



**ST. MARY'S UNIVERSITY  
SCHOOL OF GRADUATE STUDIES**

**CHALLENGES AND BENEFITS OF IFRS ADOPTION IN  
ETHIOPIA: THE CASE OF FIRST PHASE ADOPTERS**

**BY  
WORKU SHIFERAW**

**DECEMBER, 2018  
ADDISABABA, ETHIOPIA**

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**BY:**

**WORKU SHIFERAW**

**ADVISOR:-ABEBAW KASSIE (PhD)**

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WORKU SHIFERAW**

**Approved by the Board of Examiners**

**Dean, Graduate Studies**

**Signature & Date**

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**Advisor**

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**Signature & Date**

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**External Examiner**

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**Signature & Date**

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**Internal Examiner**

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**Signature & Date**

## **Statement of Declaration**

I Worku Shiferaw declare that this research, titled “challenges and benefits of IFRS adoption in Ethiopia, the case of first phase adopters” is done with my own effort. I have produced it independently except for the guidance and suggestions of my research advisor. I assure that this study has not been submitted for any scholarly award in this or any other university.

Name: - Worku Shiferaw

Signature \_\_\_\_\_ Date \_\_\_\_\_

**Endorsement**

Here with I state that Worku Shiferaw has carried out this research work on the topic entitled “challenges and benefits of IFRS adoption in Ethiopia, the case of first phase adopters”. This work is original in nature and has not presented for a degree in any university and it is sufficient for submission for the partial fulfilment for the award of Master of Science in Accounting and finance.

Advisor Name: Abebaw Kassie(PhD)

Signature \_\_\_\_\_ Date \_\_\_\_\_

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## **Acronyms /Abbreviations**

SPSS –Statistical Package for Social Science

IFRS - International Financial Reporting Standards

AABE- Accountants and Auditors Board of Ethiopia

ECEA - Ethiopian Commodities Exchange Authority

NBE- National Bank of Ethiopia

GAAP- Generally Accepted Accounting Principles

ECX - Exchange Authority

OAG-Office of the audit general

EPAAA-Ethiopian professional association of accountants and auditors

ASC-Audit Service Corporation

## **Abstract**

*This study examines the benefits and challenges of IFRS during first phase adopters on the implementation process of the standard in Ethiopia. However, the study raised two big research questions those are, what are the practical challenges face while adopt IFRS for the selected companies and what benefits gain by adopting this international standard. To answer this research questions the study uses survey research design and adopt the mixed research approach. In addition, the study used multiple data collection method, including face-to-face interview, questioners and document review. The questionnaire data were also analysed using descriptive statistics, data from interview and document reviews were interpreted qualitatively. Based on the analysis, the results show that IFRS adoption in Ethiopia will result in a number of important benefits like better quality of report, better risk management practice for management, increase cross border investment, reliability and accessibility of reports, financial statement disclosure is improved, mobility of professionals from one country to another country and intra country organization is easy and simple to a wide range of stakeholders, investors, companies and management as well. Furthermore, the main challenges in the process of implementing IFRS include significant cost of adoption of IFRS, need for training, lack of readiness to implement within the time frame set by the board, lack of adequate implementation guidance and lack of enforcement capacity are some of the key challenges facing the transition to IFRS. Finally, the thesis displayed practical implications for the government of Ethiopia and regulatory bodies in setting a firm deadline for the IFRS adoption and in following the proper application of all the adopted standards. The findings also suggest that a rigorous IFRS capacity building program should be embarked by the government, all regulatory bodies, firms and training institutions in order to provide the needed manpower for IFRS implementation.*

**Keywords:** Adoption, International Financial Reporting Standards, Ethiopia

# CHAPETER ONE

## 1. INTRODUCTION

### 1.1.General Background of the Study

Many countries and regions around the world have different financial reporting and accounting practices, which emanate from varying legal, culture, economic, social and political contexts (Deng, 2013). Heterogeneous financial reporting and accounting practices make it very difficult for users of accounting and financial reports to consolidate such information and make comparisons of firms that are listed in different countries (Prather-Kensey, 2006). Furthermore, in today's world with globalization, boundaries between countries and financial markets have been removed and mutual interdependence has increased.

The growth of multinational company activities, economic and political integrations between developed countries increases the efforts of developing countries to be part of the global market which in turn requires quality and transparent financial information (Alp and Ustundang, 2009). Today with internationalization of economic trade and globalization of businesses, preparation of financial statements in accordance with a nation's local accounting systems may hardly meet the needs of investors, business partners, financiers and decision makers (Gyasi,2009).

Economic globalization will lead to integration of capital markets throughout the world and the process of that integration can be facilitated through technologies like a globalized financial reporting architecture. With the effect of globalization, more and more countries are to open their doors to foreign investment leading to businesses expansion across borders; both the public and private sectors are increasingly recognizing the benefits of having a commonly understood financial reporting framework supported by strong globally accepted accounting and auditing standards (Wong, 2004). Accordingly, the introduction of a single set of high quality, understandable, enforceable and globally accepted financial reporting standards based upon articulated principles have been required (IASB).

International Financial Reporting Standards (IFRS) is gaining fast growing recognition around the world as countries and institutions such as capital market regulators, global banking regulators, international development agencies, professional accountants and

politicians all recognize the economic benefits embedded in the adoption of the standards (Botzem, 2012; Botzem & Quack, 2009: cited in Zori, 2015). The adoption of these standards as a replacement for local accounting standards is a signal of the move towards global governance of private regulation around financial markets and an increasing integration of world markets, free movement of goods and services, and the flow of investment capital across national boundaries. While standardization in accounting practices is important in many respects, particularly towards increasing comparability and uniformity of financial reports for companies operating in transnational boundaries across the world, it is still debatable to consider the notion that these standards are usable in all countries around the world.

Proponents of the globalized accounting standards present numerous arguments and perceived economic benefits associated with the adoption of IFRS in to local Jurisdictions. These arguments could be reasonable to countries with capital markets with a notion that IFRS is predominantly designed for capital market oriented economies (Zori, 2015). Nevertheless, in many countries, the idea of a globalized accounting standard still seems illusive; still the notion of economic benefits claimed by single set of globalized accounting standards is subject to criticism on the grounds that the globalized financial reporting system, which is designed based on western economic structures may not be effective in the context of the developing nations' economic realities. Why debates arise about the adoption/adaption of IFRS in spite of its founding rationales, economic benefits? What motivates a country's decision to adopt the standards and what important considerations are taken into account prior to the adoption of the standards? Following the effects of globalization and the World Bank & IMF joint study of the Ethiopian accounting system (ROSC, 2007), now Ethiopia has already embarked on adopting IFRS formally in her accounting system by issuing proclamation No.847/2014 for financial reporting and regulation No. 332/2014 "for the establishment and determination of the procedure of the accounting and auditing board of Ethiopia". As per the World Bank report (ROSC, 2007), significant gaps were indicated in the Ethiopian accounting system and financial reporting infrastructures and legal frameworks. Strong financial infrastructures and legal frameworks in a given jurisdiction could be prerequisites or preconditions that would be required for the effectiveness of IFRS adoption and implementation.

The Government of Ethiopia in 2014 passed the Financial Reporting Proclamation—a ground breaking piece of legislation enshrining the accounting profession's role in fostering the growth of the economy and ensuring the stability of the economy; and the related Council of

Ministers Regulation setting-up the oversight Board – the Accountants and Auditors Board of Ethiopia (AABE). The Proclamation sets out financial reporting frameworks applicable to different reporting entities and mandated AABE with the responsibility of regulating the accountancy profession and ensuring its development in the country.

During the early phase, The Board plans a three phase transition over a period of three years for reporting entities in Ethiopia. (AABE Nov. 2015) The transition plan is prepared on the basis of Article 54(1) of the Proclamation and anchored on the understanding that the Board and all stakeholders will follow the milestones and timelines as described in strategic plan of AABE,(AABE NOV.2015)

**Phase1:**

**Mandatory adoption of IFRS, for Significant Public Interest Entities - Financial Institutions and public enterprises owned by Federal or Regional Governments.** July 8, 2016 is recommended as the date for adoption of IFRS for all financial institutions and large public enterprises. The choice of July 8, 2016 is anchored on the need to give sufficient period (22 months) over which to effectively transit to IFRS. (AABE Nov. 2015)

**Phase 2:**

**Other Public Interest Entities (ECX member companies and reporting entities that meet Public Interest Entities quantitative thresholds) and International Public Sector Accounting (IPSA) for Charities and Societies,** All other public interest entities (ECX member companies and reporting entities that meet the qualitative thresholds for PIE) and Charities and Societies are expected to mandatorily adopt IFRS and IPSAs (for Charities and Societies), for statutory purposes, by July 8, 2017. This means that all other public interest entities and Charities and Societies in Ethiopia will statutorily be required to issue IFRS and IPSAs based financial statements respectively for the year ending July 7, 2018. ( AABE Nov. 2015)

**Phase 3:**

**Small and Medium-sized Entities,** IFRS for SMEs shall mandatorily be adopted as at July 8, 2018. This means that all Small and Medium-sized Entities in Ethiopia will statutorily be required to issue IFRS based financial statements for the year ending July 7, 2019. (AABE Nov. 2015)

Different research scholars conduct different survey studies about the adoption of IFRS in different developed and middle class economic level countries to investigate the challenges and to internalize the benefits of adopting IFRS in financial reporting system and their total

implication for economic development (Rao and Malyadri,2015; Iyoha and Faboyede, 2011; Apostolos et al, 2010; Archana Patro,2016; Daniel Ames1,2013),But no more empirical as well as practical investigation that assess the IFRS adoption effects on the developing country specially in Africa ,the author will conduct this research to identify and add important possible and high implication on adoption of IFRs challenges and benefits ,since our country is on the time of convergence towards on IFRS conducting such studies is very crucial for well-functioning of the design system of IFRS and hopefully the research add some important point to effective implementation of IFRS by identify challenges and benefits of IFRS adoption.

## **1.2. Statement of the Problem**

Now a day globalization causing economic, trading ,political and social convergence process all over the world .Recent years have seen major changes in financial reporting worldwide under which the most obvious is the continuing adoption of international financial reporting standard(IFRS)worldwide. International financial reporting standard (IFRS) are designed as a common global language and comparable across international boundaries. Progressive convergence processes replace many different national accounting standards. They are a consequence of growing international shareholding and trade and are particular importance for companies that have dealings in several countries (Rao and Malyadri,2015).

The expansion of International Trade and the accessibility to foreign stock and debt market has given impetus to increasing the debate on whether or not there is need to be a global set of accounting standards. As companies compete globally for scarce resources, investors and creditors as well as multinational companies are required to bear the cost of reconciling financial statements that are prepared using national standards. A set of studies have been conducted in relation to the importance (Apostolos et al., 2010; Iyoha and Faboyede, 2011) and the challenges of adopting IFRS (Alessandro et al., 2009; Robyn and Graeme, 2009). The other set of studies have been conducted on the effect IFRS has on companies and countries at large (Jermakowicz, 2004; Alicja et al., 2007; Susana et al., 2007; William et al., 2010).

Many countries begun mandatory adoption of international financial reporting standards(IFRS).IFRS removes many allowable accounting alternatives and some initial evidence show that IFRS limits managerial discretion to manipulate earnings , thereby improving earnings quality(Rarman and Courtenay,2012).

IFRS adoption requires providing more extensive information; transparency, quality and control systems of companies get strengthened. Thus IFRS not only impact the accounting figures but also brings in changes within the organization by strengthening their internal systems and processes. Overall the results indicate that adoption of fair value accounting and strict requirement in adhering to accounting standards have strengthened the financial figures and provided decision makers a transparent, true and fair accounting picture. Though the initial cost involved in transition is high, companies need to adopt IFRS to participate in a globalized financial market, to enable investors and other users of financial statements (Kumar,2015).

Proclamation lunched in 2008, Article23(1) of the Proclamation to Provide for Banking Business (Proclamation No. 592/2008) stipulates that “the National Bank may direct banks to prepare financial statements in accordance with the international statements standards, whether their designation changes or they are replaced, from time to time.” This showed that Ethiopian Government was not interested to adopt IFRS officially in 2008 when the proclamation was enacted and postponed the adoption for another time. Similarly after four years Article 26(1) of a Proclamation to provide for Insurance Business Proclamation No. 746/2012 stipulated “the National Bank may direct insurers to prepare financial reports in accordance with international reporting standards, regardless of the change. According to the analysis of the annual reports of corporate in Ethiopia, Corporate in Ethiopia has started to use IFRS in their financial reporting for the first time in 2002/03. The first organizations that used the term IFRS for the first time in their annual report in Ethiopia are government owned entities such as Commercial Bank of Ethiopia, Construction and Business Bank, Ethiopian Insurance Corporation , Ethiopian Airlines and banks. The analysis of the proclamations, regulations and directives, however, indicated that there was no national or regional law that required companies to adopt and implement IFRS in Ethiopia(Teferi,2009).

The aforementioned and other studies have been conducted to assess the adoption of International Financial Reporting Standards in different countries. Since European Union (EU) was the first to adopt IFRS across the globe, most of the research has been carried out on IFRS analyzing the data from member countries of EU. Comparatively fewer numbers of studies have been carried out on data from other countries. This study makes an attempt to bridge this gap and tries to assess the practical benefits and challenges faced by those public owned companies that are selected first to adopt IFRS by national bank directive by adopting



IFRS and making inference by using data with reference to IFRS adoption, benefits of IFRS for Ethiopia and challenges faced by the stakeholders in the process of adoption of IFRS.

Some study conducted on the Ethiopian context like Adoption, Challenges and perception of International Financial Reporting Standards (IFRS) on the Quality of Financial Reporting of Financial Institution in Addis Ababa, Ethiopia The main objective of this study was to assess the adoption, challenges and impact of international financial reporting standards (IFRS) on the quality of financial reporting of financial institution in Addis Ababa, and found that IFRS on the quality of financial reporting has significant correlation with the transparency, accountability and economic efficiency Melese Hailemichael(2016).

The other study also conducted on Challenges and Prospects of International Financial Reporting Standards (IFRS) implementation in Ethiopia and the study investigates the challenges faced in implementing, International Financial Reporting Standards (IFRS) by Ethiopian firms Those are a majority of respondents have indicated IFRS Enforcement capacity will be a key challenge for transition, the process is costly, complex, and burdensome, Institutional readiness require more attention for transition to IFRS, the more comprehensive the approach to conversion, the more respondents tend to agree with the factors influencing the transition, the complexity of IFRS as well as the lack of Implementation guidance and uniform interpretation are also key challenges in technical capacity area ( Firdawok Teshome,2017).

So basically the researcher stand from the former study limitation that is all the research is conducted as explorative type mean that at the early stage of the adoption of the standard and only limit the scope on private institution .why the researcher in this study is very interested to assess the challenges and benefits of IFRS adoption mainly on banks and government owned institutions that implement IFRS in the first phase after a successful transition period that mean at the end of deadline as of June 30,2018.

### **1.3. Research Questions**

The following two big research questions are design to achieve the above intended objective, this study tried to answer:-

- What are the practical benefits of adopting IFRS?
- What are the practical challenges faced by the companies?

## **1.4.Objective of the Study**

### **1.4.1. General Objectives**

The general objective of this study is to assess benefits and challenges of the adoption of International Financial Reporting Standards (IFRS) in Ethiopia banks and government owned enterprise.

### **1.4.2. Specific Objective of this Study**

- To examine the benefits of IFRS and supply to investor
- To examine the benefits of IFRS and supply to management
- To examine the benefits of IFRS and supply o companies
- To examine the benefits of IFRS to other stake holders(regulators, financial institutions, accounting standard setters and any law makers)
- To dig out all challenges that face while adopting IFRS related with capital, institutional readiness, technical capacity, existing laws and regulation, guidance and support and any others.

## **1.5.Significance of the Study**

The study would have many advantages for all practitioners and academicians by providing useful information about International Financial Reporting Standards and issues related to its adoption. It would also be useful for organization's management by providing information about the theoretical and actual benefits and challenges of adopting IFRS and also report under IFRS provide better quality financial statement with full disclosure this study provide evidence for the stakeholders and increase confidence for them.

It will be also very important for academic purpose by providing information in regard to statement of the problem. The study could also be used as an initiation for those who are interested to conduct a detailed and comprehensive study regarding the adoption of IFRS in Ethiopia.

And it would enable the governing body , other intuition that will adopt IFRS in the second and third phase of adoption program to avoid challenges , the higher responsible organ and the managements of companies to be aware of the perceived and actual benefits of

International Financial Reporting Standards and give insight on how to adopt these international standards most efficiently.

### **1.6.Scope and Limitation**

The aim of the study will be to assess the adoption of IFRS in Ethiopia limiting its scope to banks and government owned companies adopting this standard in the first phase. Due to time as well as resource limitation the author limit the study only for first phase adopters, hope fully the study shows all practice of IFRS in Ethiopian why because first phase adopters are huge companies in our country. This study focused on economic benefits of the adoption of IFRS and the challenges as well. In light of the limited research that exists on International Financial Reporting Standards and its adoption within the Ethiopian context, the study is built on the current body of knowledge and studies conducted in other countries context. and the other limitation during conducting the study was lack of availability of secondary data like the un voluntariness of the selected company to provide their financial statement make the study is not completed as propose not only this but also this study is not completed as the researchers intention due to problem related to un availability of selected respondents for interview.

### **1.7.Organization of the Paper**

This study is organized in to five chapters. The first chapter states the general introduction of the study. Chapter two presents the literature review regarding the research area of International Financial Reporting Standards and its adoption and therefore will set out the theoretical foundations for the research. The third chapter outlines the research methodology. The research results are presented in chapter four. The last chapter draws conclusions and implications, recommendation and wind up the report by highlighting future research areas.

## CHAPTER TWO

### 2. REVIEW OF RELATED LITERATURE

#### Introduction

This chapter presents a review of literature to worldwide accounting reporting standard, especially focus on international financial reporting standards (IFRS) and issues relating to the practical benefits and challenges of IFRS adoption. It consists of a general overview of standard setting body's, the emergence of IFRS, adopting progress and process of IFRS, and its benefits and challenges of adopting. In general, this section synthesizes existing empirical research in the area, analysis with the theoretical framework and ends by summarizing the review and identifying the gap in the existing literature.

#### 2.1. The development of international standard setting body

Diversity in accounting principles across countries can have a significant impact on the financial statement preparation and presentation as well as the amount that presents on the statement, with respect to some elements or value on financial statement considerable differences exist across the countries all over the world. Different accounting scholars state that financial reporting practice across countries differs due to legal system, taxation, financing system, inflation and national culture.

Because of globalization, the world's financial markets are becoming borderless from time to time and as a result companies, regardless of their size, seek capital at the best price wherever it is available. Investors and lenders seek investment opportunities wherever they can get the best returns commensurate with the risks involved. To assess the risks and returns of their various investment opportunities, investors and lenders need financial information (Pacter, 2015). Fritz and Lammler (2003) also indicated that growth in international trade and capital flows has triggered a rising economic integration in reaction to these developments; there has been an international homogenizing effect upon many customs, practices and institutions. In business life, this led, *inter alia*, to a desire to harmonize Accounting Standards among countries across the globe.

According to Stephen Zeff in *The CPA Journal*, the term Generally Accepted Accounting Principles (GAAP) was used for the first time in 1936 by the American Institute of

Accountants (known as the AICPA since 1957). Federal endorsement of GAAP began with legislation like the Securities Act of 1933 and the Securities Exchange Act of 1934, laws enforced by the U.S. Securities and Exchange Commission (SEC) that target public companies (<http://www.accounting.com/resources/gaap/>). In 1973, Financial Accounting Standard Board (FASB) became the designated organization in the private sector for setting standards that govern the preparation of corporate financial reports along with not-for-profit organizations. In 1984, the Government Accounting Standards Board (GASB) was formed under the Financial Accounting Foundation (FAF) umbrella to issue standards and other communications that result in decision-useful information for users of government financial reports. (<http://www.accountingfoundation.org>).

A lot of previous literature (e.g. Ball, 2006; Jeanjean and Stolowy (2008); Ramanna and Sletter, 2009; Li, 2010; Shabana and Samant, 2011; Quta, 2011; UNCTAD, 2012, and Rawat, 2013) argued for the necessity of single accounting standard for the globe. Shabana and Samant (2011,p46-47), for instance, argued in favour of the global convergence of accounting standards asserting that convergence in accounting standard is a very positive development as it: (i) contributes to the free flow of global investment and achieve substantial benefits for all capital markets stakeholders; (ii) improves the ability of investors to compare investments on a global basis and thus lower their risk of errors of judgment; (iii) has the potential to create a new standard of

Accountability and greater transparency, which are values of importance to all market participants including regulators, and (iv) creates an unprecedented opportunity for standard setters and other stakeholders to improve the reporting model. In backing of this view, Jeanjean and Stolowy (2008) indicated that with the globalization of international financial markets across the globe, the idea of adopting a common language for financial reporting to enhance international comparability has become widespread. Li (2010) also observed and explained that countries have permitted their domestic companies to use International Financial Reporting Standards (IFRS), an international reporting language in recent years.

## **2.2.Approach of adopting IFRS**

A country can change its existing accounting system to a globally recognized accounting standard called IFRS either by totalling replacing or customizing it with IFRS over time. The first approach is known as adoption or ‘big bang’ approach while the latter is called a

convergence approach. 'Big bang' approach is a strategic decision to adopt IFRS on a single date or, perhaps, a series of dates applied to companies of different sizes. Under this approach, once IFRS are adopted, all IFRS standards should be complied while preparing financial statements and the existing accounting standard should be replaced with IFRS; while in Convergence approach, gradual movement is made towards IFRS through customizing with the existing accounting standards and IFRS are applied gradually. Converging a few local standards to IFRSs each year can allow local preparers and auditors to learn a few topics at a time rather than immersing themselves in the full set of IFRSs and convergence approach can also allow time for necessary changes in local legal frameworks (IFRS Foundation Guide, 2013).

### **2.3.Challenges of adopting IFRS**

Accounting Professionals across the world have listed various benefits of adopting IFRS. In spite of these benefits, adoption of IFRS is a difficult task and has many challenges. For example Iyoha and Faboyede (2011) identified ethical environment and the ability to protect qualified and competent employees from being poached by other companies as main challenges facing Nigerian companies. Wong (2004) said that education and training are considered as major challenges militating against the adoption of IFRS.

As evidenced by the global experience, convergence with IFRS would have significant challenges common to all countries and companies. Additionally, there are also certain specific challenges that are unique to particular countries (Robyn and Graeme, 2009). With the adoption of the IAS Regulation, requiring all EU listed companies to prepare their consolidated accounts in conformity with IFRS, EU publicly listed companies are facing many challenges, including fair value measurements to be considered to a greater extent (Jermakowicz ,2004; Alexander, 2003). IFRS would also present a challenge by way of more complex financial reporting requirements and resultant increase in costs; and availability of resources with expertise in IFRS. Similarly from an overall perspective, amendments to regulatory requirements and tax laws would be required; and impact on IT systems and compensation structures would need to be evaluated (Apostolos et al., 2010; Jermakowicz, 2004; Alexander, 2003).

Jermakowicz et al. (2007) examine the challenges and benefits, including value relevance, of the adoption of IFRS by DAX-30 companies in Germany based on a questionnaire sent to

company executives. They find that most companies agree that implementing IFRS should improve the comparability of financial statements while the complex nature, high cost of adopting and lack of guidance for implementing IFRS, as well as increased volatility of earnings after adopting IFRS, are listed among the most important challenges of conversion to IFRS.

Korea Accounting Standards Board and Financial Supervisory Service (2012) in their report entitled “IFRS country report on IFRS Adoption, Implementation and the lessons learned” has shown that Korea had faced the following challenges at the earlier stages of adoption process: those are, there were troubles relating to unexpected additional costs, lack of accounting professionals, and unwelcoming public sentiment, etc. As the users, preparers and auditors of the financial statements encountered numerous challenges and difficulties in adapting to the new accounting standards (IFRS) as they were required to leave behind the accounting practice they were so familiar with and adapt to a new accounting paradigm that emphasizes: principles rather than

Specific rules; economic substance rather than legal form; consolidated financial statements rather than individual financial statements; and fair value measurement rather than historical cost measurement. However, to solve the third difficulty, the KASB employed multidimensional channels to improve the general perception of IFRS in Korea; for example, the KASB carried out on- and off-line education sessions and held numerous seminars and conferences to improve the understanding of IFRS.

#### **2.4. Benefits of adopting IFRS**

The adoption of IFRS has several benefits as evidenced by previous studies carried out by several scholars some of which include the following: (Leuz and Verrecchia, 2000): decreased cost of capital, (Bushman and Piotroski, 2006): efficiency of capital allocation, (Young and Guenther, 2008): international capital mobility, (Ahmed, 2011): capital market development (Adekoya, 2011): increased market liquidity and value (Okere, 2009): enhanced comparability (Bhattacharjee and Hossain 2010): cross border movement of capital, (Mike, 2009): improved transparency of results.

According to Jermakowicz and Gornik-Tomaszewski (2006) IFRS are not only relevant to external parties but are useful to management decision making as well. Caramanis and

Papadakis (2008) found that accounting information provided by financial statements prepared according to IFRS is reliable, relevant, understandable and comparable. In general, they believe that the quality of financial information has improved as a consequence of the introduction of IFRS.

According to Jermakowicz (2004) the adoption of IFRS will increase comparability of consolidated accounts as well as levels of transparency for many companies, e.g. through expanded segment disclosures, reporting unfunded pension obligations and the recognition of derivatives on balance sheets at fair value. Iyoha, and Faboyede, (2011), conducted a research on the adoption of International Financial Reporting Standards in Nigeria. The results of the study show that the introduction of IFRS in Nigeria will result in a number of important benefits for a wide range of stakeholders. The benefits of ease of using one consistent reporting standard in subsidiaries from different countries will accrue to companies while investors will benefit, amongst others, more confidence in the information presented in financial statements which they can understand and use. For policy makers (management), the adoption of IFRS will create better access to the global capital markets and a higher standard of financial disclosure for national regulatory bodies. Similarly, other stakeholders would benefit from overall better reporting and information on new and different aspects of the business.

## **2.5.The Application of IFRS in Ethiopia**

According to ROSC (2007), so far there is no particular accounting standard in Ethiopia. Even though some of the laws indicate to use Generally Accepted Accounting Principles for example the income tax proclamation of Ethiopia article 58(1), neither of the international standards are officially adopted. But very recently, the government of Ethiopia issued a proclamation called "**Financial Reporting Proclamation No. 847/2014**", which obliges all reporting entities established in accordance with the Ethiopian law or operating in Ethiopia.

According to the Financial Reporting Proclamation of Ethiopia, an authoritative bodies “the board “namely, **Accounting and Auditing Board of Ethiopia (AABE)**, is established by the Ethiopian council of ministers to guide and dictate the **implementation** of IFRS. It also state that, the role includes, “providing professional qualification training, supporting education and continuous professional development programs; *enforcing the financial reporting law and taking disciplinary measures on those who do not comply with the provisions of the*



*law and the regulation set by the Government and directives, other relevant policies and guidelines issued by the Board.” AABE, Its objectives, among others, are to promote the development of the accounting profession; and ensure the accountancy profession and acts in the public interest. The Proclamation also sets out financial reporting frameworks applicable to different reporting entities and mandated AABE with the responsibility of regulating the accountancy profession and ensuring its development in the country.*

The Board plans a three phase transition over a period of three years for reporting entities in Ethiopia. (AABE ) The transition plan is prepared on the basis of Article 54(1) of the Proclamation and anchored on the understanding that the Board and all stakeholders will follow the milestones and timelines as described in strategic plan of AABE. (AABE)

It also sets the financial reporting standards that reporting entities in Ethiopia should use when preparing their financial statements. These are:

- a) IFRS issued by IASB or its successor;
- b) IFRS for SMEs issued by IASB or its successor and;
- c) International Public Sector Accounting Standard (IPSAS) issued by the International Public Sector Accounting Standards Board or its successor.

Even if have its Owen challenge most professional who are interviewed believe that the change in accounting and reporting under IFRS, including the robust disclosure requirements, should improve comparability and improve financial transparency given the transition to IFRS might take much longer time than expected.

## **2.6. Empirical evidence**

Ojeka and Mukoro, (2011) conducted a research entitled International Financial Reporting Standards (IFRS) and SMEs in Nigeria: Perceptions of Academic. The paper has three objectives. The first objective was to identify whether the academic believe that the proposed IFRS for SMEs (Statement of GAAP for SMEs) will ease or alleviate the burden of financial reporting and preparation by SMEs in Nigeria. The second objective of the study is to find out if Nigeria government should support the adoption/adaption of IFRS for SMEs. Finally the study aims to find out how outspoken the academic have been towards the

adoption/adaptation of IFRS for SMEs in Nigeria. The result of the study revealed doubt among the academic about whether this would be so. This was in spite of the good and sincere intentions in establishing IFRS for SMEs. After reviewing the literatures and the empirical result, it was believed that Nigeria government should put all the necessary machinery in place to fast track the adoption of IFRs for SMEs in Nigeria. The result also showed that academics have been relatively quiet in time past in Nigeria since the IFRS for SMEs was proposed.

Nadia et al., (2011) in their paper about IAS/IFRS implementation in Romania; they tried to see the implementation of IFRS in Romania. The purpose of the study was to investigate in-depth, and explain the issues related to, the implementation of IAS/IFRS in an emergent country that recently adhered to the European Union, i.e. Romania. An institutional and structuration theory perspective is used to discuss two stages of IAS/IFRS implementation in Romania. Both primary (11 in-depth semi-structured interviews conducted with key factors involved in financial reporting) and secondary data (accounting regulations after the fall of communism, with respect to the implementation of IAS/IFRS) were collected. According to the findings of the study the two stages of IAS/IFRS implementation had different outcomes, with a more profound and qualitative impact of the second phase. The first step was a result of coercive external forces, that is, the influence of the World Bank. Given the lack of other factors to favor the change process, it is argued that the actual implementation of IAS in that period was very limited. Even though the second step meant a reduction in scope to only listed companies in consolidated accounts and financial institutions, it is argued that it was accompanied by a change process more significant than in the previous period.

Vrentzou E. (2011), attempted to see the effects of International Financial Reporting Standards on the notes of auditors. The study tries to combine the developments in the accounting area with those in the auditing area. More specifically, it presents the effects of International Accounting Standards (IAS) on the auditor findings and report. International Standards on Auditing (ISA) are revised in order to be accepted by the European Union as the common and formal auditing standards of the member states. The introduction of IAS has been one of the most significant developments in the history of the financial statements preparation and presentation. The effects of the application of these standards are present both on the valuation of the firm and on the presentation of its “true and fair view”. An extended analysis of the financial statements and the auditor reports is conducted. The effects

of International Financial Reporting Standards (IFRS) on the auditor reports and notes, for the first two years of their formal application, are analyzed. According to the findings of the study it is realized that the auditor notes and the equity adjustments they propose are positively related to the notes that accompany financial statements before the application of IFRS, whereas they are negatively related to the explanatory notes imposed by IFRS. The different role of the company's notes before and after the application of IFRS and the relevant change of the auditor notes are further examined. Ioannis Tsalavoutas and Lisa Evans (2010) investigated the transition to IFRS in Greece: financial statement effects and auditor size. The paper aims to explore the impact of the transition to International Financial Reporting Standards (IFRS) on Greek listed companies' financial statements with a focus on net profit, shareholders' equity, gearing and liquidity. It also seeks to examine any differences in the impact across the sub-samples of companies with Big 4 and non-Big 4 auditors. In line with the literature, the paper employs Gray's comparability index. The sample consists of 238 Greek companies, representing 75 per cent of the companies listed on the Athens Stock Exchange at the end of March 2006. Findings of the study shows that implementation of IFRS had a significant impact on financial position and reported performance as well as on gearing and liquidity ratios. On average, impact on shareholders' equity and net income was positive while impact on gearing and liquidity was negative. Only companies with non-Big 4 auditors faced significant impact on net profit and liquidity. They also faced a significantly greater impact on gearing than companies with Big 4 auditors. A large number of companies with material negative changes are identified, suggesting that transition to IFRS and the fair value option does not necessarily result in higher shareholders' equity figures many companies provided inadequate transitional disclosures. This is significantly related to auditor size. The findings of the study also suggest that reporting quality has improved under the new accounting regime, especially for companies with non-Big four auditors.

Apostolos A. Ballas, Despina Skoutela and Christos A. Tzovas (2010) conducted a research on the relevance IFRS to an emerging market by taking evidence from Greece. The paper aims to examine the relevance of International Financial Reporting Standards (IFRS) in emerging markets, with special reference to the case of Greece. The paper also adopts a mixed methodology relying primarily on secondary sources such as the relevant legislation, published annual reports and reports on the effects of the application of IFRS by Greek firms as well as the results of a postal survey addressed to the finance managers of the top 100

Greek firms. For the postal survey, a modified version of the questionnaire used by Tyrall et al. was adopted. Although the Greek environment was not appropriate for IFRS application, participants in the survey believe that their adoption improved the quality of financial reporting. The introduction of IFRS increased the reliability, transparency and comparability of the financial statements. This study provides insights regarding the extent to which the introduction of IFRS influenced the accounting information supplied by firms operating within the European Union.

Robyn Pilcher and Graeme Dean (2009) conducted a study on the implementation of IFRS in local governments: adding value or additional pain. The aim of this paper was to determine the impact financial reporting obligations and, in particular, the International Financial Reporting Standards (IFRS) have on local government management decision making. In turn, this will lead to observations and conclusions regarding the research question: “Does reporting under the IFRS regime add value to the management of local government?” Following analysis of a survey instrument distributed to all local governments in all states of Australia, this research reports on interviews within Australia’s largest state New South Wales (NSW). In general, findings suggest that for smaller councils and those situated away from the major cities, the time spent on complying with IFRS and various other legislative demands results in management accounting issues often being downplayed. According to the researchers a further paper needs to be conducted in order to determine in the second year of implementation the impact of IFRS both in Australia and, in the future, in other countries where local government is implementing IFRS.

Stella Fearnley and Tony Hines (2007) investigated how IFRS has destabilized financial reporting for UK non-listed entities. The paper aims to trace the development of attitudes towards financial reporting solutions for entities not subject to the European Union (EU) Regulation. This Regulation mandated application of IFRS for the group accounts of listed companies for financial years beginning 1 January 2005. It seeks to evaluate the alternatives in the light of changing attitudes to IFRS, and the accounting model being adopted, particularly focusing on the problems facing smaller companies. The paper employs qualitative analysis of data from two main sources: first, a series of interviews with financially literate individuals before IFRS was implemented in the UK; and second, from responses to ASB’s consultations on the future of financial reporting for non-listed entities. According to the findings of the study the increasing perception is that IFRS is overly

complex and is complicating the search for appropriate form of financial reporting for entities not covered by the EU Regulation. In particular, there is a difficulty in knowing the correct dividing point between large and small company accounting, and views on this have evolved over time. The needs of small and medium enterprises appear to have been ignored in the debates dominated by the requirements of global players. The research implications are that further, possibly more radical policy options need to be considered for smaller companies to ensure that the costs of financial reporting remain in proportion to the benefits.

Monir Z. Mir and Abu S. Rahaman (2005) conducted a research on the adoption of International Accounting Standards in Bangladesh. The aim of the paper was to evaluate the decision of the Bangladesh Government and accounting profession to adopt international accounting standards (IASs). The paper uses a variety of archival data and interviews with key actors, including preparers and users of annual reports, members of the Securities and Exchange Commission, and members of the professional accounting bodies. Findings of the paper shows that institutional legitimization is a major factor that drives the decision to adopt IASs because of the pressure exerted by key international donor/lending institutions on the Bangladeshi Government and professional accounting bodies. Such pressure results from not only the need to provide credibility to foreign investors but also the need for strong accountability arrangements with lending/donor agencies. However, the perceived undemocratic nature of the adoption process appears to be creating and enhancing conflict among various constituencies, resulting in very low compliance with these standards.

In spite of the quite many benefits of IFRS adoption, it is also a difficult task and has many challenges. As evidenced by the global experience, convergence with IFRS has significant challenges common to all countries and companies and there are also certain specific challenges that are unique to particular countries and companies. Growing bodies of literature revealed that more complex financial reporting requirements; resultant increase in costs; availability of resources with expertise in IFRS; ethical environment, the ability to protect qualified and competent employees from being poached by other companies and from an overall perspective, amendments to regulatory requirements and tax laws; and impact on IT systems and compensation structures are the main challenges of IFRS (Iyoha and Faboyede, 2011; Apostolos et al., 2010; Jermakowicz et al., 2007; Jermakowicz, 2004; Wong, 2004; Alexander, 2003). Countries adopt International Financial Reporting Standards. Adoption of IFRS has a number of important benefits for a wide range of stakeholders such as, increased

comparability of consolidated accounts, increased levels of transparency, better access to the global capital markets and other stakeholders would benefit from overall better reporting and information (Iyoha and Faboyede, 2011; Apostolos et al., 2010; Jermakowicz et al. 2007; Alicja et al., 2007; Susana et al., 2007; Jermakowicz, 2004).

## **2.7. Summary and Gap in the Existing Literature**

Now is the time in which the first phase adopters prepare their financial statement in accordance with IFRS standards in Ethiopian as of June 30 2010, E.C as you know ,Because of the problems associated with worldwide accounting diversity, attempts to reduce accounting differences across countries have been ongoing for decades (Nobes, 2004). Because of the advantages it provides for countries and multinational companies, many Although various survey studies have been conducted to assess the adoption of IFRS in different countries of the world, most of the studies have been carried out on IFRS analyzing the data from member countries of EU (Apostolos et al., 2010; William et al., 2010; Alessandro et al., 2009; Robyn and Graeme, 2009; Alicja et al., 2007; Jermakowicz et al., 2007; Susana et al., 2007; Jermakowicz, 2004). Comparatively fewer numbers of studies have been carried out on data from other countries (Iyoha and Faboyede, 2011; Ojeka and Mukoro, 2011). Even though IFRS seems to be equally important for all countries, there is a dearth of empirical study that examines the data from developing countries and in particular Ethiopia. most study is conducted in our country before the implementation actually run away on the selected organization and the author of this finding believes most of those studies are theory based because it takes place on the time of the processes of convergence Therefore, this study makes an attempt to bridge this theory based literature with practical challenges and benefits that face in the first phase adopter and elaborated the practical benefits due to IFRS adoption and to identify challenges that could face while the adoption of IFRS in Ethiopia Second and Third phase adoption process.

## CHAPTER THREE

### 3. RESEARCH DESIGN AND METHODOLOGY

#### Introduction

This chapter describes the methodology that used in order to conduct the study. It describes the types of methods selected for data collection and analysis and the reasons for why these methods were chosen in comparison to the other alternative methods. The chapter consists of the following sections. The first two sections present the research approach and the survey design of the study. The rest part is about data analysis and presentation methods and the final section outlines the validity of the study.

#### 3.1. Research Approach

Research approach refer to the methods of data collection, methods of data analysis, interpretation, methods of communicating findings, validation and the questions to be addressed, The selected strategy of inquiry equally determines the research methods. As per Creswell (2003) there are three approaches that are used in conducting a given research. These are quantitative, qualitative and mixed research approach. Quantitative research approach focuses primarily on the construction of quantitative data, and quantitative data is a systematic record that consists of numbers constructed by researcher utilizing the process of measurement and imposing structure (Kent, 2007). The quantitative research approach employ measurement that can be quantifiable while qualitative cannot be measured (Bryman& Bell, 2007). In mixed research approach inquirers draw liberally from both qualitative and quantitative assumptions (Creswell, 2009). In this paper the researcher used mixed research approach; the rationale for combining both quantitative and qualitative data is to better understand a research problem by combining both numeric values from quantitative research and the detail of qualitative research and to neutralize limitations of applying any of a single approach. According to Creswell (2009) the mixed research approach uses separate quantitative and qualitative methods as a means to offset the weaknesses inherent within one method with the strengths of the other method.

To see the adoption IFRS in Ethiopia the concurrent mixed method design is used. The concurrent mixed approach is probably the most familiar of the major mixed method models, it can be used to gather primary data from a single respondents quantitatively or qualitatively

at the same time basically it is allowed to dig data through interview and questioners regarding about benefits and challenges of thus posse by adopting IFRS in for the respondent respective office. It is selected as the model, when a research uses two different methods in an attempt to confirm, cross-validate, or corroborate findings within a single study (Creswell, 2009). In this case, the quantitative and qualitative data collection is concurrent, happening in one phase of the research.

### **3.2.Survey design**

This study has intent to assess the benefits and challenges of International Financial Reporting Standards implementation in Ethiopia on practical assessments for first phase adopters. To do this, the methods employed are survey design. Survey research according to Fowler (1993) is a means of gathering information, usually through self-report using questionnaires or interviews. Its purpose is to generalize from a sample to a population so that inferences can be made and it is also economical and rapid turnaround in data collection (Creswell, 2003). This survey was conducted by means of self-administered questionnaire which was distributed to finance officers, finance manager, Controllers or Accounting Directors and accountants of companies which are implementing IFRS during the process of first phase IFRS adopters that are selected in this research. Questionnaire is a common place instrument for observing data beyond the physical reach of the observer (Leedy, 1989).the researcher use questionnaire to get primary data from the selected respondent that is more detail and very vital to this research work.

### **3.3.Sample selection**

Sampling is the process of choosing from a much large population, a group about which the researcher wish to make statements so that the selected part will represent the total group (Leedy, 1989). The population considering in this study is the number of government owned enterprise in Ethiopia and banks which adopt IFRS as per AABE schedule those are 57 companies . More on our assessment focus only government owned huge companies and banks thus are Ethiopian airlines, Ethiopian insurance corporation and Ethiopian telecommunication and all commercial banks because According to the register of National Bank of Ethiopia (NBE) those public owned companies and banks are introduce first as beginner of IFRS reporting standards and the researcher believes the selected company have very huge capital and have large capital inflow and outflow, having bulk daily business



transaction as well as having long years history in the country for this reason those are representative of the rest companies that does not include in the assessment. To do this study the researcher use purposive sampling specially judgmental sampling for selected companies gathered necessary information or data from the respected person for each office related with accounting practitioner activity the reason behind this is the researcher conduct the assessment only the concerned organ that mostly participate during the implementation phase of the standard for each office and in advance it can not possible to determine the number of respondents in which the assessment included that is why the researcher use random selection of respondents from sample that are selected based on judgment only for the respondent that are doing on the profession for this mater a total of 120 questionnaires distributed to the selected respondents among that 115 were collected and the remaining 5 of them were lost due to negligence of the respondents among 115 only 110 have usable responses so total of 110 questionnaires were collected to conduct this study.

### **3.4.Data Collection Instrument**

This study use both primary and secondary data. Primary sources of data include interview and questionnaire, whereas secondary data was generated through a review of relevant documents.

#### **3.4.1. Questionnaire**

Questionnaires were distribute to finance officers, Auditors, Accountants and consultants in the samples who are deemed to be knowledgeable about IFRS and could provide important perspective on its implementation. The response is expected to help understand the perceived and actual challenges and prospect of International Financial Reporting Standards both for companies and for the country at large. The research evidence was gathered by using both close-ended and open-ended questionnaires. Mixed questionnaires have many merits; the most important of this advantage is its considerable flexibility (McNabb, 2005).

The questionnaires were structure based on those used by Iyoha and Faboyede (2011), and Sharif (2010) because the questionnaires used by the above mentioned authors are more closed with this finding and already test by different validity measurement that are applicable internationally that is why the author is interested to use and site them. .With regard to the

close- ended questions, the respondents were asked to indicate their level of agreement on a five point Likert scale

### **3.4.2. Interview**

Semi structured interview will be conduct with financial managers, Accountants and audit of the selected companies were conducted. It allowed the investigator some degree of flexibility at the time of interviewing for the pursuit of unexpected line of inquiry which was arising at the study progresses. Questions in the interview checklist were constructed based on the review of literature.

In the process of preparing, testing and using the instruments, the following procedures have been followed

- ✓ The questionnaires and the interview guides will be develop based on literature review relevant to the issue and the specific objectives
- ✓ Both tools were judged for their validity using professionals in the area
- ✓ In the final study, the questionnaires and interview were administered both by the researcher and assistants.

### **3.4.3. Document Review**

The review of documents include like financial reports, guide line for adopting IFRS and any supporting journals and articles that helps the researcher to understand the key facts of the organizations. The documents were reviewed by referring most recent information from authorized documents and different reports. Annual reports, legislations, directives and other documents related to the implementation and importance of IFRS will use. The documents reviews were use to triangulate the data that were collected by the questionnaires and interviews. The author by reviewing documents and making interview can get data's like financial report presentation and requirement of IFRS , opportunity that have been created by using IFRS ,how the report relate with laws and regulation and others.

### **3.5.Data Analysis**

As explained in the preceding part, the research is designed to follow a mixed method. To this end, both qualitative and quantitative analyses were used. Data collected using questionnaire were analysed through descriptive statistics, ratio, percentage and frequency distribution. It helps to describe what the data look like, where their centre (mean) is, how broadly they are spread in terms of one aspect to the other aspect of the same data (Leedy, 1989). The SPSS is used to find out percentages, mean values, frequencies and standard deviation, etc. as main means for summarizing the data, so mean means the standard in which the respondent average response for each question and it were interpreted as one to five likert scale response the mean value greater than or equal to three has been interpreted as agreement with the raised question. Data collected from the interview and reviews of documents are interpreted qualitatively. In analysing the data from interviews, narrative approaches including quotations from respondents have been used.

### **3.6.Validity and reliability test of the Study**

Validity refers to the degree to which a study accurately reflects the specific concept that the researcher is attempting to measure or describe. In order to keep the validity of the study, researchers should be concerned with both external and internal validity. Internal validity refers to the extent to which the researcher can demonstrate that he has reliable and adequate evidence for the statement (Grix, 2004). External validity on the other hand stands for the extent to which the conclusion is generalized to the population (Yin, 1994).

Yin (1994) suggested using multiple sources of evidence as the way to ensure construct validity. This study used multiple sources of data including document review, interview and questionnaire that helps to cross validate the data. In addition, the study used instruments developed by Iyoha and Faboyede (2011), and Sharif (2010). Since questions are tested up on their clarity and understand and significant conclusions are drawn using those questions, it adds both to the internal and external validity of the study. In order to keep the validity the researcher chose representative respondents which are familiar with the issue and are experts in the field, which enhance the external validity of the result.

## CHAPTER FOUR

### 4. RESULTS AND DISCUSSION

#### Introduction

This chapter explains and discusses the results of findings based on the analysis done on the data collected. The results of the study are discussed by triangulating the different sources results: questionnaire results, interview and document review results. The discussion attempts to accomplish the objectives of the study by answer the research questions with detail discussion through integrate data obtain from interview and document. A total of 120 questionnaires which dealt with the Adoption of International Financial Reporting Standards benefits and challenges were distributed to the undefined sample size for banks and selected companies which adopt this international standard at the first phase of adoption. However, only 115 questionnaires were collected out of which 110 questionnaires had usable responses (91.7% response rate). Compared to other IFRS adoption studies and considering the difficulty of collecting data in developing countries such as Ethiopia, a 91.7 % response rate was reasonably good. All the survey respondents were located in Addis Ababa.

As indicated in the previous chapter, survey was the main strategy of inquiry adopted to investigate the adoption of IFRS in Ethiopia. To this end, the results obtained from the survey were analysed through descriptive statistics and frequency distribution. Descriptive measures of the questions response, the results of frequency distribution, interview and document sources results are presented in the subsequent sections.

#### 4.1.General Information

##### 4.1.1. Respondent Gender

Table 4.1: Respondent Gender

| Gender | frequency | percentage | Cumulative percentage |
|--------|-----------|------------|-----------------------|
| Male   | 65        | 59         | 59                    |
| Female | 45        | 41         | 41                    |
| TOTAL  | 110       | 100        |                       |

Source: Survey result, 2018

From the above Table 4.2, the total 110 of respondents 58.2% or 65 of them are Males the remaining 41.8% or 41 of respondents were females. This implies the gender distributions of official in those assessment offices are nearly balanced.

#### 4.1.2. Educational Background of respondents

Table 4.2: Respondents Education Status

| Education background | Frequency | percentage | Cumulative percentage |
|----------------------|-----------|------------|-----------------------|
| Level VI /Diploma    | 9         | 8.2        | 8.2                   |
| Bachelor Degree      | 51        | 46.4       | 46.4                  |
| Masters              | 42        | 38.2       | 38.2                  |
| Others specify       | 8         | 7.3        | 7.3                   |
| Total                | 100       | 100%       | 100%                  |

Source: Survey result, 2018

The education level of the participants varied widely from a total of 110 respondents 84.6% that is 46.4% and 38.2% of them have masters and degree for the post and the remaining 8.2% of respondents have level VI /diploma, This indicates most of officials are high level professionals, this suggests our respondents give relevant and accurate information needed for the study of IFRS on the challenges and benefits of adoptions of financial reporting standards in the country .

#### 4.1.3. Respondents work experience

Table 4.3.Work experience of respondent

| Experience        | frequency | Percentage | Cumulative percentage |
|-------------------|-----------|------------|-----------------------|
| Less than five    | 16        | 14.5       | 100                   |
| Six to ten        | 46        | 41.8       |                       |
| Eleven to fifteen | 36        | 32.7       |                       |
| Sixteen to twenty | 9         | 8.2        |                       |
| Above twenty      | 3         | 2.7        |                       |
| TOTAL             | 110       | 100        |                       |

Source: Survey result, 2018

As you seen from the above table 4.3 most of the respondent that is from the total 110 or 100% of them 94 or 85.5% have above five years' work experience this show the respondent know each and everything about financial reporting standards and condition so it's Owen

impact on this study and the author believe the more experience respondents provide accurate information and it is very important to provide accurate information.

#### 4.1.4. Respondents position

Table 4.4. Position in the financial institutions

| You position in the company | frequency | percentage | Cumulative percentage |
|-----------------------------|-----------|------------|-----------------------|
| Officer                     | 50        | 45         | 100%                  |
| Senior officer              | 25        | 23         |                       |
| Finance manager             | 15        | 14         |                       |
| Auditor                     | 20        | 18         |                       |
| TOTAL                       | 110       | 100%       |                       |

Source: Survey result, 2018

From the above Table 4.4 total of 110 respondents 45 or 45% of them are Finance officers , 25 or 23% of them of our respondents were senior Finance officers, 15 or 14% of them are finance managers and the remaining respondents 20 or 18 % were auditors and Others officials. This implies the information gathered for this study was 100% collected from the concerned bodies in those financial institutions and the researcher believes that the information we get from those persons are truthful and appropriate for the study.

#### 4.2. Benefits of IFRS implementation in Ethiopia.

In general, this study confirmed that, there is growing appreciation of the usefulness of IFRS by different companies and stake holders irrespective of their size and financial reporting practice. However, there is serious institutional, enforcement and technical challenges that the country need to overcome in order to benefit fully from the introduction of IFRS. Successful implementation of IFRS needs extensive and on-going support from professional accountancy associations. The role of professional accountancy organizations in implementing IFRS has been highlighted in so many studies. Even though IFRS adoption requires companies a huge amount of initial investment during the implementation phase, benefits of IFRS will accrue throughout the life of the company as a going concern. In other words the benefits of IFRS are long-lasting than the costs that occur during the initial phase of its adoption. The finance manager of commercial banks stated that: -

*“Ensuring a high quality corporate financial reporting environment depends on effective Control & Enforcement Mechanism. Merely adopting International Financial Reporting Standards is not enough. Each interested party, namely Top Management and Directors of the Firms, Independent Auditors and Accountants and Regulators and Law Makers will have to come together and work as a team for a smooth IFRS adoption procedure.”*

In order to ensure timely adoption of IFRS in Ethiopia, trained Accountants and Auditors in IFRS are required in large number. Which currently Ethiopia does not have the sufficient number of IFRS trained Accountants and Auditors.

#### **4.2.1. Benefits of IFRS implementation to companies**

Table: (4.5) Descriptive Statistics on benefits to company

|  | N   | Min. | Max. | Mean | standard deviation |
|--|-----|------|------|------|--------------------|
| Minimizing cost of capital   | 110 | 3    | 5    | 4.6  | 0.75               |
| Financial statements based on IFRS are reliable and comparable   | 110 | 1    | 5    | 4.2  | 0.98               |
| Use of Fair value Measurement in preparation of statements under IFRS helps to provide useful and accurate information for economic decision making. | 110 | 2    | 5    | 4.1  | 0.68               |
| Adoption of IFRS facilitates for foreign investment and creates financing sources to countries.  | 110 | 3    | 5    | 4.00 | 0.82               |
| Improves internal audit system   | 110 | 2    | 5    | 4.5  | 0.57               |
| It provides greater transparency and understand ability of accounting practices  | 110 | 4    | 5    | 4.3  | 0.62               |
| Improved competitiveness   | 110 | 4    | 5    | 4.3  | 0.62               |
| Valid N (listwise)   | 110 |      |      |      |                    |

Source: Survey result, 2018

As per the survey result mean of 4.00 and above all respondents confirmed that the adoption of IFRS gain especial benefits to the organization statement accuracy and acceptability not

only this but also reports under IFRS is transparent and create competence for the company as per the finding, the above mentioned benefits that are gain by adopting the standard create trust and confidence for foreign investor and gain investment opportunities through different plat form and the country get high investor in flow and foreign currency and the result shows cost of capital is minimal . The government ,individuals and companies use different information to make police ,program and any strategy as per this finding financial report that prepared by IFRS standard is easy for decision makers The survey respondents agreed with the proposition that financial statements prepared based on IFRS are more reliable and comparable. Similarly, the interview result reveals that since similar economic transactions are accounted for similarly by eliminating different methods of accounting for the same transactions, adoption of IFRS leads to improved comparability and reliability of financial statements. Respondents who do not agree that IFRS increase comparativeness of the financial statements may be influenced by the widely acknowledged tendency of IFRS to sanction multiple alternative treatments (Bowrin, 2007, p. 29).

Almost all of the respondents believe that the financial statements would become more transparent as a result of the adoption of IFRS while most believed that the adoption of IFRS would make external financing easier. The adoption of IFRS would also enable greater effectiveness of the internal audit. Many of the respondents believe that IFRS should have been implemented earlier in Ethiopia due to the greater transparency and the better provision of information that IFRS supply in a globalized environment. In relation to transparency of financial statements the interview result reveals that the increased transparency promised by IFRS could substantially reduce the agency problem between management and shareholders through implementation of IFRS as increased transparency causes managers to act more in the interests of the shareholders. It could also cause a similar increase in the efficiency of contracting between firms and lenders.

This finding was (consistent with Jermakowicz, 2004; and Apostolos et al., 2010). The final question under benefits of adopting IFRS for companies was about cost of capital of a firm, i.e. whether adoption of IFRS brings about a reduction in cost of capital for companies. As it is shown in the table above the mean response and standard deviation indicates that adoption of IFRS would significantly reduce cost of capital of firms this is due to nature of reports under IFRS is more transparent and accurate is easily understandable and reduce cost like the translation cost because it is single international standard for this and other reason cost for



capital being reduce. The finding of this study is supported by the conclusions“ forwarded by Iyoha and Faboyede, (2011); and Leuz, and Verrecchia, (2000). Leuz, and Verrecchia, (2000) states that lower cost of information, reduction in bad earnings management, increased value relevance of accounting information, greater marketability of shares, and reduced information asymmetry between managers and shareholders have positive impact on cost of capital. The aforementioned benefits of IFRS would lead companies to a reduced cost of capital.

#### 4.2.2. Benefits of IFRS implementation to investor

Table (4.6) Descriptive Statistics on to investor

|  | N   | Min | Max | Mean | St .deviation |
|--|-----|-----|-----|------|---------------|
| Ease of comparison among companies                               | 110 | 4   | 5   | 4.5  | 0.58          |
| Improved confidence of investors by the information presented    | 110 | 3   | 5   | 4.00 | 0.65          |
| Increase the quality information for decision making             | 110 | 3   | 5   | 4.00 | 0.65          |
| Adoption of IFRS enhance greater transparency and understandable | 110 | 4   | 5   | 4.5  | 0.57          |
| Easier access to financial reporting                             | 110 | 1   | 5   | 3    | 0.87          |
| IFRS facilitates cross border investment                         | 110 | 4   | 5   | 4.5  | 0.57          |
| Valid N (listwise)   | 110 |     |     |      |               |

Source: Survey result, 2018

In this global world investors need to mobilize and invest their capital all over the world having a single reporting standard that financial entities use to prepare their financial statement is very crucial and vital for modern business decision in this mater mean of 4.5 shows that IFRS adoption benefits to investor easily compare one company to another company and as per the interview gain from commercial bank finance officer mister mikyias IFRS is a single standard all over the adopted country so any investor can compare one organization to another organization financial performance if it is properly the statement prepared by IFRS standard .

Investor as per the finding shows reports prepared under IFRS standards and requirement is acceptable and increase confidence for the reliability of the information and financial report

is transparent, understandable and ease of access this create cross border investment trough confidence to investors.

One of the main objectives of IASB is to develop, in the public interest, a single set of high quality, understandable and enforceable global accounting standards that require high quality, transparent and comparable information in financial statements and other financial reporting to help participants in the various capital markets of the world and other users of the information to make economic decisions. According to this objective of IASB adoption of IFRS enhance transparency of companies through better reporting and provides better information for decision making by investors. Since the standards are high quality, transparent and comparable, investors will have more confidence in the information presented using IFRS.

#### 4.2.3. Benefits of IFRS implementation to management

Table (4.3).Descriptive Statistics on Benefits of IFRS for management

|  | N   | minimum | maximum | mean | standard deviation |
|--|-----|---------|---------|------|--------------------|
| IFRS facilitates cross border investment decision            | 110 | 4       | 5       | 4.5  | 0.52               |
| Quality information for control and decision making purposes | 110 | 3       | 5       | 4.00 | 0.65               |
| It promotes better planning purpose                          | 110 | 3       | 5       | 4.00 | 0.72               |
| Enables better risk management                               | 110 | 3       | 5       | 4.00 | 1.02               |
| Valid N (listwise  | 110 |         |         |      |                    |

Source: Survey result, 2018

The consensus view of respondents is that (with mean  $\geq 4.00$ ), show that most of the time managerial decision rely on different reports like financial accounting and management

accounting information those two information is very vital for management to make critical decisions, so reports by IFRS standard is better quality as per respondent response this make the management perfect and accurate decision for cross border and any other investment decision and gets better risk management decision . As it is shown in table 4.6 four questions sought to ascertain the benefits of IFRS adoption to management. The mean responses of all questions were above 4.00. This indicates that in the view of respondents, adoption of IFRS provides management of a company with better risk management, improved management information for decision making and it promotes cross border investment. The interview result reveals that management will benefit, amongst others, improved management information presented in the financial statements which they can use for decision making. Managers will also be at ease to manage risk and value firms which follow identical accounting measures; the risk assessment can be done more accurately on account of decreasing disparities in the flow of information.

The results of this study are supported by the conclusion forwarded by Larson et al., (2004). They stated that IFRS financial statements are rather seen as a comprehensive information package, than only as a reporting of the financial situation of the company. The management gets better and easier information on how to direct the business.

#### 4.2.4. Benefits of IFRS implementation in Ethiopia for other stake holders

Table (4.7) Descriptive Statistics on Benefits of IFRS for other stakeholders

|  | N   | Min | Max | Mean | St. deviation |
|--|-----|-----|-----|------|---------------|
| It enhances regulatory oversight and enforcement   | 110 | 4   | 5   | 4.5  | 0.65          |
| Excellence information for market participants   | 110 | 3   | 5   | 4.00 | 0.67          |
| Facilitating easier international mobility of professional staffs across national boundaries | 110 | 4   | 4   | 3.00 | 0.78          |
| Improved standards of financial disclosure   | 110 | 4   | 5   | 4.5  | 0.70          |
| Valid N (listwise)   | 110 |     |     |      |               |

Source: Survey result, 2018

On average the consensus view of respondents is that (with mean  $\geq 4.00$ ), show that adoption of IFRS as a country for helping regulators, financial institutions, accounting standard setters and any law makers as well as law enforcers enhance their ability in different principles. As per the study shows IFRS is conducted in a professional manner so the respondent confirm that financial statement disclosure is improved and also mobility of professionals from one country to another country and intra country organization is easy and simple why because the work is conducted in universal understandable skills and uniform standards. Under this section four questions were distributed and all of them had mean response of greater than 4.00 and standard deviation of less than 1.00. This indicates that in view of the respondents, adoption of IFRS is highly beneficial to other stakeholders.

The interview result suggests that one set of universally accepted accounting standards would make it easier for multinational companies and international auditing firms to transfer accounting and auditing staff to other countries. In other words IFRS would provide professional opportunities for accountants and auditors to serve international clients and it would increase their mobility to work in different parts of the world either in industry or practice. This implies that adoption of IFRS provides greater credibility and improved economic prospects for the accounting profession. Similarly, other stakeholders such as regulatory bodies and financial analysts would benefit from improved regulation oversight and enforcement, overall better reporting and information on new and different aspects of the business. even if in our country context have no financial market, but IFRS information transparency as well as accuracy create strong financial market that the price of any tradable item to the financial market value is determine by true value of the financial assets that makes easily access to the financial market in the modern world, the respondent assures as per the above table presentation

### **4.3.Challenges of IFRS implementation in Ethiopia**

There were seventeen questions under challenges of IFRS implementation. Most of the questions had a mean response of more than 4.00 and standard deviation less than one. The result in table 4.7 revealed that on average the respondents agreed up on the challenges of IFRS adoption. Standard deviations of the four questions were more than 1.00, which were “Lack of adequate financial resource, Lack of change management process, Lack of training materials, Lack of capacity by the independent Oversight body to enforce acc. standards”. This indicates that the respondents perception were far away from one another. The

remaining thirteen questions had standard deviation of less than 1.00; standard deviation of less than 1.00 on the other hand shows that respondents' perceptions were close to each other. The result in table 4.8 revealed that on average the respondents agreed up on the challenges of IFRS adoption.

The survey respondents agreed with the proposition that implementation of IFRS requires coordinated actions by regulatory institutions (with a mean response of 4.00). According to the interview result this is due to the inconsistent and absence formal accounting standard, complex and less understandable nature of IFRS and it is especially the case for developing and least developed countries. This complexity requires a double workload during the transition year for finance and accounting people and many others. This result is not only increased internal employee cost but also external monitoring costs such as high audit fees. A training program for staff across the company is also another costly investment and of course one of the most important factors that increase the transition to IFRS. According to one of the manager of a bank state :-

“Adoption of IFRS means a complete set of different reporting standards have to bring in.the awareness of these reporting standards is still not there among the stakeholders like Firms, Banks, etc. To bring a complete awareness of these standards among these parties is a difficult task.”

There is a general consensus that one of the most important challenges in implementing IFRS is the complex nature of these standards. This complexity has contributed to the costs and efforts involved in financial reporting which often fall disproportionately on public companies and most banks. (Almost all respondents with mean value 4.00 agree that financial resource and change management process are the key enforcement challenge to implementing IFRS)

The lack of implementation guidance and follow up actions are other obstacles to accounting convergence with mean value of 4.00.

In the survey of Caramanis and Papadakis (2008), the respondents indicated a number of difficulties that relate with the application of IFRS. In particular, they have the opinion that a major source of the difficulties regarding the technical aspects of the application of IFRS is the lack of comprehensive training and lack of adequate IFRS implementation guidance.

Their findings are also supported by the results of this study. According to the interview results this lack of guidance creates risks for different local or national interpretations of IFRS and increases the risk for manipulation in interpretation of financial statements.

Another challenge in the process of adopting IFRS, according to respondents is it increases the complexity of financial reporting. Even though IFRS is being criticized for its wide and complex nature, some respondents argue that these days the complex nature of IFRS adoption seems decreasing at an increasing rate. They put two reasons to support their argument; the first is countries which adopt IFRS lately can learn lessons from early adopters' mistakes. This means countries like Ethiopia have a latecomer advantage. The other reason is higher learning institutions of the country and the Association of Chartered Certified Accountants (ACCA-UK) are producing accounting professionals with IFRS orientation. The aforementioned reasons and the increased technological advancements in the area of financial reporting might contribute to the decrease in the complexity of International Financial Reporting Standards.

The respondents also believe that lack of availability of competent specialists, lack of proper instructions from regulatory bodies, problem with the IT system in handling the transition to IFRS, Tax driven nature of previous standards as challenges of adopting IFRS. The interview result revealed that lack of specialists who could assist by providing reliable answers to accounting practices with which Ethiopian accountants were not acquainted is one of the major challenges in implementing IFRS. Another challenge is that the tax-driven nature of previous standards. Even though Ethiopia has no specific set of accounting standards to follow or its own national standard, the few that existed were driven by the countries tax system which causes major differences in accounting requirements under the previous standards and IFRS, requiring several reconciliation items in the conversion process. The transition to IFRS creates the need for the previous standards to be modified and to progressively converge towards IFRS.

The consensus view of respondents is that ***a lack of adequate coordination, training, and enforcement*** of IFRS are critical challenges of conversion. A training program for staff across a company is needed to let them implement an entirely different system of business operations, performance measurement, and communication with the markets. This training will be an ongoing exercise since IFRS is a moving target. Professional bodies, specially, Audit firms play the crucial role in this training program. The involvement of auditors is so

significant that they run the risk of becoming heavily involved in preparing the financial statements they are required to audit. This is mainly caused by the complexities of IFRS where many entities, especially smaller entities, lack sufficient expertise (Hoogendoorn, 2006)

Table 4.8. Descriptive statistics of challenges of IFRS implementation

| Item description  | N   | min | max | mean | st.deviation |
|---|-----|-----|-----|------|--------------|
| Lack of good ethical environment  | 110 | 3   | 5   | 4.00 | 0.95         |
| Lack of software and information system                                 | 110 | 3   | 5   | 4.00 | 0.92         |
| Overlap of local or regional and international regulatory               | 110 |     | 3   | 2.00 | 0.75         |
| Inconsistency of Existing laws and regulatory frameworks                | 110 | 1   | 5   | 3    | 0.82         |
| Lack of clear responsibilities among regulatory institutes              | 110 | 4   | 5   | 4.5  | 0.65         |
| Lack or weakness of prof. accounting. body                              | 110 | 4   | 5   | 4.5  | 0.78         |
| Lack of capacity by the indep. oversight body to enforce acc. standards | 110 | 1   | 5   | 3.00 | 1.57         |
| Follow up action on financial report                                    | 110 | 3   | 5   | 4.00 | 0.89         |
| Lack of adequate time period for transition to IFRS                     | 110 | 3   | 5   | 4.00 | 0.65         |
| Lack of adequate financial resource                                     | 110 | 3   | 5   | 4.00 | 1.82         |
| Lack of change management process                                       | 110 | 3   | 5   | 4.00 | 1.6          |
| Lack of coordination among regulatory institute                         | 110 | 3   | 5   | 4.00 | 0.87         |
| Lack of clear guide for IFRS imp  | 110 | 3   | 5   | 4.00 | 1.6          |
| Lack of training materials  | 110 | 3   | 5   | 4.00 | 0.89         |
| Lack of technical skill due to complex nature of IFRS                   | 110 | 3   | 5   | 4.00 | 0.82         |
| The need for training of relevant professional                          | 110 | 3   | 5   | 4.00 | 0.67         |
| Weakness of accounting education in Eth                                 | 110 | 1   | 3   | 2.00 | 0.67         |
| Valid N (listwise)  | 110 |     |     |      |              |

Source: Survey result, 2018

Even though IFRS adoption requires companies a huge amount of initial investment during the implementation phase, benefits of IFRS will accrue throughout the life of the company as a going concern.

#### **4.4. Summary of the Chapter**

In this chapter the results of the study has been explained and discussed based on the Analysis done on the data collected. The results of the study are discussed by triangulating the different sources results: questionnaire results, interview and document review results. The Data collected using questionnaires were analysed through descriptive statistics and frequency distribution. The discussion attempted to accomplish the objectives of the study, answer the research question. The prospect of IFRS implementation in Ethiopia and the related challenges has been analysed in the chapter.

Almost the author finding summarize as follow the financial statements would become more transparent, accurate, and easily accessible with full discloser as a result of the adoption of IFRS while most believed that the adoption of IFRS would make external financing easier. The adoption of IFRS would also enable greater effectiveness of the internal audit and mobility of finance and labour .but there is great challenges that has been faced while adopting IFRS those are lack of adequate coordination, training, and enforcement capacity and mechanism ,lack of availability of competent specialists, lack of proper instructions from regulatory bodies, problem with the IT system in handling the transition to IFRS, Tax driven nature of previous standards as challenges of adopting IFRS not only this but also require high cost to adopt the system.



## CHAPTER FIVE

### 5. CONCLUSIONS AND RECOMMENDATION

#### **Introduction**

This chapter presents conclusions and recommendations of the results. It has three parts; the first part presents conclusions of the study. The second part presents recommendations and finally, the last part presents possible future research areas.

#### **5.1. Conclusions**

This study assessed the benefits and challenges of IFRS implementation in Ethiopia with practical investigation of those benefits and challenges in public owned enterprise and banks that fully used IFRS principles and standard for the preparation of yearend financial statements as of 2018. Two research questions were developed and assessed in this study. The first question is to understand the benefits of adopting IFRS in Ethiopia first phase adopters for investor, companies, management and other stakeholders and the second question is to understand the challenges with respect to skills, readiness, finance, material and others legal issue faced in the process of implementing IFRS.

The study used document analysis (proclamations, annual reports, legislations, directives, papers on IFRS and other documents), interview with finance managers and audit directors is made and self-administered questionnaire to Finance Managers/officers Auditors and accountants are also distributed. Questionnaire data were analysed using descriptive statistics, and data from interview and document reviews were interpreted qualitatively. Even though Ethiopia has officially adopted IFRS, National Bank of Ethiopia (NBE) and Ethiopian Commodities and Exchange Authority (ECX) already require the companies under their domain to present IFRS financial report. This paper investigated a wide array of issues related to the adoption of IFRS in Ethiopia with particular reference to the transition to IFRS and the following conclusions were drawn.

Investors, management, companies and other stake holders need qualified unbiased statement this should be assured by using simple and single international standard called IFRS, the government of Ethiopia has expressed its commitment to integrate its financial statements with international Financial Reporting standards. The government commitment is manifested

by the issued proclamation like “Financial Reporting Proclamation 847/2014” which obliges all entities” to follow IFRS in their financial reporting. The Financial Report Proclamation has also set deadline for the IFRS transition/implementation based on this proclamation the author tray to investigate practical benefits of adopting IFRS on first phase adopters conclude as high benefit to all users of financial statement and the owner of the statement gain acceptance and reliability.

The main challenges in the process of implementing IFRS include significant cost of adoption of IFRS, need for training, lack of readiness to implement within the time frame set by the board, lack of adequate implementation guidance and lack of enforcement capacity are some of the key challenges facing the transition to IFRS so to ensure a high quality corporate financial reporting environment as a country needs effective Institutional Control, Enforcement Mechanism & availability of technical skills. Merely adopting International Financial Reporting Standards is not enough each interested party, Independent Auditors and Accountants and Regulators and Law Makers will have to come together and work as a team for a better utilization of IFRS adoption benefits and to tackle any challenges related with the adoption.

Top Management should ensure that the Financial Statements are prepared in compliance with the IFRS. Auditors and Accountants should prepare and audit Financial Statements in compliance with IFRS. Regulators and Law Makers must implement efficient monitoring system of regulatory compliance of IFRS along with this the Regulators should ensure that proper changes are to be made in existing laws for IFRS transition process. In order to ensure timely transition to IFRS in Ethiopia, trained Accountants and Auditors in IFRS are required in large number. Ethiopia currently does not have the sufficient number of IFRS trained Accountants and Auditors for each respected office. The board has currently started to provide IFRS Training programmes and provide support with regards. Yet there exists a large gap in the Trained Professionals required and trained professional available is the main challenge. So awareness and proper Training should contribute to IFRS adoption as well as an Advisor is also required for proper IFRS implementation in Ethiopia that will contribute IFRS very fruitful and accurate.

To conclude, adoption of IFRS in Ethiopia is crucial to get the above mentioned benefits and to be one of the global economic systems because standard financial statement is a language of the business. So the Government and Accounting professional Bodies are taking every

possible step for a smooth transition process for the rest of companies that does not adopt IFRS like SMES, because more or less the first phase implementation program that the author assessed in this study is already poses many benefits and the challenge that can be investigate is acceptable as the result of the study shows, so the schedule second and third phase adopters take this study as input to solve any challenges in advance. The conclusions also reveal that there is a serious problem in relation to the detailed application of standards in Ethiopia. This implies that the concerned regulatory bodies such as the National Bank of Ethiopia, the Ethiopian Commodities Exchange Authority, the newly established board(AABE) and others should strictly follow the application of all the standards. If these standards are adopted and not applied, they become valueless.

## **5.2.Recommendation**

First time implementation of IFRS requires lot of training and some difficulties may also be experienced. To ensure a smooth transition from the existing inconsistent accounting Standards to IFRS, Continuous training to staff and addressing all the difficulties that would be experienced while carrying out the implementation is also required, on the other hand to fine tune with the main challenges of IFRS implementation, the process should be supported by all stake holders. In other words a rigorous IFRS capacity building program should be embarked upon by all regulatory bodies, firms and training institutions in order to provide the needed manpower for IFRS implementation. IFRS is principally meant to promote the interest of corporate entities and in particular to enhance their access to cheaper funds from international capital markets through the presentation of credible, reliable and comparable financial statements hinged in full disclosures. The corporate entities need to own the transition process as well as work closely with professional bodies, so that they can positively impact the standard setting process.

The transition to IFRS have its Owen benefits and challenges for all users and prepares of financial statement ,so its implications for preparers, users, educators and other stakeholder has to be effectively coordinated and communicated.

Professional bodies should embark on massive sensitization of their members and users of accounting in order to apprise them of the fundamental change that will occur in financial reporting of the country through advocate it`s advantage.

The board must expeditiously arrange to train the trainers programme for its accounting teachers, assessors and examiners who are the vehicle for the implementation of IFRS to avoid unnecessary challenges for the rest phase adopters.

There is need for The Accounting and Auditing Board of Ethiopia (AABE) to collaborate with the ministry of education and Professional association outside Ethiopia in order to spread the promulgate knowledge of IFRS (through the review of Accounting and Auditing curriculum).

There is need for the Accounting and Auditing Board of Ethiopia to prepare a program that share experience of first phase adopters with the rest that is second and thread phase adopter.

### **5.3.Future Research Areas**

The International Financial Reporting Standards (IFRS) is a broader scope of accounting which cannot be dealt with in its entirety in one study alone. This study focused on the prospects and challenges that could explain in practical after the successful transition to these standards in Ethiopia. However, it would be highly appropriate for future research to be conducted on the issue of disclosure, compliance, acceptance of users of IFRS in Ethiopia and impairment of loss. This would comprise the detailed benefits and challenges of the adopted standards and how well companies in Ethiopia apply these standards. Furthermore little is known about how mandatory IFRS adoption affects financial statements and it is therefore still an open question whether financial statements are more informative following mandatory IFRS adoption. How small and medium scale enterprises adopt and comply with IFRS tailored for them could also be considered as another area for future research. Finally, this study attempted to focus on the assessment of benefits and challenges of the implementation of IFRS in Ethiopia. Even though the research found some important practical challenges but the implementation of IFRS benefit is not as such sensitively expressed because it is new, the benefit come later so in the future researcher devotes more studies to be conducted in the area.

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# APPENDIX

**St. Mary University**  
**School of Graduate Studies**  
**Department of Accounting and Finance**

**Questionnaire on assessments of the challenges and benefits of international financial reporting standards (IFRS) adoption in Ethiopian FIRST PHASE ADOPTERS OF IFRS.**

**Dear Respondents,**

This questionnaire is designed to explore the practical challenges and benefits of international financial reporting standards (IFRS) adoption, in Ethiopia first phase IFRS adopters. This study is conducted in partial fulfilment of the requirements for the Master's degree in Accounting and Finance at St.mary University. Its main objective is to assess the challenges and benefits of international financial reporting standards (IFRS) adoption.

Your response is vital to the outcome of the study and you are requested to completely and objectively answer all questions. The research is going to be carried out based on your responses and other relevant data that could support it. It forms a major part of the research and the information you will enable the researcher to critically identify the benefits and challenges of international financial reporting standards (IFRS) adoption on the selected government owned enterprise and banks. Your cooperation to respond genuinely is very important to this study because it represents in the sample. Please answer all questions. Space is provided at the end of the questionnaire for you to add further explanations or comments.

I would promise that all information you provide would be strictly confidential.

Please tick (✓) or provide your own answers where applicable.

*Thank you*  
*Workushiferaw*



## Section 1

### Demographic Background

Please kindly tick (✓) your answer in the appropriate boxes or respond your answer by writing in the space provided (if required).

1. Gender:

Female

Male

2. Academic level:

Level IV/Diploma

Bachelor's degree

PhD

Master's degree

other (specify) \_\_\_\_\_

3. Working Experience:

Less than 5 years

6 to 10 years

11 to 15 years

16 to 20 years

Over 20 years

4. Current position in your organization \_\_\_\_\_

## Section 2

### Prospects and Challenges of adopting IFRS

#### Challenges of adopting IFRS

| S.N | Challenges   | Level of Agreement |          |         |       |                |
|-----|--|--------------------|----------|---------|-------|----------------|
|     |  | Strongly Disagree  | Disagree | Neutral | Agree | Strongly Agree |
|     | <b>Ethical environment</b>   |                    |          |         |       |                |
| 1   | IFRS is inconsistency with laws and regulations that are exist now | [ ]                | [ ]      | [ ]     | [ ]   | [ ]            |
| 2   | Adoption of IFRS require financial capacity                        | [ ]                | [ ]      | [ ]     | [ ]   | [ ]            |
| 3   | Adoption of IFRS require proff. capacity                           | [ ]                | [ ]      | [ ]     | [ ]   | [ ]            |
| 4   | Adoption of IFRS require good ethical environment                  | [ ]                | [ ]      | [ ]     | [ ]   | [ ]            |
| 5   | Lack of clear responsibilities among regulatory institutes         | [ ]                | [ ]      | [ ]     | [ ]   | [ ]            |
| 6   | IFRS is complex in nature  | [ ]                | [ ]      | [ ]     | [ ]   | [ ]            |
| 7   | Lack Or weakness of prof. accounting body                          | [ ]                | [ ]      | [ ]     | [ ]   | [ ]            |
| 8   | Lack of adequate time period for transition to IFRS                | [ ]                | [ ]      | [ ]     | [ ]   | [ ]            |
| 9   | Weakness of accounting education in Ethiopian                      | [ ]                | [ ]      | [ ]     | [ ]   | [ ]            |
| 10  | The need for training of relevant professional                     | [ ]                | [ ]      | [ ]     | [ ]   | [ ]            |
| 11  | Lack of training materials   | [ ]                | [ ]      | [ ]     | [ ]   | [ ]            |
| 12  | Lack of coordination among regulatory institute                    | [ ]                | [ ]      | [ ]     | [ ]   | [ ]            |
| 13  | Lack of technical skill due to complex nature of IFRS              | [ ]                | [ ]      | [ ]     | [ ]   | [ ]            |

|    |   |                          |                          |                          |                          |                          |
|----|---|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| 14 | Lack of software and information system   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 15 | The tax and financial regulation has an effect on the -adoption of IFRS               | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 16 | Tax driven nature of previous standards is a challenge for IFRS adoption              | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 17 | Inconsistency of existing laws and regulatory frame works                             | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 18 | The absence of capital market in Ethiopia has negative impact on the adoption of IFRS | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

NB: - SA: Strongly Agree A: Agree, N, Neutral D: Disagree, SD: Strongly Disagree.

| <b>Benefits of adopting IFRS to companies</b> |  |                          |                          |                          |                          |                          |
|---|--|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| 19  | Minimizing cost of capital   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 20  | Financial statements based on IFRS are reliable and comparable   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 21  | Use of Fair value Measurement in preparation of statements under IFRS helps to provide useful and accurate information for economic decision making. | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 22  | Adoption of IFRS facilitates for foreign investment and creates financing sources to countries.  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 23  | Improves internal audit system   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 24  | It provides greater transparency and understand ability of accounting practices  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 25  | Improved competitiveness   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| <b>Benefits for Investors</b>                 |  |                          |                          |                          |                          |                          |
| 26  | Ease of comparison among companies   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 27  | Improved confidence of investors by the information presented  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 28  | Increase the quality information for decision making   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

|    |  |     |     |     |     |     |
|----|--|-----|-----|-----|-----|-----|
| 29 | Adoption of IFRS enhance greater transparency and understand ability | [ ] | [ ] | [ ] | [ ] | [ ] |
| 30 | Easier access to financial reporting                                 | [ ] | [ ] | [ ] | [ ] | [ ] |

|    |  |     |     |     |     |     |
|----|--|-----|-----|-----|-----|-----|
|    | <b>Benefits of IFRS for management</b>   |     |     |     |     |     |
| 31 | IFRS facilitates cross border investment decision  | [ ] | [ ] | [ ] | [ ] | [ ] |
| 32 | Quality information for control and decision making purposes                                 | [ ] | [ ] | [ ] | [ ] | [ ] |
| 33 | It promotes better planning purpose  | [ ] | [ ] | [ ] | [ ] | [ ] |
| 36 | Enables better risk management   | [ ] | [ ] | [ ] | [ ] | [ ] |
|    | <b>Benefits of IFRS for other stakeholder</b>  |     |     |     |     |     |
| 37 | It enhances regulatory oversight and enforcement   | [ ] | [ ] | [ ] | [ ] | [ ] |
| 38 | Excellence information for market participants   | [ ] | [ ] | [ ] | [ ] | [ ] |
| 39 | Facilitating easier international mobility of professional staffs across national boundaries | [ ] | [ ] | [ ] | [ ] | [ ] |
| 40 | Improved standards of financial disclosure   | [ ] | [ ] | [ ] | [ ] | [ ] |

**Part three open end question**

1. If any benefits that your company or individually gain by adopting IFRS please mention it

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## **Interview Guide**

St, Marry University

Department of Accounting and Finance

MBA in Accounting and Finance

Dear sir/madam

The intent of this interview is to explore information regarding the benefits and challenges of Adoption International Financial Reporting Standards on first phase adopters of the standard of IFRS implementation program in Ethiopia and to have sufficient response to the research problem in addition to questionnaires distributed to IFRS Implementation team which adopt IFRS. The interview will be made with financial managers and audit directors of the randomly selected companies.

The information you provide in response to the items in the interview will be used as part of the data needed for a study on the benefits and challenges of Adoption International Financial Reporting Standards in First phase adopter.

I would promise that all information you provide would be strictly confidential.

Thank you very much in advance for your cooperation and sacrificing your valuable time!!!

With Kind Regards,

*worakushferaw*

1. Your knowledge about IFRS ?
2. Do you agree with the statement that IFRS might provide resolving Agency problem between management and shareholders?
3. What benefits do you observe in the adoption of IFRS?
4. What are the challenges faced by stakeholders in the process of adoption of IFRS?

Note: the interviewees are not expected to limit themselves only to the issues and questions listed in the above check lists; they are also kindly requested to provide the interviewer with information (data) which they consider for the study of prospects and challenges of Adoption International Financial Reporting Standards in each of their public enterprise of Ethiopia.