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Effect of International Financial Reporting Standards Practices on Financial Performance among Small and Medium Enterprises in Homa-Bay Town, Kenya

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Abstract:
Small and medium size Enterprises (SMEs) play an important role in accelerating growth and sustainable development in developing countries. Despite high rate of formation,three out of five SMEs fail due to limited use of recommended accounting practices in their enterprises thus there is need for proper bookkeeping skills and sound knowledge on financial reporting. These SMEs also do not survive beyond two years of their formation citing under capitalization. The main objective of the study was to investigate the effect of international financial reporting standard practices on financial performance among SMEs in Homa-Bay Town, Kenya. The study attempted to: establish effect of book keeping practices; determine effect of auditing; examine effect of annual financial reporting; and evaluate managements' capacity to implement IFRS among SMEs in Homa- Bay Town, Kenya. The study adopted correlation research design and the Target population was 274 SMEs from which a sample of 160 was determined by sample size determination using Fisher's formula. Data was collected using questionnaire whose validity and reliability was established in the pilot test and Cronbach alpha measurement set at not less than 0.7. Quantitative data analysis was undertaken to generate both descriptive and inferential statistics, this was done using Statistical Package for Social Sciences (SPSS). Presentation of data was done in frequency tables and figures and the interpretation made based on the research objective. The study concluded that: book keeping had effect on financial performance among SMEs in Homa- Bay Town, Kenya.; auditing had a contribution effect on financial performance among SMEs in Homa- Bay Town, Kenya; annual financial reporting had a significant effect on financial performance of SMEs in Homa -Bay Town, Kenya and finally International financial reporting standards practices had a significant effect on financial performance among SMEs in Homa- Bay Town, Kenya. Regression findings revealed a strong positive relationship between International financial reporting standards practices and financial performance (R=.748; p value<.05). The study recommends the need for the management of SMEs in Homa- Bay Town, Kenya to embrace book keeping practices in order to achieve improved financial performance. Also the study recommends that auditing was necessary for the SMEs in Homa- Bay Town, Kenya to realize better financial performance. Further, the study recommends that the management of SMEs in Homa- Bay Town, Kenya to adopt the culture of annual financial reporting as an IFRS practice so that they may have good financial performance.

Keywords: *International financial reporting standards practices, financial performance, small and medium enterprise*

1. Introduction

1.1. Background of the Study

Small and Medium sized Enterprises (SMEs) play an important role in any economy through generation of employment, contributing to the growth of Gross Domestic Product (GDP), embarking on innovations and stimulating of other economic activities (Gamage, 2000). They cover a range of establishments in all sectors of the economy; they operate formally and informally, seasonally or year round and located in a number of areas including markets, streets, households or mobile.

Just like any other countries there is no standard definition of SMEs in Kenya. For example, national baseline survey of medium small enterprises carried out in 1999 define a small and medium enterprises as one which employ 6-10 people while a medium one is expected to have 11-100 employees (CBS et al, 1999). Regardless of the quantitative definition, it is agreed by virtually all stakeholders that SMEs in Kenya are the "missing middle." Their size and credit demand have outgrown the capacity of microfinance institutions, which offer small, short loans via group-lending methodologies, while the capacity of the SME risk profile combined with the lenders' lack of sophisticated risk assessment techniques makes many of them appear undesirable as credit customers for business banking.

Kimuyu and Omiti (2000), observe that 18.4% of the SMEs in Kenya cite access to credit as their second most severe constraint after market access Lundvall *et al*. (1998) show that manufacturing enterprises in Kenya that have limited access to credit tend to be less productive and demonstrate weak financial performance. A number of potential financiers and investors have often faced difficulties in understanding the performance of SMEs due to lack of adequate accounting information. Accounting information is important as it can help SMEs manage their short-term problems in critical areas like costing, expenditure and cash flows by providing information to support monitoring and control (Mitchell et al, 2000; Son et al, 2006).

Essien-Akpan (2011) also affirmed that adoption of International Financial Reporting Standards (IFRS) is a necessity in this era of globalization. Clifford and Demaki (1999) also observed that information (financial report) is the bedrock of effective management function. Without appropriate and reliable IFRS based financial statement, management cannot plan well, hire the right labor, provide effective control and leadership, identify managerial problems, find solutions and take decisions in the organization. Nyor (2012) also concluded that Nigerian companies should converge to IFRS in view of the fact that it was enhance better accountability and transparency and improve quality of reporting, despite its cumbersomeness and the initial anticipated problems.

Globally, the most successful companies use financial records as a basis of evaluating their performance (Bowen, Schoppe, & Vassa, 2009). Indeed, according to Onaolapo and Adegbite (2004), the variation in financial performance of SMEs can largely be explained by the level of accounting record keeping.

Regionally, Studies indicate that in most African Countries, record keeping has been embraced as a driving factor for SMEs financial performance. A case in point is that of Okoli (2011) who links proper record keeping to profitability of SMEs in Nigeria and argues that lack of proper record keeping makes it impossible for owners of small businesses to do critical assessment of their performance, and thus calls for the maintenance of proper record keeping in enhancing their profitability and performance. In Kenyan context, similar assessment conducted by Mairura (2011), the level of education, type of business ownership, number of employees, and age of business were drivers of record keeping in Nairobi, Kenya. However, Mairura (2011) failed to empirically establish the correlation between book keeping and SMEs financial performance.

A study by Lesirma (2014) indicated a positive relationship between reporting and financial performance of Savings and Credit Cooperatives (SACCOs) in Nairobi County. Research by Chelimo and Sophia (2014) revealed that about 60% of small businesses fail within the first three years due to management inefficiencies brought about by poor record keeping. This is in line with Ademola et al. (2012) whose study agrees that poor records can lead to financial inefficiency of small and medium enterprises hence leading to poor organizational performance.

Reed (2009) and Aruwa, (2009) also emphasize that small scale businesses must keep proper books and adequate records not only for the ordinary conduct of the business but also because it helps entrepreneurs reduce the possibilities of early failure, increase chance of business survival, increase the chance of profitability, serve as a basis for planning and controlling business operations and also helps to keep business in a sound and healthy state to face competition.

1.2 Statement of the Problem

Small and medium enterprise face several obstacles including being small in size, limited access to business opportunities and information, limited access to credit financing, difficulty in assessing risks and acquiring insurance, inappropriate government regulation, and lack of managerial skills and technical knowledge. Majority of SMEs wind up within their first two years of formation citing under capitalization arising from the aforementioned obstacles. At the core of SMEs limitations is inadequate or sometimes incompatible financial accounting and reporting.

International Accounting Standard Board (IASB) developed a reporting standard that was aimed at eliminating the incomparability factor while increasing the transparency of financial statements and heightening disclosure of the financial information. This was meant to reduce the sophistication of the International Financial Reporting Standards (IFRS) and Generally Accepted Accounting Practice (GAAP) which are tailored to the needs of large public companies and not to the special needs of SMEs. Whereas IFRS for SMEs has gained popularity in developed economies with positive improvements in financial performance, the situation in Kenya remains unknown. Most SMEs in Kenya either continue relying on keeping incomplete records or adopting IFRS at their own discretion. Against the background of persistent business failures witnessed among the SMEs, again it remains unclear whether this could be related to their accounting and financial reporting practices. Consequently, this study sought to establish the effect of IFRS practices on financial performance of Small and medium enterprises in Homa Bay County, Kenya.

1.3. Objectives of the Study

1.3.1. General Objective

The main objective of the study was to investigate effect of International financial reporting standards practices on financial performance among SMEs in Homa- Bay Town

1.3.2. Specific Objective

To address the general objective the study was guided by the following specific objectives:

- To establish effect of book keeping practices on financial performance of SMEs in Homa- Bay Town, Kenya.
- To determine effect of auditing on financial performance of SMEs in Homa- Bay Town, Kenya.
- To examine effect of annual financial reporting on financial performance of SMEs in Homa -Bay Town, Kenya.

1.3.3. Research Hypotheses

The study attempted to test the following research hypotheses;

- HO_1. Book keeping practices do not have effect on financial performance of SMEs in Homa- Bay Town, Kenya.
- HO_2. Auditing does not have effect on financial performance of SMEs in Homa –Bay Town, Kenya.
- HO_3 .Annual financial reporting does not have effect on financial performance of SMEs in Homa-Bay Town, Kenya.

2. Literature Review

2.1. Theories Anchoring the Study

2.1.1. Agency Theory

The agency paradigm was developed in the economics literature during 1960s and 1970s in order to determine the optimal amount of the risk- sharing among different individuals (Ross, 1973; Jensen & Meckling, 1976). Agency theory is a theory explaining the relationship between principals (shareholders) and agents (managers). In this relationship, the principal delegates or hires an agent to perform work in the best interest of the principal. The delegation of decision-making authority can lead to a loss of efficiency and consequently, increased costs (Jensen & Meckling, 1976). Agency theory has been one of the most important theoretical paradigms in accounting during the last 20 years (Lambert, 2001). It conceives disclosure as a mechanism which decreases the costs resulting from conflicts between managers and shareholders (compensation contracts) and from conflicts between the firm and its creditors (debt contracts). Therefore, disclosure works as a mechanism to control manager's performance. As a consequence, managers are stimulated to disclose information voluntarily. According to Healy and Palepu (2001), corporate disclosure is critical for the functioning of an efficient capital market. Firms provide disclosure through regulated financial reports, including the financial statements, footnotes, and analysis, and other regulatory filings.

Financial reporting is a key practice of corporate disclosure. However, there are multiple factors surrounding the quality of financial reporting. Beyer, Cohen, Lys and Walther (2010) argue that the function of corporate information environment is the dynamic interaction as a consequence of information asymmetries and agency problems between investors, firms and managers. Therefore, in a capital markets setting, the corporate information environment is shaped by the decisions made by managers' reporting and disclosure, mandated reporting and disclosures regulations, and analysts' expectations. Beyer, Cohen, Lys and Walther (2010) illustrate two very important rationales. Firstly, agency costs was reduced when mandated disclosure allows for more efficient contracting with agents as it can serve as a cost-effective way to commit to frequent and detailed future disclosures when the literature supports that more information can reduce agency costs (Shleifer & Wolfenzon, 2002).

The financial information users was receive more accurate and timely assessments about firm performances and the optimal level of corporate disclosure, market-wide cost savings and efficiency can be achieved relatively similar across firms (Dye & Sridhar, 2008). Leung and Ilsever (2013) also argue that one way to mitigate problems from agency relationship is to reduce the information asymmetry between managers and investors. This theory is deemed relevant in this study since SME owners have agency relationship with a number of stakeholders who require accurate information. Adoption of IFRSs would ensure that managers give and disclose relevant and reliable accounting information and reports to the shareholders thus reducing agency problems.

2.1.2. Signaling Theory

Signaling theory is useful for making describing behavior when two parties (individual or organization) have access to different information. Typically, one party the sender must choose whether and how to communicate (or signal) that information and the other party, the receiver, must choose how to interpret the signal. In circumstances of information asymmetry (Akerlof, 1970), signaling theory suggest that companies with superior performance (or good companies) use financial information to send signals to the market. Ross (1977) and Spense (1973) showed that if the cost of signal is higher for the bad type than it is for the good type the bad type may not find it worthwhile to mimic, and so the signal could be credible. Ross (1977) demonstrated how debt could be used as a costly signal to separate the good from the bad. Therefore, managers can be motivated to disclose private information voluntarily. This is because they expect this to provide (and to be interpreted as) a good signal about their company's performance to the market, and as reducing information asymmetry.

The adoption of IFRSs gives a positive signal of higher quality accounting and transparency (Tendeloo & Vanstraelen, 2005) and would also lead to lower information asymmetry and cost of capital (Leuz & Verrecchia, 2000). The provision of quality accounting disclosure would tend to reduce the opportunity for earnings manipulation and enhance the stock efficiency (Leuz, 2003). The higher disclosure requirements and financial reporting quality that stem from IFRSs implies that the adoption of IFRSs gives a positive signal to investors as information asymmetry and agency costs tend to diminish (Tarca, 2004). This is relevant to SMEs if they have to adopt and realize full benefit of IFRS.

2.1.3. Positive Accounting theory

Positive Accounting Theory (PAT) has been of interest to accounting theorists for around four decades. Positive accounting theory is considered as the mainstream in accounting choices research realm. Jensen (1976) asserts that PAT is managed to explain why accounting is what it is, why accountants do what they do and what affects these phenomena have on people and resource utilization. Watts and Zimmerman (1990) asserts that the accounting theory's role is to provide explanation and prediction for accounting practices.

According to Collasse (2000) PAT interferes with either on the level of standards setter or on the firm level when standards setter let the choice among several options. The observation of the first-time adoption of IAS/IFRSs options is located on this second issue. Belkaoui (1992) asserts that the central ideal of the positive approach is to develop hypotheses about factors that influence the world of accounting practices and to test empirically the validity of these hypotheses. Studies following this trend tested statistically the relationship between an accounting choice made by company and characteristics of firms (Chiapello & Desrosiere, 2003).

Positive accounting theory also focuses on the role of contracting cost and political considerations in explaining motives for making accounting choices when markets possess semi-strong form efficiency (there is information asymmetry), when there are significant costs in writing and enforcing contracts (agency costs), and when and there are political costs arising out of the regulatory process (Jensen & Meckling, 1976; Watts & Zimmerman, 1990). Contracting costs include transactions costs, agency costs, information costs, renegotiation costs and bankruptcy costs, and they are all crucial to accounting choice models (Watts & Zimmerman, 1978, 1990). PAT Investigate how particular contractual arrangement based on accounting numbers can be put in place in order to minimize agency costs associated with the problems. This theory is relevant in assuring conformity to GAAP which should guide the adoption of IFRS for SMEs.

2.1.4. Decision –Usefulness Theory

The decision-usefulness theory emphasizes the relevance of the information communicated to decision making and on the individual and group behavior caused by the communication of the information. Accounting is assumed to be action oriented, its purpose is to influence action, that is, behavior; directly through the information content of the message conveyed and indirectly through the behavior of preparers of accounting reports. The focus is on the relevance of information being communicated to decision makers and the behavior of different individuals or group as a result of the presentation of accounting information.

In the study of Patton and Littleton (1940), they gave user need even more prominent attention, including them in their statement of the purpose of accounting. The purpose of accounting is to furnish financial data concerning a business enterprises compiled and presented to meet the needs of management, investors and the public .The most important users of accounting reports presented to those outside the firm are generally considered to include investors, creditors, customers and government authorities.

Since accounting is considered to be behavioral process, this theory applies behavioral science to accounting. Due to this, decision usefulness theory is sometimes referred to as behavioral theory also. In the broader perspective, decision usefulness studies analyses of users of information. A behavioral theory attempts to measure and evaluate the economic, psychological and sociological effects of alternatives accounting procedures and modes of financial reporting.

2.2. Empirical Literature Review

Financial bookkeeping has become the foundation on which modern businesses thrive for growth and sustainability (Ademola, Olukotun, Samuel, & Ifedolapou, 2012). Businesses are highly dependent on financial records kept in the books of accounts indicating different transactions such as sales, purchases, income, and payments by an individual or organizations (Dawuda & Azeko, 2015).Indicators of poor financial record keeping were given by Onaolapo et al. (2014) whose study found out that poor financial record keeping manifests through lack of knowledge, low level of education, inadequate trainings and limited resources. The adoption of international financial reporting standards and the subsequent impact on financial reporting has been studied widely. George (2008) looks at the case of the United Kingdom, and finds that the adoption of IFRS reduces the incidence of earnings management, though the adoption by firms appears to be a strategic decision based on what was maximize the favorable appearance of the firm. George also finds that the value relevance of accounting information increases with the adoption of IFRS.

Overall the evidence on the association between voluntary IFRS adoption and accounting quality is mixed, although papers applying more recent data generally find relatively better accounting quality among the firms that adopt IFRS (Christensen et al, 2008). A common feature of these studies is that, much of the previous studies on IFRS compliance relates to voluntary adopters, which by definition suffer from selection bias (Ashbaugh, 2001). This raises the question as to whether we can attribute the improved quality to the application of IFRS per se. That is, does the application of IFRS have an incremental effect on accounting quality, or is the observed quality improvement a result of other changes implemented simultaneously by the adopting firms?

According to Takatsugu ochi (2014), by adopting IFRS all companies were free from such restrictions and gain various options such as a cross –border fund procurement, capital tie ups and business collaboration. Moreover, the advantages of using a uniform IFRS yardstick was help multinationals companies with consolidated subsidiaries abroad standardize management barometer and achieve uniformity of control, thereby enhancing the quality of managerial infrastructure that is essential in strengthening their international competitiveness.

2.3. Conceptual Framework

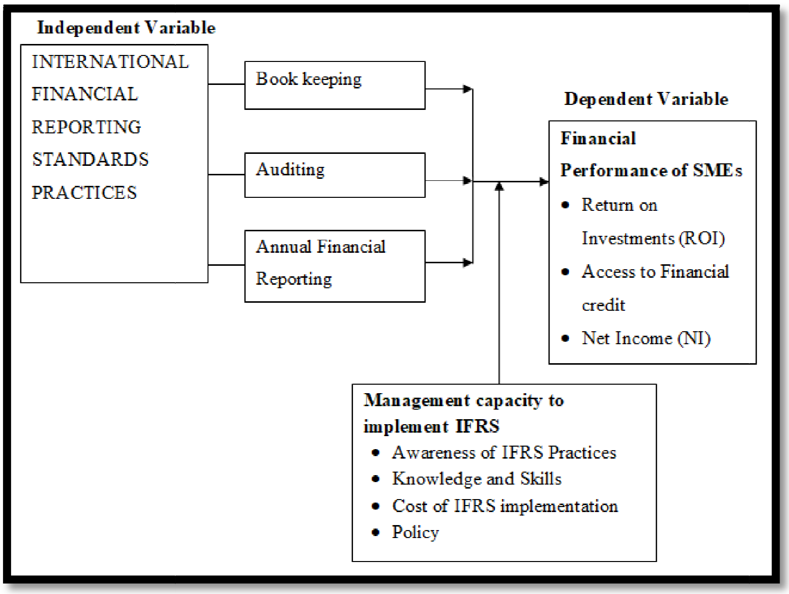

Figure 1: Conceptual Framework

3. Research Methodology

The study adopted a correlation research design which is considered appropriate in testing the effects of IFRS practices on financial performance of small and medium enterprises. The design fits with previous similar studies on SMEs and lends itself easily to replication in the current study. The target population of this study comprised of all 274 registered SMEs that are practicing bookkeeping in the Homa -Bay Town. This statistic is according to department of Trade, Industry and Co-operative Homa-Bay County government.

Random sampling was used to pick SMEs for the study. The technique is justified on the grounds that SMEs have similar characteristics, practices and challenges making their stratification into small and medium unjustified. This technique gave each of the 274 SMEs a chance to be studied making the study findings representative. In this research the study take 274 random samples of SMEs that practice book keeping in Homa-bay town in Homa-bay County. Random sampling was a representative of the entire population.

Data was collected using interviews and questionnaires distributed to each of the sampled SMEs. The questionnaire was designed in such a manner that the items address each study objective. The questionnaire was administered by the researcher and an assistant to take care of respondents who may not be literate enough to self-administer the questionnaire or those who may be willing to provide responses as they carry on with their work. The data was analyzed using both descriptive and inferential statistics.

The questionnaire items were pre-tested to test the ease with which respondents understood the questions and provide relevant responses. To ascertain internal consistency of the items Cronbach's alpha scale was calculated at a value of not less than 0.7 which is normally indicative that items highly correlate among themselves and there is consistency in measuring the concept of interest The validity of instruments was ascertained by first discussing the questionnaire and interviews schedule drafts with supervisors. The content validity of the instruments was found worthy executing for the pilot run and thus the study. After constructing the questionnaire, the researcher contacted the supervisors in order to get expertise judgment on the validity.

Data was analyzed using both descriptive and inferential statistics. Descriptive analysis was to deal with the third objective of the study while multiple regression analysis was used to determine the extent to which IFRS practices affect financial performance of SMEs in Homa Bay County as specified in objectives one and two of the study. Descriptive statistics was used to measure the qualitative data which was analyzed using the statistical analysis. The data was analyzed with the aid of Statistical Package for Social Science (SPSS). Tables and figures presentations as appropriate were used to present the data collected for ease of understanding and analysis. The generated qualitative reports were presented through tabulation, percentages and measure of tendency.

4. Results and Discussion

This section presents the results of data analysis and is structured as follows: presentation of the analysis of the response rate results, presentation of the descriptive statistics and finally the presentation of the inferential statistics

Statement	N	Mean	Std. Deviation
The business keeps records of all transactions made	135	2.89	1.250
The business issues the following documents in transacting with other parties – Vouchers, Receipts, Delivery notes, Invoices	135	4.42	.842
The business keeps journals for initial entries	135	3.52	1.152
The business keeps up to date Ledgers for transactions	135	3.24	1.259
The business extracts trial balances from information kept in the ledgers	135	3.44	1.049
The business keeps up to date Cash book	135	3.73	1.142
Overall Score	135	3.54	1.116

Table 1: Descriptive Analysis of Book Keeping Items
Key: 1.0-1-4Strongly Disagree (SDA), 1.5-2.4- Disagree (DA); 2.5-3.4- Neutral (N), 3.5-4.4-Agree (A) and 4.5-5.0 Strongly Agree (SA)

Table 2 shows that respondents strongly agreed that the SMEs in Homa Bay Town keep records of all transactions with a mean of 2.89 and standard deviation of 1.250. The SMEs keep up to date Ledgers for transactions had a mean score of 3.24 and standard deviation of 1.259; and up to date Cash book had a mean of 3.73 and standard deviation of 1.142. Respondents also agreed that the SMEs also issues the following documents in transacting business with other parties – Vouchers, Receipts, Delivery notes, Invoices had a mean of 4.42 and standard deviation of 0.842. The businesses also keep journals for initial entries with a mean of 3.52 and standard deviation of 1.152, and the business extracts trial balances from information kept in the ledgers had a mean of 3.44 and standard deviation of 1.049. The overall mean for book keeping was 3.54 with a standard deviation of 1.116.

Statement	N	Mean	Std. Deviation
The management conducts continuous audits	135	3.39	1.222
The management conducts periodic audits/final auditing	135	3.33	1.496
The management conducts interim audits	135	3.41	1.357
The management conducts annual audits	135	3.67	1.343
The management uses information generated from audits to identify strengths, weaknesses, opportunities and challenges of the business	135	4.50	.921
The management keeps all audit reports for future use by stakeholders	135	4.49	.953
Overall Score	135	3.8	1.215

Table 2: Descriptive Analysis of Auditing Items
Key: 1.0-1-4Strongly Disagree (SDA); 1.5-2.4- Disagree (DA); 2.5-3.4- Neutral (N), 3.5-4.4-Agree (A),and 4.5-5.0 Strongly Agree (SA).

The finding in Table 3 reveals that respondents strongly agree that the management uses information generated from audits to identify strengths, weaknesses, opportunities and challenges of the business with a mean score of 4.50 and standard deviation of 0.921. In addition, the respondents agreed that the management conducts continuous audits that help them identify errors and frauds at initial stages. This had a mean score of 3.39 and a standard deviation of 1.222. The management conducts periodic audits with a mean score of 3.33 and standard deviation of 1.496. Again, management conducts interim audits had a mean score of 3.41 and standard deviation of 1.357, annual audits had a mean of 3.67 standard deviation of 1.343. They also keep all audit reports for future use by stakeholders; this had a mean score of 4.49 and standard deviation of 0.953. The overall mean score of the auditing was 3.8 with a standard deviation of 1.215. This implies that majority of the SMEs preferred to conduct final audit based on the standard deviation of 1.496.

Statement	N	Mean	Std. Deviation
The business reports her annual financial performance in a comprehensive income statement	135	3.68	1.144
The business reports her financial position by preparing an annual balance sheet statement	135	3.61	1.210
The business reports sources and uses of funds by preparing an annual Cash flow statement	135	3.63	.912
The business reports annual Changes in Equity	135	3.63	1.028
The management uses information generated from financial reports to analyze financial performance and to inform progress of the business	135	4.28	.928
Overall Score	135	3.77	1.044

Table 3: Descriptive Analysis of Annual Financial Reporting Items
Key: 1.0-1-4Strongly Disagree (SDA), 1.5-2.4- Disagree (DA), 2.5-3.4- Neutral (N), 3.5-4.4-Agree (A) and 4.5-5.0 Strongly Agree (SA)

Table 3 reveals that respondents agreed that the business reports her annual financial performance in a comprehensive income statement ,this had a mean score of 3.68 and standard deviation of 1.144, the business reports her financial position by preparing an annual balance sheet statement ,the mean score was 3.61 and a standard deviation was 1.210; the business reports sources and uses of funds by preparing an annual Cash flow statement had a mean score of 3.63 and a standard deviation of .912; the business reports annual Changes in Equity with mean score of 3.63 and standard deviation of 1.028 and the management uses information generated from financial reports to analyze financial performance and to inform progress of the business, the mean score was 4.28 and a standard deviation was 0.928. The overall mean for annual reporting was 3.77 with a standard deviation of 1.044 this shows the agreement that annual financial reporting had effect on financial performance of SMEs in Homa- Bay Town, Kenya.

4.1. Financial Performance of SMEs

Statement	N	Mean	Std. Deviation
The business frequently achieves its investment goals	135	3.40	1.367
The business has consistently posted positive return on investment in the last three years	135	3.53	1.118
The management attributes the positive return on investment in the last three years to adoption of IFRS practices	135	3.51	1.105
Overall Score	135	3.48	1.197

Table 4: Descriptive Analysis of Return on Investments Items
Key: 1.0-1-4Strongly Disagree (SDA), 1.5-2.4- Disagree (DA), 2.5-3.4- Neutral (N), 3.5-4.4-Agree (A) and 4.5-5.0 Strongly Agree (SA)

Table4 reveals that respondents agreed thatthe business frequently achieves its investment goals with a mean score of 3.40 and a standard deviation of 1.367; the business has consistently posted positive return on investment in the last three years with a mean of 3.53 and a standard deviation of 1.118 and the management attributes the positive return on investment in the last three years to adoption of IFRS practices had a mean of 3.51 and a standard deviation of 1.105. The overall mean for Return on Investment was 3.48 with a standard deviation of 1.197 thus indicated an agreement that the SME had return on Investment.

4.2. Regression Analysis for International Financial Reporting Standards Practices and Financial Performance

The main objective of the study investigated the effect of International financial reporting standards practices on financial performance among SMEs in Homa- Bay Town.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.542[a]	.294	.278	.61964

Table 5: Model Summary of International Financial Reporting Standards Practices and Financial Performance
a. *Predictors: (Constant), Annual Financial Reporting, Auditing, Book Keeping*

Table 50 shows that there is a strong positive relationship between International financial reporting standards practices and financial performance (R=.542; p value<.05). The calculated R Square value of .294 indicates that International financial reporting standards practices contributed 29.4 % of variation in financial performance.

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	50.296	3	16.765	54.630	.000[b]
	Residual	39.589	129	.307		
	Total	89.885	132			

Table 6: ANOVA Test for International Financial Reporting Standards Practices and Financial Performance
a. Dependent Variable: Financial Performance
b. Predictors: (Constant), Annual Financial Reporting, Auditing, Book Keeping

Table 6 indicates that the regression model was statistically significant (F=54.630; p value=.000). As the p-value is less than .05, the null hypothesis was rejected. International financial reporting standards practices are therefore a statistically significant predictor of financial performance.

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.725	.495		1.464	.145
	book keeping	.448	.139	.260	3.237	.002
	Auditing	-.041	.091	-.039	-.453	.651
	annual financial reporting	.452	.103	.401	4.385	.000

Table 7: Coefficients of International Financial Reporting Standards Practices and Financial Performance

a. *Dependent Variable: Financial Performance*

Table 7 shows that the annual financial reporting is the most predictor of the financial performance, followed by book keeping and then auditing with the B values of .452, .448, and -.041 respectively. Also the study shows that annual financial reporting is the most significant variable with significant values of .000, followed by book keeping (.002) and finally auditing (.651). The regression model for the above result was:

*FinancialPerformance=.725+.448*Bookkeeping+.-.041*auditing+.452*annual financial reporting + error (4)*

The finding of the study implies that International financial reporting standards practices plays vital role in the overall financial performance. There was need for the management of SMEs in Homa- Bay Town to adopt the appropriate International financial reporting standards practices to realize improved financial performance.

5. Conclusion

The SMEs using International financial reporting standards practices has made a good choice because IFRS brings about transparency, accountability and quality reporting in the business. Based on the above findings, the study concluded that: book keeping had effect on financial performance among SMEs in Homa- Bay Town, Kenya; auditing had a contribution effect on financial performance among SMEs in Homa- Bay Town, Kenya; annual financial reporting had a significant effect on financial performance of SMEs in Homa -Bay Town, Kenya and finally International financial reporting standards practices had a significant effect on financial performance among SMEs in Homa- Bay Town, Kenya.

6. Recommendations

The international financial reporting standards have contributed to improvement of quality accounting reports by the SMEs. The SMEs should develop systems that can enhance the uses of these standards to improve the quality of reporting and presentation of accounting records in a greater perspectives .These reports will then be used as reliable documents not only taxation purposes but to be compared a cross the boundaries However, The study recommends the need for the management of SMEs in Homa- Bay Town, Kenya to embrace book keeping practices and auditing to realize better financial performance. Further, the study recommends that the management of SMEs in Homa- Bay Town, Kenya to adopt the culture of annual financial reporting as an IFRS practice so that they may have good financial performance.

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