



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

**ASSESSMENT OF IFRS ADOPTION IN PUPLIC ENTERPRISE OF  
ETHIOPA; CHALLENG AND IMPORTANCE**

**BY**

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**DECEMBER, 2018**

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## ***BSTRACT***

This paper examines the assessment of adoption of International Financial Reporting Standard (IFRS) in Ethiopian public enterprise. Using a sample of 76 selected finance department employees under the ministry of public enterprise. The data was collected using primary and secondary data collection method. Primary data using questionnaires and Secondary data reviewing documents, manuals, websites and books. And the researcher used mixed approach or the hybrid of the quantitative and qualitative approaches. Then the collected data are analyzed using statistical analysis of descriptive statistics present using tables, and assess its importance of adoption and challenges faced to IFRS adoption for Enterprises, the importance of adoption is also provide information to the stake holders and the management and make the enterprise competent globally. On the other hand the enterprises have challenges on the adoption of IFRS, especially lack of training and training institution lack competent specialist, skill man power and guidelines. Finally, the study brought summery of the finding The Adoption of IFRS is motivated by both internal and external factors: internally, the demand of professionals, academics and preparers to work with international trends and externally pressure from global audit firms and other international organizations, conclusion also provides numerous importance's for the development enterprises of Ethiopia including, improves the efficiency and effectiveness of financial statement, and also increase transparency and accountability financial report for internal users and recommendation. the enterprises should identify and determine the importance adoption of IFRS through active participation of all stakeholders and effectively communicate to the stakeholders and develop its own IFRS training plan for accounting and finance personnel for the enterprises under the ministry of public enterprise.

**Key Words: Adoption, challenge, Ethiopia, importance, International Financial Reporting Standard (IFRS),**

## **ACKNOWLEDGMENTS**

First and foremost, I thank the Almighty God for his support and protection in all aspects of my life.

It is an accepted fact that nothing constructive could be achieved alone. I would like to express my sincere gratitude to my advisor Asmamaw Giete (ass prof), for his guidance and valuable suggestion. I also appreciate the support given by the staffs of all the development enterprise finance department.

At last but not least, the deepest I would like to thank W/ro GENET MAMO HAILEEGIORGIS for her continuous encouragement and support, my family and friends for their unconditional support.

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## **LIST OF ACRONYMS**

<b>IFRS</b>	<b>INTERNATIONAL FINANCIAL REPORTING STANDARD</b>
<b>IAS</b>	<b>INTERNATIONAL ACCOUNTING STANDARD</b>
<b>EU</b>	<b>EUROPIAN UNION</b>
<b>GAAP</b>	<b>GENERALY ACCEPTED ACCOUNTING PRINCIPLE</b>
<b>IT</b>	<b>INFORMATION TECHNOLOGY</b>
<b>SPSS</b>	<b>STATISTICAL PACKAGE FOR SOCIAL SCIENSE</b>
<b>ISAB</b>	<b>INTERNATIONAL STANDARD ACCOUNTING BOARD</b>
<b>US</b>	<b>UNITED STATES</b>
<b>IOSCO</b>	<b>INTERNATIONAL ORGANIZATION OF SECURITY COMMISION</b>
<b>AABE</b>	<b>ACCOUNTING AND AUDIT BOARD OF ETHIOPIA</b>
<b>IASC</b>	<b>INTERNATIONAL ACCOUNTING STAMDARD COMMITE</b>
<b>SME</b>	<b>SMALL AND MEDIUM ENETRPRISE</b>



# CHAPTER ONE

## 1 INTRODUCTION

This chapter includes the following; background of the study, statement of the problem and continued with the basic research questions, purpose and objective of the study, significance of the study, scope and limitation of the study and last organization of the paper.

### *1.1 BACKGROUND OF THE STUDY*

The year 2005 marked the beginning of a new era in global conduct of business, and the fulfillment of a thirty-year effort to create the financial reporting rules for a worldwide capital market, during that year's financial reporting cycle, the 27 European Union (EU) member states, plus many others in countries such as Australia, New Zealand, Russia, and South Africa adopted International Financial Reporting Standards (IFRS). Since then, many countries, such as Argentina, Brazil, Korea, Canada, Mexico, and Russia have adopted IFRS (Wiley 2015).

International Financial Reporting Standards (IFRS) are designed for use in financial reports with the general purpose and the rest of the financial reporting of all profit-oriented entities. Profit-oriented entities include those engaged in commercial, industrial, financial and similar activities organized in the form of joint stock companies or other form. They include organizations such as mutual insurance companies and other mutual cooperative entities that provide dividends or other economic benefits directly and proportionately to their owners, members or participants (Jankakrist and Odimitrova 2016). As financial globalization precedes, international financial reporting and auditing standards are increasingly becoming important instruments of integration. This has been observed in both the London and Pittsburg summits of the G20 leaders in 2009. The G20 leaders reinforced the influence of International Financial Reporting Standards (IFRS) in which they called for the implementation of global accounting standards by 2011. By the end of 2008, there were over 100 countries that had adopted IFRS (Cabrera. 2008; Barth. 2008). There were once scores of unique sets of financial reporting standards among the more developed nations ("national GAAP"). The quality of financial reporting is essential to the need of users who require them for investment and other decision making purposes (Fashina and Adegbite, 2014). The adoption of IFRS may face several challenges and obstacles including, lack of

technical skills and inadequate knowledge of companies professional accountants, the difficulty to develop its existing accounting systems, and a regulatory framework to cope with economic and social development, recent evolution in accounting profession including international financial reporting standards application, and inadequate education and training of accountants (Melese Hailemichael 2016).

## **1.2 STATEMENT OF THE PROBLEM**

Many countries have faced challenges in their decisions to adopt IFRS, its wide spread adoption has been promoted by the argument that the benefits outweigh the costs. Many jurisdictions have cultural, legal, or political obstacles to an immediate full adoption of IFRS (Wayne, 2010). Recently there has been a push towards the adoption of IFRS developed and issued by the International Accounting Standards Board (IASB). IFRS are attracting significant scholarly attention especially in markets where decision making on its adoption is approaching (ThiPhana and Mascitellib, 2014).

Despite of the fact that Ethiopia has significant gaps in its financial reporting infrastructures and legal frameworks which are basic preconditions of IFRS adoption (yitayew 2016).Lack of previous standard setting institutional vehicles, lack of organized physical and financial exchanges, and lack of regulated accounting professionals and lack of financial resources characterize the existing Ethiopian economy. Ethiopia as a developing country does not have both organized local financial reporting standards and IFRS (Alemgena 2016).In spite of the numerous studies about the Adoption of International Accounting Standards by developed and industrialized countries around the world, less attention has been given to developing countries. Hence; IFRS is not still fully adopt and there are scant research and articles in Ethiopian development organizations,despite adoption especially *in* financial (bank) institutions (Abel Abayneh and Eyob Lema 2016) Respectively both of them are focused on the effects on adoption only on financial institution. this make the practice to be evaluated and performed in different standards which created confusion to users of this information, but there are some development enterprise like commercial bank of Ethiopia and some development enterprise which begins to use IFRS, there are some main factors to the adoption of IFRS in the organization which includes legal system, major source of finance , taxation ,political and

economic ties, inflation, economic development, level of education and culture (Salter and Niswander 2006). Hence, this study aims to assess the importance and challenges adoption of IFRS in the country specifically at public enterprises and the enterprises takes a lion share with a vision to make a country middle income economy and the ministry is established with a vision to build and see globally competent and efficient public enterprise. To this end the study aims to identify that of the importance and challenges adoption of IFRS in Ethiopian development organization call for the extensive research.

## **1.3 BASIC RESEARCH QUESTION**

The basic Question of adoption of international financial reporting standard provides a company to specify.

- What are the opportunities and importance of adoption of IFRS?
- What are the factors that affect the adoption of IFRS in public enterprise?

## **1.4 OBJECTIVE OF THE STUDY**

### **1.4.1 GENERAL OBJECTIVES**

The objective of this study is asses the adoption of international financial reporting standard in development enterprise of Ethiopia.

### **1.4.2 SPECIFIC OBJECTIVES**

**The specific objectives of the thesis includes**

- TO assess the importance of adopting IFRS by public *enterprises*.
- TO assess the challenge of adopting of international financial reporting standard in the development enterprise
- TO assess the international financial reporting standard in the development enterprise

## **1.5 SIGNIFICANCE OF THE STUDY**

This study examines the adoption of international financial reporting standard in development enterprise, to provide meaningful insight and contributed to the effort to link the theory and practice of IFRS IN Ethiopian public enterprises and to exploit the usability of the information generated by the standard and practice. Therefore; the study has the result of linking the theory and practice of accounting information for an advance use of IFRS. It directs the organizations the way how IFRS is being practiced and show the degree of similarity OR correspondences between the theory of international financial reporting standards and practical application.

## **1.6 Scope and limitation of the study**

International financial reporting standard encompasses vast areas however; it is difficult and unmanageable to conduct the study in all areas that summarizes IFRS in terms of time finance and research manageability, therefore the scope of the study limited to assess adoption of IFRS in development organization under the ministry of public enterprise finance departments.

## **1.7 Organization of the paper**

Generally the paper is organized into five chapters. The first chapter presents background which Continued statement of the problem and continued with the research questions, purpose of the study, objective of the Study, significance of the study, scope of the study and organization of the paper. The second Chapter deals with the literature review and conceptual framework of the study. The third chapter is research methods, research approach research design target population including sample size and sampling methods, method and instruments of data collection, questioners and etc. The fourth chapter handles data presentation, analysis and interpretation. The Fifth chapter wind ups the paper by summary of major findings, conclusion and recommend

## **Chapter two**

### **Literature review**

### **2. Introduction**

International Financial Reporting Standards (IFRS) are designed for use in financial reports with the general purpose and the rest of the financial reporting of all profit-oriented entities. Profit-oriented entities include those engaged in commercial, industrial, financial and similar activities organized in the form of joint stock companies or other form. They include organizations such as mutual insurance companies and other mutual cooperative entities that provide dividends or other economic benefits directly and proportionately to their owners, members or participant (janka demitrova 2015)

IFRS; which is a principle based set of accounting standards, encompasses broad principles such as recognition principles, measurement principles, recognition principles, and presentation and disclosure principles. These principles are considered to be core elements of any set of accounting standards. These principles are derived on the basis of conceptual framework and are subject to professional judgment in their application in business scenarios (Nicoleta, Victoria & Mariana, 2009). On the contrary, the US GAAP is more of rules based set of accounting standards, although both IFRS and GAAP almost share the same general principles and conceptual framework. Being principle-based IFRS provides fewer details in its standards as compared to GAAP. More than 100 countries today use IFRS for their financial reporting. IFRS serves to be an international financial language which can be easily and reasonably interpreted by the users of these financial statements (Stefana & Niculina, 2009).IFRS got its major breakthrough in the year 2002, when legislation was passed by the European Union requiring all the listed companies in Europe to use IFRS for the preparation of their consolidated financial statements. The legislation was enacted in the year 2005, and more than 8000 firms in around 30 countries of Europe are now issuing financial statements in compliance to IFRS. The adoption of IFRS in Europe has been very demanding as it has provided the users of the financial statements with financial reports that were of high quality, harmonized and comparable. Other than being

helpful to investors and other external users, the adoption of IFRS has increased market efficiency and has reduced the cost of raising capital. IFRS being a popular set of accounting standards on the global market, countries like US and Japan are still reluctant to use it in preparing their financial statements (Elena and Catalina 2009).

## **2.1 IFRS Development**

Diversity in accounting systems has significant economic consequences for the interpretation of financial reporting on an international level (Bushman and Smith, 2001). As a result, international accounting and securities organizations initiated a process to promote the harmonization of accounting standards as a means to improve financial transparency and comparability. Efforts by the International Accounting Standards Committee (IASC, predecessor of the IASB), the International Organization of Securities Commissions (IOSCO), and other worldwide accounting bodies have led to the development of International Accounting Standards, now described as the International Financial Reporting Standards (IFRS). The adoption of IFRS has increased since the first set of core standards was completed in 1998, most notably by Australia and members of the European Union in 2005. However, there are some notable exceptions to this trend, such as the United States and Japan. It is not fully clear why there remain some prominent countries that have been reluctant to adopt. Arguments in support of IFRS emphasize the potential benefits such as increased investor confidence and reduced reporting costs for international cross-listed firms. Thus, the prospect of a comparative advantage from higher liquidity and lower cost of capital may influence national policy setters to adopt internationally recognized accounting standards (Leuz and Verrecchia, 2000; Daske 2008). Some studies using firm-level data find an increase in investment allocation, others find no effect and still others finding only an effect conditional on certain factors (Florou and Pope, 2009; DeFond 2011). Adoption of common accounting standards may enhance business relations between countries by lowering information processing and monitoring costs and increasing the linkages within communication networks (Meeks and Swann, 2009; Hail, 2010).

## **2.2 Financial Statements and IFRS**

What are financial statements and why should they comply with certain standards? Both these questions revolve around the objectivity of financial statements. There are two underlying assumptions for proper preparation and presentation of financial statements; and they are the accrual basis accounting and the going concern of an entity. Accrual basis accounting relates to the recognition of transactions when they occur in a chronological order, and not being dependent on when cash is paid or received. The other assumption which is regarding going concern relates to the operations of an entity for a foreseeable future period of time without any intentions of liquidation or curtailment of business activities. Above all the qualitative elements of financial reporting should be more emphasized, because a good quality financial report can in itself cover many different perspectives. The IASB framework considers understandability, relevance, reliability and comparability as the four principal quality characteristics needed in a sound financial report (Mirza ,Holt & Orrell , 2008).

Financial statements, if made in compliance with IFRS can be a measure of fair and true presentation of financial position, financial performance and cash flows of an enterprise. Use of IFRS in financial statements gives consistency of presentation in the financial reports. Consistency of presentation refers to holding fast in a consistent way the classification and presentation of accounting items in regular periods of time. The materiality and aggregative measures of IFRS principles, defines classes for both similar group of material items and dissimilar group of material items differing in nature or function. Financial statements prepared in accordance to IFRS gives the ease of comparison of current period disclosures with that of previous periods. Accounting policies used in the financial statements needs to be summarized in the notes section of financial report (Mirza, Holt &Orrell, 2008).

Accounting and financial models are the tools on which accountancy of firms is based, and by its use principles for internal and external reporting are formalized. Internal reporting models are less standardized than the external reporting models in a way that corporate managers do not want to go for too many transparencies in their accounting. Thus it needs to be argued that along

with regulated external financial reporting; sound internal financial reporting model should be devised as well. Compatibility of internal reporting models with that of external reporting models should be prioritized while formulating the internal reporting models, which will help in achieving the desired level of transparency in order to control and monitor the checks and balances of corporate manager acts and decisions. While harmonized external accounting practices can provide level of transparency in monitoring and controlling activities in companies where exploitation of gaps can take place (Aras and Crowther, 2008). There persists the national level challenge towards the harmonization of world-wide standardized accounting system, which needs to be tackled. The successful transition towards a standardized accounting system like that of IFRS will make the accounting reports around the world to be more universal, understandable and transparent. Other than that its impacts on the company level will provide accounting professionals to have same set of standards to be followed throughout the world with the ease of transferability of accounting skills. In order to achieve international harmonization of accounting standards, emphasis should be placed on eliminating the differences between different accounting standards rather than expanding the scope of conforming to the international standards (Aras & Crowther, 2008).

## **2.3 Globalization and IFRS**

Globalization has manipulated the ways in which enterprises and information users seek information from an organization. These users now require much clearer picture in terms of clarity, comparability and the ease of understanding the processes of an organization and evaluating the firm performance in terms of financial reporting. International accounting harmonization can provide the globalized firms with the opportunity to enhance its capacity of raising capital in international markets. For international accounting harmonization, all the considerations should not be placed only on the technical issues regarding the comparability, but arguments should be taken into account about the particular financial reporting standards efficiency and the cost-benefit analyses of convergence (Bhimani , 2008). In order to select the most appropriate accounting method, the governments decide to weigh the advantages and disadvantages of different accounting methods as per their national requirements. The bases on which governments compare different accounting systems are stated to be the economic,



institutional and cultural bases; and on the very same factors the relevance of IFRS to the national requirements is being assessed. For developing countries, this comparison and assessment provides them with the answers to the issues regarding their degree of similarity to the economic and social scenarios of the developed countries; the size of public and private sector; and the conditions of capital market development (Tyrrall, Woodward &Almagoul, 2007).

Accounting differences among different countries and economies toughen the job for investors, lenders and other users to understand and compare different financial reports. The benefits of global financial reporting cannot be limited only to the benefits achieved by the providers of debt and equity capital; other entities like the ones who seek to generate capital from the market benefit from it in terms of reduction in their compliance cost and lower the uncertainties which affect the cost of capital. Consistency in audit quality is improved by the implementation of global standards, and facilitates the training and education of these standards at a global level (IASB Foundation Education, 2009)

## **2.4 Approaches to IFRS Adoption**

Adoption of IFRS is more than just an accounting exercise. This is because accounting and reporting represent only a small part of the conversion efforts (AABE 2015). A country can change its existing accounting system to a globally recognized accounting standard called IFRS either by totally 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, 2013 Source: <http://www.ifrs.org> ).

## **2.5 The Economic Effects of IFRS Adoption**

The advantages of a single set of financial reporting standards are manifest, particularly as internationalization of business activity becomes the norm. It has long been an article of faith that uniform financial reporting standards will result in a lowered cost of capital, which all agree is a desirable objective. There is certainly empirical research evidence to support the notion that uniform financial reporting standards will increase market liquidity, decrease transaction costs for investors, lower cost of capital, which all agree is a desirable objective. There is certainly empirical research evidence to support the notion that uniform financial reporting standards will increase market liquidity, decrease transaction costs for investors, lower cost of capital, and facilitate international capital formation and flows. Only one candidate is suited for the role of universal financial reporting standards – IFRS. (Barry Jay Epstein 2009).a company's adoption of IFRS creates strong economic benefits in countries with rigid regulation over financial reporting. These benefits include an increase in the stock's market value, an increase in market liquidity, and a lower cost of capital. Companies with major differences between GAAP and IFRS standards show the greatest benefit when supported by a strong regulatory environment. Additionally, benefits are not only strong in the year of the change to IFRS, but also in the year that reporting is officially mandated. Results reinforce the view that strong enforcement of reporting standards not only enhances transparency for investors but also increases the market position of adopters. Self-selection appears to be a primary reason; firms voluntarily changing to IFRS had factors unrelated to the accounting standard change that gave them an economic advantage. (HolgerDaske, Luzi Hail, Christian Leuz and Rodrigo Verdi 2009)

## 2.6 BENEFIT AND Costs of IFRS

A move to IFRS also presents a tremendous opportunity. Moving to an entirely new accounting structure ultimately might enable companies to streamline reporting processes and reduce compliance costs. While there are differences between US GAAP and IFRS, the general principles, conceptual framework and accounting results between them are often the same, or similar, for most commonly-encountered transactions. With IFRS likely to arrive in the near -- rather than distant -- future, affected utilities should consider the implications of IFRS and start planning now. The resources needed and the impact on the organization will be far-reaching. But with proper strategic planning, benefits can be substantial (scotthartman 2009)

in relation with reducing agency problems while adopting IFRS, Leung (2013) argued that IFRSs are developed through an international due process that involves accountants, financial analysts and other users of financial statements such as the business community, stock exchanges, regulatory and legal authorities, academics and other interested individuals and organizations across the globe (IFRS Foundation, 2015) .Companies in countries that have already converted to IFRS report that the IT impact of conversion was consistently underestimated. Conversion to IFRS may be simple. Financial executives have expressed that their underlying business and financial systems will not be affected by IFRS and the requirement to be IFRS-compliant can be accomplished by a few journal entries each period to properly present financial data. However, it is recommended that if you have not begun a detailed analysis of the impacts of IFRS on your IT systems, start now. Take a comprehensive approach to your analysis. You may have new data requirements, your key performance metrics and your incentive compensation systems may change, and your business partners may need to provide you with different information. Don't assume the effect of IFRS on your organization is limited to financial presentation. (Denis Posten. 2008 )

IFRS application will lower the cost of comparing firms' financial reports across different countries thus enabling the European capital market to become global with an increase in their liquidity. The negative reaction of the investors in the European firms could be due to the fact of

regional difference in the economies, perception of investors that the quality of reporting might be lowered, and the investors feared the implementation and transition costs associated with IFRS would surpass its benefits (Armstrong, Barth, Jagolinzer & Riedl, 2008).

Firms with lower pre-IFRS adoption information quality have shown a positive reaction in terms of adopting IFRS, in order to provide consistent informational benefits to their investors. It was also found out by them that there exists a positive reaction to the adoption of IFRS by those firms which have higher information quality prior to Pre-IFRS adoption, as it is consistent with investors' expectations regarding the mitigation of information asymmetry. A less positive reaction of firms to IFRS adoption was found in countries domiciled with code laws, as investors concerns have been seen in such countries with weaker accounting standards. European Commission (EC), a private-sector standard setter, has the right to endorse the standards issued in IFRS by IASB before their implementation in European Union. In this way the regulatory authority lies with EC in order to either retain or reject a particular standard or any part of a standard. European commission looks at three specific criteria before endorsing any standard. Those criteria are: the standard should comply with the true and fair principle of EU; the standard should meet the criteria set out in terms of reliability, understandability, relevance and comparability; and that the adoption of any such standard would be in the best interest of European public (Armstrong, Barth, Jagolinzer & Riedl, 2008)

## **2.7 Previous Accounting and IFRS Practice In Ethiopian Financial Institutions**

The analysis of 10 years annual reports of 40 companies has shown that four organizations have started preparing their financial statements in accordance with IFRS in 2002/03 and increased gradually from time to time. By 2013/12, the number of corporates using IFRS has reached 18 (16 are using the full IFRS while the remaining 2 are using IFRS for SME) as per the accounting policy of the companies disclosed to their annual reports (Teferi, 2016).

There is a lack of appreciation of the role of quality financial reporting by the business community. Stakeholders indicated that there is lack of appreciation of good quality financial reporting by the business community. Most people in the business community are not aware of the importance of good quality financial reporting and for what purpose it would serve. The

reason behind would be as a nation Ethiopia does not have its own national accounting standards; the accounting and auditing practices are fragmented and are inconsistent among organizations (ROSC, 2007).

There are no extra requirements for banks and insurance companies for preparation of their annual financial statements Banks and insurance companies are subject to regulatory laws and directives issued by the National Bank of Ethiopia, but there are no extra requirements in these laws or directives for preparation of annual financial statements in accordance with IFRS. The applicable requirements for preparation of annual financial statements for banks and insurance companies are those provided in the Commercial Code. The Commercial Code has no requirement for compliance with any defined accounting standards. Banks and insurance companies are public interest entities which should be subjected to high standards of financial reporting (ROSC, 2007).

## **2.8 Recent Ethiopian Financial Reporting Proclamation**

The Financial Reporting Proclamation No. 847/2014 has eight chapters where the first chapter provides for general Provisions. The second chapter contains the provisions concerned with establishment of the Accounting and auditing Board of Ethiopia or simply —Board. The third chapter encompasses provisions that prescribe the financial and auditing standards to be used in Ethiopia. The fourth chapter deals with procedure for adopting, adapting and amending standards. The fifth chapter provides for licensing and accreditation of Professional Auditors and Accountants. The six chapter deals with standards of practice for auditors (consisting of Auditors' Report and Opinion, Period of time for Giving Opinion, Material irregularities, Independence of auditor, Conflict of Interest of Auditors, and Professional misconduct by Auditors). The seventh chapter contains provisions related with enforcement of the proclamation and lastly, the eighth part of the proclamation comprises provisions that deal with miscellaneous issues (such as conflict of interest, confidentiality, power of the Council of Minister to issue Regulations and that of Board to issue directives, Transitory Provisions and repealed and inapplicable laws) (Teferi, 2016).

## **2.9 Advantages and disadvantage of IFRS adoption**

### **2.9.1 Advantages**

Enhancing accounting quality is the most important achievement in case of IAS/IFRS adoption. There are many researchers revealing different reasons why the adoption could lead to higher accounting quality. Firstly, IAS/IFRS was established based on the demand of developed markets; hence, this accounting frame is evidently qualified (Ball 2006). In addition, higher quality measurement is required, for instance the application of fair value, leading to better reflection in economic positions of entities in the market (Phan, Mascetelli&Barut 2013). Also, there are more disclosures included under IAS/IFRS; therefore, information asymmetries are alleviated between different organizations (Phan, Mascetelli&Barut 2013). Furthermore, IAS/IFRS could eradicate alternative accounting methods; thereby reducing managerial discretion. In reality, under other systems, companies could be given some discretion in regard to classify accounting items, which might result in manipulation of earnings. Hence, adopting IAS/IFRS could boost the accounting quality. Finally, IAS/IFRS was based on fundamental principles thus it is difficult for organization falsify record (ahmed, neel and warm 2013)

It is clear that adopting IAS/IFRS will lead to higher levels of compatibility and comparability. Currently, there are a huge range of countries requiring and adopting IAS/IFRS in the world. Subsequently, in case that Vietnam will adopt with IAS/IFRS, financial reports of Vietnamese organizations will be more comparable to such reports in other countries. Therefore, more and more investors will pay attention to the Vietnamese market. In addition, there will be more opportunities for Vietnamese entities, who use the globally accepted accounting standards, to enter into foreign markets (Phan, Mascetelli&Barut 2013).

Furthermore, the adoption of the set of international accounting standards could improve the accounting information and data; thereby increasing comparability between financial reports across different countries as well as markets. Subsequently, information asymmetries and unfamiliarity of foreign investors are eliminated. These positive signs are clearly a great encouragement to international trade and Foreign Direct Investments (FDIs). It is worth noting

that transition economies like Vietnam might achieve more advantages as compared to developed nations in case of the adoption (M´arquez-Ramos 2008).

Apart from the above three main advantages, the adoption of the international accounting standards could support companies to gain higher reputation because of greater transparency, as compared to domestic competitors who do not use IAS/IFRS (Phan, Mascetelli&Barut 2013). \

## **2.9.2 Disadvantages**

According to Institute of Chartered Accountants in England and Wales), there are nine different costs in case of IAS/IFRS adoption, as follows: IFRS project team, Staff training Software and system amendment, Extra costs of external audit, Extra costs of external data, Extra costs of technical advice, Extra costs of tax advice, Costs of third-parties communication, Costs of changes, as compared to previous contracts (ICAEW 2007).

Note that actual costs could be higher since it depends on different sizes of companies and organizations. It is significant that these costs could account for 24% of turnover, which is a remarkable figure to concern in case of conversion. Furthermore, countries which have tighter and more transparent regimes of regulations will be more beneficial than other countries with looser and less clear law systems (Chen & Cheng 2007)

## **2.10 The difference between GAAP and IFRS**

GAAP (US Generally Accepted Accounting Principles) is the accounting standard used in the US, while IFRS (International Financial Reporting Standards) is the accounting standard used in over 110 countries around the world. GAAP is considered a more “rules based” system of accounting, while IFRS is more “principles based.” The U.S. Securities and Exchange Commission is looking to switch to IFRS by 2015. What follows is an overview of the differences between the accounting frameworks used by GAAP and IFRS. This is at a broad, framework level; differences in accounting treatments for individual cases may also be added as this gets updated. ( willy IFRS 2015).

## **2.11 Summery and literature gap**

On literature review section of the paper it is tried to address most related issues with adoption of IFRS. This section tries to cover the overall concept of IFRS, financial statement And IFRS, development of IFRS, globalization and IFRS, the economic effects of IFRS adoption, benefit and cost of IFRS and advantage and disadvantage of IFRS, the difference between IFRS and GAAP.

Regarding to countries other than Ethiopia there are different empirical studies conducted concerning ADOPTION OF IFRS. But there viewpoints were different. In most of the case studies it is observed that they were concerned about the effect, the factors affecting to the adoption and the determinants of adoption of IFRS. However no studies were conducted to assess IFRS adoption at Ethiopian development organizations for 2018. Previous studies such as (Eyob Lema 2017) did not indicate the adoption IFRS. He tried to assess benefit and challenges IFRS adoption but he tries to indicate only in the banking sector, whereas this paper tries to assess the adoption IFRS at development organization in Ethiopian.



## **CHAPTER THREE**

### **3. Methodology**

#### **3.1 introductions**

This chapter describes the methodology used in order to conduct the study. The researcher is going to justify, how this method were chosen in comparison to other alternative method, what activities to be done .The chapter consists of five sections. The first section presents the research approach and the next section is research design of the study. The third section outlines the population and sampling techniques for this study. The forth and the fifth sections present the data collection instruments and data analysis methods respectively.

#### **3.2. Research Approach**

There are three research approaches that are available. Those are qualitative, quantitative and mixed the hybrid of the quantitative and qualitative approach. The quantitative approach is for only number matters or for specific and only one answer whereas the qualitative deals with subjective matters. Hence each individually limits the research to meet the expected result. But 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. By considering and convinced by the scholars the researcher used both the quantitative and qualitative research approach.

#### **3.3. Research Design**

There is explanatory, descriptive and exploratory research design. From the three techniques the researcher used descriptive method of research design which helps to describe the major findings of the study by taking the research questions into consideration.

### **3.4 Survey Design**

This study has intent to assess the adoption of International Financial Reporting Standards in Ethiopian public enterprise. To do this, the methods employed are survey design. Survey research according to Fowler (2013) 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 (CFO, Controllers or Accounting Directors) and accountants of companies which adopt IFRS. Questionnaire is a common place instrument for observing data beyond the physical reach of the observer (Leedy, 2003).

### **3.5. Target population sample and sampling procedure**

Under this sub topic issues in line with target population, sample and sampling procedures were explained one by one.

#### **3.5.1 Target population**

The target population of this study is employee of the selected enterprises finance department who are under the control of ministry of public enterprise which is 76 in number. It means that the target population of the study was the finance team members of each public enterprise.

#### **3.5.2 Sample size and sampling procedure**

The sample size of the study are employees who are assigned and worked in the finance department of the enterprise, each member are selected using stratified sampling because the

populations are not homogeneous expected to fill the Questionnaires and the respondent are classified in to different strata based on the nature of the enterprises and the strata are presented below. The researcher use simple random sampling to select the sample population because the structures of the selected organization are not the same and in order to extract appropriate or real information from the respondent from those the researcher is selected 76 sample population from selected public enterprise of finance department the researcher decided to draw 24 percent of the whole population for investigation. For a homogenous population this much sample size is believed to be representative (See for example Cohen. 2005).

$N = 328$

where

$n = 76$

$N =$  the total population

$N_1 = 112$

$n =$  the sample population

$N_2 = 96$

$N_1-N_3 =$  the selected strata

$N_3 = 120$

### **3.6 Method and instrument of data collection**

The method of data collection for this study used both primary and secondary data. The primary data is considered as a major source of information as it was directly gathered from the respondents through questionnaires. On the other hand, the researcher used books, articles in the web sites and other published & unpublished materials for the research. Furthermore, previous research works (directly related with the research) and the written documents were reliable source of secondary data for the researcher.

### **3.7 Questionnaire**

Well organized and structured questionnaires are used to collect the data from the selected employee of organizations under study using appropriate information tools. The use of questionnaire is going to be chosen because it will enable the researcher to reach a number of

respondents within a limited period of time and it is convenient ensure the privacy of respondents.

The designs of the questionnaire are consider the need for both open and close-ended questions. Open-ended questions used in order to provide the respondents with an opportunity to explain their views freely, With regard to the open- ended questionnaires the respondents gave open response for respective questions.. The closed-ended questions is also be necessary to cover more ground within a limited timeframe, particularly for those respondents who would have severe time constraints. With regard to the close- ended questions, the respondents indicate their level of agreement on a five point scale with the following ratings. Strongly agree (SA; or 5), agree (A; or 4), neutral (N; or 3), disagree (D; or 2), and strongly disagree (SD; or 1). On this scale a score of 5 or 4 indicates that the item is perceived to be essential while a score of 3 or 2 indicates that the item is perceived to be fairly important, but not essential, while a score of 1 indicates that the item could be disregarded for being unimportant.

### **3.8 method of data analysis**

The main objective of this study is to assess the adoption of IFRS IN Ethiopian public enterprise. This section presented the output of data analysis. The presentations will be in the form of tables and texts. The data analysis of this study will be done from both qualitative and quantitative for the purpose of achieving the objective of the study. The presentation is According to the objectives of the study. The analysis below was done based on returned Questionnaires distributed to respondents.

### **3.9 Data collection Procedures**

The background information of respondents are deemed necessary because the ability of the respondents to give satisfactory information on the study variables greatly depends on their background. The background information of respondents solicited data on the samples and this has been presented below categorized into; gender, education levels, age and length of service years in the organization.

For the quantitative data simple descriptive statistics are used. On the other hand, qualitative data were analyze using content analysis technique. Content process of extracting desired information from a text by systematically and objectively identifying specified characteristic of the text (Smith, 2000 in Hoyle et al. 2002).

### **3.10 Data Processing Procedures**

After the researcher complete the data collection, data entry and data cleaning for this study; the researcher were use SPSS 21 to get the required data analysis results for study. descriptive statistic helps to describe the level of agreement of respondents .it reveals the conformity of respondent attitude about IFRS adaptation .in addition frequency and percentage was used to present the data. Tables were also used to ensure easily understanding of the analysis. Finally the result of statically analysis was summarized, tabulated and interpreted appropriately.

## CHAPTER FOUR:

### Data analysis result and discussion

#### 4.1. Introduction

This chapter explains and discusses the results of findings based on the analysis done on the data Collected from sample companies. The results of the study are discussed by summarizing from questionnaire. The discussion tries to complete the objectives of the study and answer the research questions. For this survey study a total of 76 questionnaires that means from 17 Sample Company's respondent each which allocated with the Adoption of International Financial Reporting Standards (IFRS) under the ministry of public enterprise. A total of 76 questionnaires were collected. All the survey respondents were located in Addis Ababa as it is mentioned in section three.

Under this survey study to analyses adoption of IFRS in Ethiopia public enterprise is the main way to reach the suitable solution. To this end, the results obtained from the survey are analyzed through descriptive statistics and statistical analysis. Descriptive measures of the questions response, the results of correlation in the subsequent sections Response Rate at development organization

A total of 79 questioners were distributed using stratified sampling and conveniently selected finance department each organizations the rate is expressed in the table below.

Table 4.1 completed questioners

Rate	Number of questioner	Percent
Completed	76	93.85%
Not completed	3	6.15%

Total	79	100%
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source Owen survey 2018

A response rate of 93.85% was achieved which is 76 in Number of Questionnaires Completed and 6.15 % Total of 3 questioners are not returned or not completed .

## 4.2 General information

### 4.1.2 Demographic characteristics of respondents

In this section there are 4 questions about the Gender, academic level, work experience, and job position of the respondents is discussed.

#### 4.1.2.1 Distribution of respondents by Gender

Table 4.2: Distribution of respondent by Gender

		Frequency	Percent	Valid percent	Cumulative percent
Valid	Male	47	61.8%	61.8%	61.8%
	Female	29	32.2%	32.1%	100%
	Total	76	100%	100%	

Source: Own Survey Data, 2018

Based on the data on table 4.2 from 76 respondents 47 were male that represent 61.8% of the respondents. And the remaining 29 were female that represent 32.1%, That indicates the majority number of respondents were male, The male dominance in the developing economy professional work context is a well settled fact.

#### 4.1.2.2 Academic level distribution of respondent

Table 4.3 educational level of the respondent

		Frequency	Percent	Valid percent	Cumulative percent
Valid	Diploma	8	10.5%	10.5%	10.5%
	Bachelor degree	56	73.7%	73.7%	84.2%
	Masters	11	14.5%	14%	98.7%
	Others	1	1.3%	1.3%	100%
	Total	76	100%	100%	

Source Owen survey 2018

The education level of the participants varied widely from a total of 76 respondents 8 or 10.5 % of respondents have diploma, 56 or 73.7 % have 1<sup>st</sup> Degree, 11 or 14.5% have masters and the remaining 1 or 1.3% This indicates most of the employees have good educational back, this suggests our respondents give relevant and accessible information needed for the study on importance and challenge of adopting IFRS.



### 4.1.2.3 Respondent's distribution by work experience

Table 4.4 respondent work experience

		Frequency	Percent	Valid percent	Cumulative percent
<b>Valid</b>	<b>Less than 5 years</b>	<b>10</b>	<b>13.2%</b>	<b>13.2%</b>	<b>13.2%</b>
	<b>6 to 10 years</b>	<b>24</b>	<b>31.6%</b>	<b>31.6%</b>	<b>44.7%</b>
	<b>11 to 15 years</b>	<b>28</b>	<b>36.8%</b>	<b>36.8%</b>	<b>81.6%</b>
	<b>16 to 20 years</b>	<b>6</b>	<b>7.9%</b>	<b>7.9%</b>	<b>89.5</b>
	<b>&gt;20 years</b>	<b>8</b>	<b>10.5%</b>	<b>10.5%</b>	<b>100%</b>
	<b>Total</b>	<b>76</b>	<b>100%</b>	<b>100%</b>	

Source own survey 2018

As it is shown in table 4.4 above, majority of the respondents (36.8%) have a work experience of 11 to 15 years, followed by respondents with 6 to 10 years' experience . The over 20 years experienced were 10.5 % and the least number of experience is that of 16 to 20 years. This indicates, overall, that the finance department employees are relatively well experienced and exposed both with previous GAAP and IFRS. In addition, due to the nature of the accountancy profession the more experience employees have the more they refine their proficiency. This could yield them the ability to easily assimilate themselves with the new standard as they could build on what they profess the new requirements. In contrary, having seasoned professionals by itself could cause a challenge as experience and age are negatively correlated with change

acceptance. However, according to the respondents the company exposes its employees with frequent trainings that help them to advance with new ideas and innovations.

#### 4.4 Respondent's distribution by Job position

Table 4.5: Distribution of respondents by Job position

Level		Frequency	Percent	Valid percent	Cumulative percent
Job position	Accountant	31	40.8%	40.8%	40.8%
	Senior accountant	21	27.6%	27.6%	68.4%
	Finance manager	16	21.1%	21.1%	59.8%
	IFRS team member	8	10.5%	10.5%	100%
	<b>Total</b>	<b>76</b>	<b>100%</b>	100%	

#### Source own survey 2018

Based on table 4.5 total of 76 respondents 8 or 10.5% wear IFRS team members. 16 or 21.1% wear finance managers. 21 or 27.6% of the entire respondents were senior accountant 27.6% wear senior accountant and 31 or 40.8% wear accountant respectively. The table indicates that the majority of the respondents were accountant the researcher believes that the information we get from those persons are truthful and appropriate for the study.

## 4.2 Importance of adoption IFRS

Table 4.6 importance of adoption

1 = Strongly disagree, 2 = disagree, 3 = Neutral , 4 = agree 5 = Strongly agree

	Descriptive Statistics				
	N	Minimu m	Maximu m	Mean	Std. Deviation
Adoption of IFRS will promote and increase accounting standard	76	1	5	3.59	.786
Adoption of IFRS improve credibility of financial statement	76	2	5	3.50	.739
Adoption of IFRS increase understandability of financial statement	76	2	5	3.62	.748
Adoption of IFRS brought comparable financial statement	76	1	5	3.32	.852
Adoption of IFRS increase completeness of financial statement	76	1	5	3.36	.795
Adoption of IFRS increase financial reporting quality in our company	76	1	5	3.39	.850
Adoption of IFRS brought high quality financial statement	76	2	4	3.33	.737
adopting IFRS improves the efficiency of financial statement	76	1	5	3.41	.786
Adoption of IFRS is very	76	2	5	3.41	.734

beneficial technologically					
Adoption of IFRS increase companies good will	76	1	4	3.32	.804
our company have enough budget to adopt IFRS	76	1	5	3.63	.921
Adoption IFRS will make company competent globally	76	1	5	4.04	.901
we have enough knowledge to adopt IFRS	76	1	5	3.46	.901
Ethiopian government encourage the adoption of IFRS in our organization	76	2	5	3.68	.852
Adoption of IFRS provide information for better management decision	76	1	5	3.92	.920
our company has guidelines to adopt IFRS	76	1	5	3.54	.930
Adoption of IFRS minimize administrative cost	76	1	5	3.67	.971
Adoption of IFRS decrease information cost	76	1	5	3.84	.895
Adoption of IFRS improves transparency and accountability	76	2	5	3.78	.858
Adoption of IFRS have strong benefit for our company performance	76	2	5	3.93	.869
Adoption of IFRS bring practical benefit for our company and stakeholders	75	2	5	3.87	.935
Valid N (list wise)	75				

Source Owen survey 2018

For this study researcher was take twenty one questionnaires for the importance of International Financial Reporting Standards also asked for response by the statements with a 5 point Like scale and indicate the extent they agree with the statements that is: 1 = Strongly disagree, 2 = disagree, 3 = neutral , 4 = agree 5 = Strongly agree mean (M) score of 0-1 means that there respondents strongly disagreed, between 1 to 2 means they disagreed, 2 to 3 means the respondents were neutral or not undecided , 3-4 means they agreed, and a mean above 4 means there respondents strongly agreed. Based on the findings on Table 4.5 found that 21 statements on importance of IFRS are answered, Based on the findings on Table 4.5 (M=3.59;SD=0.786) the respondent could agree adoption of IFRS increase and promote accounting standard the result show that adopting IFRS increase and promote the accounting standard of each enterprise,(M=3.50;SD=0.739) the respondent could agree the adoption IFRS the quality financial statement the result show that adopting IFRS enhance credibility of financial statement ,(M=3.62;SD=0.748) the respondent could agree adopting IFRS decrease the complexity of financial statement and also the result shows that adopting IFRS improve and increase understandability of financial statement,(M=3.32;SD=0.852) the respondent could strongly agree brought completed financial statement the which means adopting IFRS complete and meaning full financial statement,(M=3.39;SD=0.850) the respondent could agree that Adoption of IFRS increase the quality of financial report which means adopting IFRS will brought high quality of financial statement than the previous GAAP to the enterprises , (M=3.33;SD=0.737) the could agree that adoption of IFRS will brought high quality of financial statement the result shows that adopting IFRS brings high quality and more understandable financial statement , (M=3.41;SD=0.786) the respondent could agree that the adoption of IFRS will increase and improves efficiency of financial statement so adopting IFRS improves and enhance more qualified financial statement , (M=3.41; SD=0.734), the respondents could agree the technology and international financial reporting standard have strong relationship the result sows that technology is necessary to IFRS , (M=3.32; SD=0.804), the respondents could agree adoption of international financial reporting standard increase the good will of their companies the result indicated that adopting IFRS will increase the enterprise intangible asset which is good will by

making the enterprise competent globally,(M=3.63 ; SD=0.921) the respondents could strongly agree the each enterprises have enough budget so the result shows that each enterprise seat a budget to adopt and implement IFRS fully , (M=4.04; SD=0.901), the respondents could strongly agree IFRS is making them competent globally the result shows that adopting IFRS will make the enterprises competent nationally and internationally, (M=2.32.; SD=0.901), the respondents could agree they do not have enough knowledge to adopt IFRS The result indicated some of the respondent have enough knowledge about IFRS and some of the respondent does not have ,(M=3.68; SD=0.852), the respondents could agree that the Ethiopian government encourage to adopt IFRS so the Ethiopian government encourage the adoption of IFRS for each enterprises , (M=3.92; SD=0.902), the respondents could agree IFRS provide information for better management decision so adopting IFRS give more confident financial information for both internal and external purpose report , (M=3.54; SD=0.93), the respondents could agree the some of them have guidelines to adopt IFRS so the enterprise have guidelines about the rules and regulation of IFRS, (M=3.67; SD=0.971), the respondents could agree the adoption of IFRS has minimize administrative cost the result indicated that adopting IFRS will decrease administrative cost by increasing the efficiency and effectiveness of financial statements ,(M=3.84; SD=0.895), the respondents could strongly agree the adoption of IFRS has reduce information cost the result implies that adopting IFRS the cost of information by brought more understandable financial statement, (M=3.78; SD=0.858), the respondents could agree IFRS can help to improves transparency and accountability in their company the result show that adopting IFRS will increase transparency and understandability of the enterprises , (M=3.93; SD=0.869), the respondents could agree adopting IFRS have strong benefit for the company performance the result indicated that adopting IFRS make the enterprise by making the enterprise competent globally, (M=3.87; SD=0.935), the respondents could agree IFRS provides practical benefit for the company and the stakeholders the result shows that adopting IFRS benefit the enterprise brought more clear and understandable financial statement and to the stakeholders .

## 4.4 Challenge to the adoption of IFRS

**Table 4.7 challenges of adoption**

1 = Strongly disagree, 2 = disagree, 3 = Neutral , 4 = agree 5 = Strongly agree

**Descriptive Statistics**

	N	Minimum	Maximum	Mean	Std. Deviation
lack of training institutions	76	3	5	3.37	.629
lack of guide lines	76	3	5	4.42	.659
lack of compitent specialist	76	3	5	3.37	.650
adopting IFRS is costly	76	1	5	4.22	.842
increase complexity of financial report	76	1	5	4.20	.980
lack of proper instruction from regulatory bodies	76	2	5	3.32	.852
absence of information tecnology system	76	2	5	3.22	.888
Valid N (listwise)	76				

Source owen survey 2018

For this study the researcher was questionnaires take seven challenges faced in the adoption of IFRS also asked for response by the statements with a 5 point Like scale and indicate the extent they agree with the statements that is: 1 = Strongly disagree, 2 = disagree, 3 = neutal , 4 = agree 5 = Strongly agree A mean (M) score of 0-1 means that there respondents strongly disagreed, between 1 to 2 means they disagreed, 2 to 3 means the respondents were neutral or undecided, 3-4 means they agreed, and a mean above 4 means there respondents strongly agreed.

Based on the findings on Table 4.3 the researcher found that except one of those all are faced in challenges in the adoption of IFRS there response are in rage of 3.32 to 4.42 that is most of them are agree on the challenges faced in the adoption of IFRS. In general there are vast challenges in

development enterprises to adopt international financial reporting standard like lack of training institution, guide lines, lack of competent specialist and it requires huge cost there are nine different costs in case of IAS/IFRS adoption, as follows: IFRS project team, Staff training Software and system amendment, Extra costs of external audit, Extra costs of external data, Extra costs of technical advice, Extra costs of tax advice, Costs of third-parties communication, Costs of changes, as compared to previous contracts (ICAEW 2007).

#### **4.6 open ended questions**

What is the importance of Adopting IFRS? As per the majority of respondents opinion adopting IFRS will help their enterprise by making them competent in internationally by providing financial statement understandability and it increase the cost of investment and the increase the quality of the information they provide to the stakeholders and to the management report and also some of the respondent generally respond it also increase the efficiency of financial report, and the second open ended question forwarded was What are the factors adopting of IFRS ?As per the majority of respondents opinion the main factors of adoption of IFRS is the government and the world financial reporting are converted to the standards as known the Ethiopian government set schedules to implement IFRS, the third one is What are the major challenges to adopt IFRS?As per the majority of respondent the major challenges of adoption of IFRS are adoption cost, complex financial reporting framework, and lack of implementation guidance, lack of awareness and training institutions. Accordingly the researcher gathered the data presented to identify and analyze the challenges encountered in IFRS adoption and the last but not list open ended question is How Adopting IFRS increase the performance of the organization? As per the majority of the respondent adopting IFRS increase the performance of the organization by providing internationally accepted financial statement



## **CHAPTER FIVE**

### **CONCLUSIONS AND RECOMMENDATION**

#### **5.1. Introduction**

The objective of the study was to analyze the importance and challenges of IFRS adoption in Ethiopian public enterprise under the control ministry of public enterprise. This chapter presents the summary of finding, conclusions drawn from the summaries of the major findings in achieving the research's objective and the recommendation of the study; the first part presents summary of the finding. The second part presents conclusions of the study. The third part presents recommendation and finally, the last part presents possible future research areas.

#### **5.2. Summary of the Finding**

The result of the study provide important insight on assessing adopting IFRS in Ethiopian development enterprise. The summary of this research finding is as follows this study is conducted on the enterprise generate information about the assessment of adoption, including challenges and importance of International financial reporting standards (IFRS). The questionnaire of the survey has distributed to headquarters; these are accountant, senior accountant finance managers, and IFRS team members. The study found that enterprises are start using IFRS and understand its importance but there are some challenges faced to the enterprise. However, nationally, Ethiopia has decided to join the IFRS network with a 'big bang' approach to adopt IFRS through enactment of proclamation as of December 5, 2014. In The Adoption of IFRS is motivated by both internal and external factors: internally, the demand of professionals, academics and preparers to work with international trends and externally pressure from global audit firms and other international organizations.as general the question that can serve to assess the profile, the current status and to understand the awareness of the respondent IFRS. The study on the enterprise mainly shows that importance of adoption of IFRS leads to improved comparability & reliability of financial statements; reduce cost of capital of the enterprise through the process, lower cost of information, greater stake holders benefit , and others. The survey result shows that the respondents identify various challenges to the adoption of IFRS to

enterprises that are lack of training institution, guidelines, lack of availability of competent specialists, absence of information technology system.

### **5.3. Conclusions**

This study examined assessment of adoption of International Financial Reporting Standards (IFRS), its importance and the challenges of adopting International Financial Reporting Standards in under the ministry of public enterprise. Research questions were developed, adopted and tested in this study. The first part is to understand the importance of adopting IFRS for enterprises which includes twenty one questioners and the second question is challenges faced to the adoption of IFRS which includes seven questions , and questionnaire were distributed to finance department of each selected enterprise using strata.

The results of the survey reveal that IFRS should have been implemented earlier in Ethiopia due to the greater benefits it has compared to the associated problems. On the other hand the institutions which are required to use IFRS in preparing their financial reports are not applying all the standards. In other words there is a serious compliance problem with IFRS in Ethiopia.

Adoption of IFRS has also the benefit of more transparent financial statements to companies which in turn reduce the agency problem between management and shareholders as increased transparency causes managers to act more in the interests of the shareholders. Adoption of IFRS would also significantly reduce cost of capital of firms through lower cost of information, reduction in bad earnings management, greater marketability of shares, and reduced information asymmetry.

The study conclude that Adoption of IFRS provides numerous importance's for the development enterprises of Ethiopia including, improves the efficiency and effectiveness of financial statement, and also increase transparency and accountability financial report for internal users , provides reliable and comparable financial statements and adoption of IFRS also provide better information for the stakeholders and the external users and provide strong benefit for the company performance making them competent nationally and internationally.

The main challenges in the process of adopting IFRS include significant cost of adoption of IFRS, need for training, the complex nature of some of the IASB's standards and the lack of adequate implementation guidance. 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. Other key challenges include increased complicity of financial report as known financial report are prepared to external users . IFRS use of fair value accounting instead of historical cost is considered as a challenge because some conditions in developing countries like Ethiopia are not favorable for implementing fair value accounting such as achieving observable market prices and accurate estimates of liquid market prices due to less perfect market liquidity.

The government of Ethiopia has expressed an initiative to integrate its financial statements with international standards. Intention of the government to adopt IFRS is manifested by the recently issued proclamation called “Financial Report Proclamation of Ethiopia” which obliges “public interest entities” to follow IFRS in their financial reporting.

The results of the survey reveal that IFRS should have been adopted earlier in Ethiopia due to the greater benefits it has compared to the associated problems. On the other hand the enterprises which is required to use IFRS in preparing their financial reports is not applying all the standards. In other words there is a serious compliance problem with IFRS in development enterprises such as lack of training intuitions trained man power adoption requires high cost and luck of guide lines.

#### **5.4. Recommendations**

Based on the study results, the researcher gives the following recommendations. the enterprises should identify and determine the importance adoption of IFRS through active participation of all stakeholders and effectively communicate to the stakeholders and develop its own IFRS training plan for accounting and finance personnel. Besides, recognizing the importance of professional accountancy institution in developing and enforcing accounting standards, and monitoring the accountancy Professionals, the enterprise should work toward its establishment and provide continuous support to the institution even after its establishment. The government should also conduct a study to identify the gaps in systems and processes to gather information needed under IFRS. Practical action should be taken to integrate ISA and IFRS modules into Ethiopian higher institutions’ accountancy education curriculum. Since IFRS are developed

having stock market in mind, IFRS should also be established in the country if effective implementation and application of IFRS is considered necessary.

On the other hand the main problems of IFRS adoption, company's adoption of IFRS 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.

The ministry has preferred to give a clear direction to the importance about the IFRS, Ethiopian financial institutions should set a proper plan for the implementation of IFRS and reflect it in their respective financial statements; and the ministry public enterprise in Ethiopia should search a means to equip and periodically update staff in the education, expertise, technical capacities challenges in connection with IFRS. Ethiopian Universities, Colleges and other training institutes should work in this regard and incorporate the concept of IFRS intensely in their academic curriculum; All expert, practitioner and academicians of Accounting and Finance shall discussed by themselves through their professional associations to create a common and excel understanding about IFRS in Ethiopia

## **5.5 Suggestion for Further Study**

The present study used only ministry of public enterprises under 17 enterprises but there are a lot of enterprise under the ministry future studies should consider expanding their scope to include governmental development enterprises. Further studies related to the study can be conducted especially the effective implementation of IFRS in Ethiopia , Finally, this study attempted to focus on the impotence and the challenge of adoption of IFRS by Ethiopia under the ministry of public enterprise, but other scholars can explore more about the adoption of IFRS in other enterprises.

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# Questionnaires

St. Mary University

School of Graduate Studies

Department of Accounting and Finance

I am Masters of Business Administration in accounting and finance student at st. mary's University; carry out a study about the adoption of IFRS in development enterprises of Ethiopia.

I prepared this questionnaire as to collect primary data on public enterprise about adoption IFRS. Since your feedback was very vital and will be used for academic purpose, I exceedingly appreciate if you could take few minutes to provide me with such relevant information. I can assure you that your response will be kept confidential and it will not be disclosed to any person or institution in and /or outside this organization. If you have any question please don't hesitate to email me through ([HESHIMAN80@GMAIL.COM](mailto:HESHIMAN80@GMAIL.COM)), Tell +251924871298.

Thank you for your cooperation

NAME of student HENOK SHIMELIS BEZU

## General Direction

- Don't write your name
- Put tick mark   in front of your best option
- You can choose more than one option
- Give your answers for open-ended questions in the blank space

**PART I: general information**

Please put “” mark to your answer in the appropriate box

1. Gender

Female  Male

2. Academic level

Technical/Vocational Certificate (Diploma)  Master Degree

Bachelor Degree  if other please specify-----

3. Work experience:

Less than 5 years  11 to 15 year's

6 to 10 years  16 to 20 year's

Over 20 year's

4. Current position in your organization-----



## PART 2

### Close ended question

NB; - SD; strongly disagree D; disagree N; neutral A; agree SA; strongly agree

### Questions

BENEFIT OF ADOPTION		SD	D	N	A	SA
		1	2	3	4	5
5	Adopting IFRS will promote and increase accounting standard					
6	Adopting IFRS Improves credibility of financial statement					
7	Adopting IFRS increase understandability of financial statement.					
8	Adopting IFRS brought comparable financial statements.					
9	Adopting IFRS increase completeness of financial statement.					
10	Adopting IFRS increases financial reporting quality in our company.					
11	Adopting IFRS brought high quality financial statement.					
12	Adopting IFRS improve the efficiency of financial statement					
13	Adopting IFRS is very beneficial technologically.					

14	Adoption of IFRS increase companies good will.					
15	Our company have enough budget to adopt IFRS					
16	Adopting IFRS will make company competent globally.					
17	We have enough knowledge to adopting IFRS.					
18	Ethiopian government encourages the adoption of IFRS in our organization					
19	Adopting IFRS provides information for better management decision					
20	Our company has guidelines to adopt IFRS.					
21	Adopting IFRS minimize administrative cost.					
22	Adopting IFRS decrease information cost.					
23	The Adoption of IFRS improves transparencies and accountability in our companies.					
24	Adoption of IFRS having a strong benefit for our company's performance					
25	Adoption IFRS bring practical benefit for our company and stakeholders					
<b>CHALLENGES OF ADOPTION</b>						
26	Lack of training institution.					
27	Lack of guide lines.					

28	Lack of competent specialist.					
29	Adopting IFRS is costly.					
30	Increase complexity of financial reports.					
31	Lack of proper instruction from regulatory bodies.					
32	Absence of information technology system					

## PART 3

### OPEN ENDED QUESTION

33. What is the importance of Adopting IFRS?

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34. What are the factors adopting of IFRS?

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35. What are the major challenges to adopt IFRS?

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36. How Adopting IFRS increase the performance of the organization?

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