110	110

**. Correlation is significant at the 0.01 level (2-tailed).

The results from the above Table 3, show results carried on tests for the relationship between International Financial Reporting Standards and profitability of SMEs in Uganda, Pearson Correlation was used. Pearson

Correlation value = .950** and Pearson sign value (2-tailed sign) = 0.000 at 0.01 level of significance. Since Pearson significant value (2-tailed sign) = 0.000 is less than 0.01 level of significance, the null hypothesis was rejected and alternative hypothesis is accepted, an implication that there is a significant relationship between International Financial Reporting Standards and profitability of SMEs in Uganda. while SMEs do need other techniques to make and grow their profits, This research provides confirmation that one of those techniques, which should not be ignores is the proper application of IFRS example is IFRS 15 Revenue from Contracts with Customers that deals with issues of recognition, measurement and presentation of revenue for, the sale of goods, rendering of services, and for interest, royalties and dividends. Which almost all SMES have to adhere to.

Further to this discussion, it's imperative that we look at what exactly the profitability performance entails as analysed and discussed in the table below.

Table 3: Regression International Financial Reporting Standards and profitability

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	4.626	.632		7.319	.000
	SME earnings have increased	-.193	.074	-.251	-2.598	.011
	Implementation of IFRS at the cost that does not exceed the benefits to users	-.035	.120	-.029	-.292	.771
	Ease to access business funding due to IFRS compliance with the SME	.069	.109	.066	.637	.526
	Financial statements done with IFRs in Consideration can be presented fairly by the SME	-.006	.112	-.006	-.057	.955

a. Dependent Variable: International Financial Reporting Standards

In assessing the relationship between International Financial Reporting Standards and profitability of SMEs in Uganda, linear variable combinations that contribute to this relationship both positively and negatively were analysed. Linear regression in the Table 3 was used to access the impact of the detailed factor predictors on the relationships between International Financial Reporting Standards and profitability of SMEs. The Unstandardized Coefficients of combined variables indicate that the relationship between International Financial Reporting Standards and share value is positive and significant (constant = 4.626, sign_value = 0.000 less than 0.005 level of confidence). However, the coefficients of independent predictors such as SME earnings have increased (B= -0.121 and sign_value = 0.011), implementation of IFRS at the cost that didn't not exceed the benefits to users (B= 0-.035 and sign_value = 0.771) and financial statements done with IFRS in consideration have had a fair presentation of financial information (B= -0.006 and sign_value = 0.955) are negative and not statistically significant. Shows rather contradicting picture all together, but it points to the fact that not all factors have the same strength in this kind of relations. On the contrary, the coefficients of ease to access business funding due to compliance with IFRS by the SME (B= -0.006 and sign_value = 0.955) are positive and though not statistically significant. But evidence enough to imply that firms can hardly fail to secure business funding from financial institutions, if their financial statements are proper and worked on in accordance with international financial reporting standards guidelines.

Conclusion and Recommendation

The failure rate of SMEs in Uganda, like in many developing countries globally is at a terrible rate and equally alarming, left unchecked over time, will have serious negative impacts and consequences on the performance of not only business firms but economies of these emerging nations as well.

The purpose of this study was to investigate empirically whether performance of firms through profitability improvement as one of the key indicators of performance would be enhanced to curb the current rate of collapse among SMEs, As a result of the application of IFRS, which are the new global accounting standards. This question has been answered and support is drawn from the results of Pearson correlation as seen above. Using empirical data collected from selected SMEs in Uganda as one of the developing countries, the results indicate that many SMEs in Uganda like all emerging economies, examples of Nigeria and South Africa are responding well to these newly introduced IFRS and hence their application is well suited to strongly impact on the profitability performance of these firms and a possible improvement on the ailing economic position of majority of these countries.

This study has provided further evidence showing that firms can no longer shun obtaining funds from financial institutions as was the case before. Now with the application of IFRS, they can produce financial statement which are well accepted by financial institutions and reflect well on the financial stand. The results from further analysis obtained through regression analysis of different factor predictors, have provided more conclusive evidence about the validity of these indicators, like the ease to access business funding due to IFRS compliance with the SME.

This research has provided a forum for researchers, practitioners, media, and policymakers to share a financial therapy research and practice on how SMEs should be revamped, not by any other factor, but rather by mere proper application of the global accounting standards. These empirical results have confirmed that the effect of profitability performance on SME in Uganda and other developing countries through Pearson's correlation Tests may simply be got and enhanced by not only applying these standards, but by applying them well to serve that intended purpose . With international trade gathering pace, SMEs in developing nations might find it hard, to compete with their counterparts in the developed world, unless their poor performance is stemmed on the global arena not only by government innervations like provision of subsidies and tax breaks, but by also their own initiative like registration with regulatory bodies like tax bodies, proper management, keeping books of accounts, but above all adherence to proper application of standard and professional ways of doing business, more so adherence to proper application of international financial reporting standards in coming up with their books of accounts. This will have created a huge mile stone in as far as their performance is concerned which, was the greatest motivation of this study.

Recommendations, In reference to the above conclusion, the researcher seeks to encourage a thorough application of IFRS by all SMEs in emerging nationals as gateway to enhancing their performance, they can achieve this, by revisiting their own individual performance models, with a clear emphasis on from national policy makers, charged with SMEs governance. And furthermore, recommends future Scholars to re-examine strategies which can be adapted to aid in the transformation of SMEs from medium and small enterprises into large corporations as well big global multinationals, beyond just performing well, after the IFRS compliance campaign has been achieved. Lastly, future scholars should have a much wide coverage in terms population and sample sizes for related future studies, which was a major limitation in this particular study.

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