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DEPARETEMENT OF ACCONTING AND FINANCE

Challenges and Opportunities the Adoption of International Financial Reporting Standards (IFRS): In the Case study Ethiopian Toll Road Enterprise.

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Declaration

I, the under designed, declare that this thesis is my original work, prepare under the guidance of Advisor. All sources of materials used for this thesis have been duly acknowledged. I further conform that the thesis has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any degree.

Name ***Signature***

Name ***Signature***

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Samuel Bahiru

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Acronyms

AABE	*Accounting and Auditing Board of Ethiopia*
ACCA	*Association of Chartered Certified Accountant*
AICPA	*American Institute of Certified Public Accountant*
ASC	*Audit Service Corporation*
ASE	*Accounting Society in Ethiopia*
EAFA	*Ethiopian Accounting and Finance Association*
ERCA	*Ethiopian Revenue and Custom Authority*
EU	*European Union*
FASB	*Financial Accounting Standards Board*
FDI	*Foreign Direct Investment*
IAS	*International Accounting Standards*
IASB	*International Accounting Standard Board*
IASC	*International Accounting Standards Committee*
IIA	*Institute of Internal Auditor*
IFRS	*International Financial Reporting Standards*
IMF	*International Money Fund*
IOSCO	*International Organization of Securities Commission*
GAAP	*Generally Accepted Accounting Principle*
MOFEC	*Ministry of Finance and Economic Cooperation*
ROSC	*Reports on Observance of Standards and Codes*
SME	*Small and Medium Enterprise*

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Abstract

Ethiopia is one of those countries that face serious challenges to implement IFRS. Therefore this research focus with the adoption of international financial reporting standards (IFRS). Benefit and challenges of IFRS in Ethiopia Toll Road Enterprise. To achieve this objective, both primary and secondary data were collected from the finance department staff who were selected purposively based. The primary data collected through questioner who filled 35 staffs of the finance department, interview and the secondary data collected through documents, and analyzed by using different descriptive statistics. Finally the result of the study shown the main challenges in the process of adopting IFRS including significant cost of adoption of IFRS, lack of IFRS implementation of guidance, lack of training institution, proper instruction and evaluation from regulatory bodies, lack of availability of competent specialties, increased volatility of earning, tax driven nature of previous standards and problem with IFRS use of fair value accounting. The other challenge for the enterprise was there is no benchmarking organization similarly working structure.

Keywords: IFRS, Benefit/Implementation, Challenges

CHAPTER ONE

1. Introduction

This section of the study explained Background of the study, statement of the problem, objective of the study, significance of the study, scope of the study and limitation of the study and organization of the study with the intention of provide introduction and to set out the overall structures of the study.

1.1 Background of the study

Globalization made countries board less and economic resources Mobile across the world. Now a day's international trade and investment becoming increasingly global due to real world suffer from market imperfection. The increasing growth in international trade, cross border financial transaction and investment which unavoidable involves the preparation of accounting reports that is useful across various national borders (Armestrong et al).

However, accounting as a language of business is practiced differently with in varying historical, political economic and social environments (Hellmann et al,2010). Pactor (2011) argued that historically accounting standards evolved country by country- set by government, or accounting profession, or independent board.

The faster pace of globalization, growing interdependence of international financial markets and the increased mobility of the capital have added to the pressure and demanded for the harmonization of the accounting and financial reporting frame works and related standards around the world (UNACTED,2008). Renders and Gaeremynck(2007) argued that " Growth in international trade and capital flows and rising cross- border economic integration over the past decades have led to the desire to harmonize accounting standards across countries" .Without common standards, it is difficult to compare financial information prepared by entities located in different parts of the world(Mirza et al., 2006). Therefore adopting a single global accounting language will ensure understandability, comparability and transparency of financial statements which will strengthen the confidence of the investors and other users of the accounting information around the world (Dholakia, 2012).

In 2001, fundamental changes were made to strengthen the independence, legitimacy, and quality of international accounting standard –setting process and, the IASC was replaced by the international accounting standards board (IASB) as the body in charge of setting the international standards and the international accounting standards (IAS) are renamed International financial reporting standards (IFRS). The objective of the IASB is to develop a single set of high quality, understandability, enforceable and globally accepted financial reporting standards that bring transparency, accountability and efficiency to financial markets around the world (IFRS foundation2015).

International Financial Reporting Standards (IFRS), a single set of high quality, understandable and globally accepted reporting standards, have been adopted by more than 166 countries across the globe (IASB, 2021). The main rationale behind the evolvement of IFRS is the coordination and junction of the diverse business languages used by the business communities all over the world. IFRS offer a single set; principle based reporting standards, which offer high quality, transparent and comparable financial information for users. The adoption of IFRS have plenty of value propositions that has to be assessed through empirical studies including access to capital, minimized data integration costs, transparent information, improved decision quality and reduced cost of capital. However, its adoption poses challenges to the adopter(s) that shadows the value proposition of such reporting standards. Despite the fact that IFRS has an SME version such challenges are claimed to be of paramount to developing countries like ours. This mainly is due to IFRS‟s orientation towards fair value and structured market data, which is of non-existent in such economical contexts as sub-Sahara Africa. Accordingly, the benefits such initiatives has to be studied in detail before the scarce resources of such poor economies invested in its adoption to duly assess whether such value propositions are realizable. Further, the key challenges that may curtail the value realization has to be identified ex-ante and appropriate checking measures has to forethought before they begin to be actual problems that waste the limited financial resources of poor countries like Ethiopia in vain. Ethiopia is one of the sub-Sahara African countries which have adopted IFRS (Tesfu 2012).

In recognizing the benefits of IFRS adoption, Ethiopia has enacted financial reporting proclamation in the year 2014 which can be applicable by all reporting entities operating in

Ethiopian and announced the official adoption of IFRS as established by ISAB. Accordingly the accounting and Auditing Board of Ethiopia has established as per council of ministers regulation no.332/2014as an autonomous governing organ to promote high quality reporting of financial and related information by reporting entities and regulate the accounting Auditing profession of Ethiopia Implementing IFRS will help Ethiopia to increase stability, stewardship, accountability and transparency, increase the education of accounting profession and standards setting bodies, improve good governance and reduce corruption and rent seeking behavior (AABE, 2016).

The IFRS adoption of in Ethiopian companies was disfigured by poor preparation, lack of knowledge, devotion of resources and resulted in an impotent adoption. However, but nationally IFRS is adopted officially in December, 2014 through an act of law via the financial reporting proclamation no. 847/2014(Ethiopian proclamation). The objective of the proclamation is to ensure public interest as envisaged by the international accounting standard board (IASB) by using a single set, high quality, understandable, enforceable and globally accepted financial reporting standards that bring transparency, accountability and efficiency to financial markets around the world. Those standards serve the public interest by fostering trust, growth, and long-term financial stability in the global economy (IFRS Foundation, 2015). Worldwide convergence of the fragmented accounting standards is seen as an attempt to reduce accounting diversity across countries. Such imitative of reducing accounting standards may seem a timely effort to integrate the reporting languages as evidenced with the recent increased globalization in international market, international trade, cross border financial transactions and investment opportunities.

Therefore, this had led to the adoption of IFRS as a basis of preparing and presenting accounting reports across several national borders. However, the adoption of IFRS is now becoming a trend across countries given either the enormous value propositions it promises to provide countries and multinational companies or it is the accounting fashion of the day

(Tesfu,2012) Hali, Leuz and Wysocki (2010) argue supporting the adoption of IFRS. They state that IFRS offers the means of lowering the cost of capital, a better means of allocating capital as well as providing greater market liquidity. Multinational companies will have cost advantage and there will be no need for companies to report using more than one set of accounting standards.

1.2 Statement of the Problem

In recent years, IFRS is clearly emerging as a global financial reporting benchmark and most countries have already started using them as their benchmark standards. Various survey studies have been conducted to assess the adoption of international Financial reporting Standards in different countries of the world. Some researchers argued that IFRS improves transparency and comparability of companies financial statements, reduce cost of capital, increasing of cross border transaction and improve the efficiencies of corporate investment (Daske and Gebhardt, 2006 Dodiya, 2013).

The above-mentioned and other studies have been conducted to assess the adoption of international Financial Reporting Standards in different countries (Apostolos et el,2010 Iyoha and faboyede,2011). Researchers argued that the quality and comparability of information are questioned due to the difference of implementation and interpretation of the same standards by different countries (Ankarth et al 2010, Horton et al., 2010). Achieving comparability in financial reporting depends on regular interpretation and application of IFRS across countries, social, political ,economic and cultural factors in countries influence accountants professional judgments, and differences across countries may lead to an in consist interpretation and application of IFRS(poudel et al., 2014). ICAEW (2015) on its summaries of 200 empirical research papers conducted on the effects of mandatory IFRS adoption conclude that "IFRS adoption benefits were unevenly distributed among different firms and different countries due to differences in institution and incentives. There may have been negligible benefits or even negative effects rather than benefits for particular firms or countries".

Ethiopia has officially adopted IFRS as a means of its corporate reporting through proclamation number 847/2014. Hence, the Accounting and Auditing Board of Ethiopia (AABE) has designed IFRS implementation road map and announced the beginning dates of different groups of reporting entities. Based on this roadmap, Government development organization and public interest entities have been started to IFRS transition in July, 2016 and expected to close their financial reports as at June 30, 2018 based on IFRS requirements.

Most of the research has been carried out on IFRS analyzing the data from member of EU. Comparatively fewer numbers of studies have been carried out on data from other countries.

Ethiopia as a developing country does not have both organized local financial reporting standards and IFRS. From these it follows that we need to study the challenges that should be overcome to benefit from the adoption of IFRS. Some academic studies were conducted focusing on the benefits, challenges and progress of the IFRS adoption in Ethiopia. According to these studies implementation cost, complexity of standards, lack of implementation guidance, increase volatility of earnings, lack of technical skills and inadequate knowledge of professionals, Resistance to change, Absence of professional Institutions, high level training requirement, lack of proper instruction from regularity bodies problem with IFRS use of fair value accounting were identified as major challenges IFRS adoption in Ethiopia (Mihiret,2016, Hilemichele, 2016 Simegn,2015, Deyuu and Pasicha,2016 Bekele, 2016). However, All of this studies were conducted before the initiation of mandatory IFRS adoption (Pre-IFRS) and their findings are provided in references of voluntary adopters and based on perception of users of financial statements. Mhiret(2016) and Tesfu(2012) stated that their findings were based on theoretical justification and perceptions of financial statement preparers, auditors, managers and regulators and recommended to study the practical issue during implementation, on their future research suggestion parts.

Therefore, this study is aimed to examine and identify the challenges impeding the practical implementation of IFRS in particular the case of Ethiopian Toll roads Enterprise.

1.3 Objectives of the Study

1.3.1. General Objective

The main objective of this study is to investigate the challenges and benefits of first-time adoption of IFRS in the case of Ethiopian Toll road Enterprise.

1.3.2. Specific Objectives

To achieve the general objective, the study will have the following specific objectives:

- To assess the benefits by the adopting of IFRS (Prospects of IFRS adoption) in the existing circumstance.
- To identify the challenges and problems that hinders the adoption of IFRS in the enterprise.

1.4 Research Question

The research designed in a way to address the following question;

1. What the benefits by adopting the IFRS?
2. What are the main challenges hinder in adopting IFRS?

1.5 Scope of the Study

The study is mainly concerned with assessing the benefits by adopting of IFRS and the challenges and problems that deters of IFRS in Ethiopian Toll roads Enterprise. The reason for the selection of the Enterprise is the leading firm in Ethiopia that paid the service for road utilization. The study's time delimitation is the 2019/2020 fiscal year. The study was a case study that captures data from different departments of Ethiopian Toll roads Enterprise. The study‘s topic is enclosed to studying the benefits and key challenges in practical adopting of IFRS. The study was demarcated on IFRS.

1.6 Significance of the Study

This study is significant for its contribution to the existing of knowledge at it unveils the value propositions that can be realized by poor economies in their IFRS adoption endeavors. Further, it also pinpoints the key inhibitors that mar the adoption of such standards. The significance of this is twofold. In one side, it stirs the standard setters to better the standards taking the economic realities of these economies. In the other side, adopters will factor in such inhibitors in their adoption initiatives. The study will have many advantages for practitioners by providing useful information about IFRS. It will also be useful for the practice providing information about gap on actual benefits and challenges of adopting IFRS in the case of Ethiopian Toll roads Enterprise. The study is also important as it is a drop in the limited literature on adoption of IFRS in developing economy context and is useful for those who are interested to conduct more study regarding the adoption of IFRS.

1.7 Organization of the paper

To achieve the above stated objectives, the paper is organized in to five chapters. The first chapter is introduction part which consist background of the study, statement of the problem, research objectives, significance of the study scope of the study, and the organization of the paper. The second Chapter is literature review which consist the theoretical and empirical literature review of the study. The third chapter is research design and methodology which consist, research design research population sampling design and sample size data source and collection instrument, hypothesis development, model specification, method of data analysis. The Fourth chapter handles data presentation, analysis and interpretation. The Fifth chapter wind ups the paper summary of the major findings, conclusion and making recommendation.

CHAPTER TWO

2. Literature Review

2.1 Introduction

This section presents a review of related literature to International Financial Reporting Standards and its adoption. It consists of general overview about International Financial Reporting Standards, opportunities and challenges of adoption and development of accounting in Ethiopia. In general, this chapter synthesized existing Empirical research in the area of international accounting standards and ends by summarizing the review and identifying the gap in the existing literature.

Without common standards, it is difficult to compare financial information prepared by entities located in different parts of the world (Mirza et al., 2006). The motivation for the convergence of historically disparate financial reporting standards has been, in the main facilitate the free flow of the capital (Epstein and Jermkowicz, 2010).

2.2 Theoretical Literature Review

2.2.1 Overview of International Financial Reporting Standards

International Financial Reporting standards (IFRS) are principle based standards, Interpretations and the Framework adopted by the International Accounting standards Board (IASB).IAS issued by IASC; and interpretations issued by the Standing Interpretation Committee(SIC) and the International Financial Reporting Interpretation Committee (IFRIC) of the IASB (Hoyel B. et al., 2009, Baker E. et al.,2009).IFRS is a single set of high quality, understandability and enforceable global accounting standards published by London based international Accounting Standard Board(Deloitte, 2008).

The international standard setting process began several decades ago as an effort by industrialized nations to create standards that could be used by developing and smaller nations unable to establish their own accounting standards. But as the business world become more global, regulators, investors, large companies, and auditing firms began to realize the importance of having common standards in all areas of the financial reporting chain.

Currently, more than 166 nations and reporting jurisdictions permit or require IFRS for domestic listed companies. The European Union (EU) requires companies required incorporated in its member states whose securities are listed on an EU- regulated stock exchange to prepare their consolidated financial statements in accordance with IFRS.

IFRS set out recognition, measurement, presentation and disclosure requirements dealing with transaction and other events and conditions that are important in general purpose financial statements. They may also set out such requirements for transaction, events and conditions that arise mainly in specific industries. IFRS are based on the framework, which addresses the concepts underlying the information presented in general purpose financial statements. The objective of the Framework is to facilitate the consistent and logical formulation of IFRS. It also provides a basis for the use of judgment in resolving accounting issues (ISAB,2009).

2.2.2 Purpose of Adopting IFRS

Adopting IFRS have the following purposes: (IFRS, 2011)

- Providing a high quality, internationally recognized set of accounting standards that bring transparency, accountability and efficiency to financial markets around the world.
- Enhancing the international comparability and quality of financial information, enabling investors and other market participants to make informed economic decisions.
- Strengthen accountability by reducing the information gap between the providers of capital and the people to whom they have entrusted their money. The standards provide information that is needed to hold management to account.
- The goal of IFRS is to provide a global frame work for how public companies prepare and disclose their financial statements, rather than setting rules for industry–specifying reporting

Having an international standard is especially important for large companies that have subsidiaries in different countries. Adopting a single set of world-wide standards will simplify accounting procedure by allowing accompany to use one reporting language throughout. A single standard will also provide investors and auditors with a organized view of finance (IFRS, 2011).

2.3 Convergence of Accounting Standards

IFRS are designed as a common global language for the company's activities in order to improve the quality, understanding and comparability of financial reporting across international boundaries. The standards are said to achieve three fold objectives; firstly, assisting in standardizing the diverse accounting policies existing around the world and eliminate the incomparability of financial statements within and across entities. Secondly, facilitate the presentation of high quality, transparent and comparable information in financial statements. Thirdly, reduce to accounting alternatives and thereby eliminate the element of subjectivity in financial statements (Chakrabarty, 2011). In line with the above, the questions that demand for an answer is whether IFRS is feasible to all countries of different settings, especially the developing nations. This is because, looking at the trend in the International Accounting Standards setting processes, it was clear that the founders of this global standards were all from the highly industrialized economies, sharing common characteristics in most cases and the decision to have these common accounting standards was taken based on the situation that best fit the participating countries, in terms of economy, laws and regulations, Politics etc. None of the developing countries was considered in the comparative studies carried out which later led to the development of IAS (now IFRS).

Therefore, this enables researchers concerned to determine the rationale behind its development. To this end, the researchers come out with the notion that; diversity in culture, politics, law and regulations and business environments among countries is large, that single set of accounting standards cannot be applicable to all countries. While others suggested that the flexibility of global accounting standards should allow the disparity in culture, politics, laws and regulations and business environment to be accommodated under single set of accounting standards. In this vein, Wong (2004); argues that converging to a single set of accounting standards can be seen as effectively realized when the financial information allows investors to make comparison, when it lowers cost of capital, when the allocation of firms' resources is seen to be efficient and when high economic growth is achieved. Hail, Leuz, and Wysocki (2009) believes that global accounting convergence is likely to improve the quality of firms' reporting system, reduce the firms cost of capital and enhance market liquidity. Because it was found that, convergence to IFRS enable investors to figure out opportunities better, enable multinational corporations to use common accounting language in the preparation and presentation of their financial statements using similar language of that of their competitors (Bartov, Goldberg, & Kim, 2005).

In the study carried out by Ikpefan, and Akande (2012) expressed that, convergence of global accounting standards cannot be separated from politics, increased compliance cost, and deprivation of business operations. According to the study, accounting standards setting is often being inspired by political motives to transfer resources from less desirable sector to most desirable ones and the effects of this resources transfer is usually being influenced by interest groups by way of lobby. In respect to the cost implications, the study opines that global accounting convergence would create one-off convergence costs and continuous maintenance costs of the global standards as well as costs of training the regulators, preparers, auditors and other financial professionals and the cost of retaining the trainers for a reasonable period of time. Regarding the deprivation of business operation, the study claims that many businesses would be deprived the opportunities to run their businesses in jurisdictions that apply the accounting standards that best suits their line of business. To this end, it can be understood that, international accounting convergence is crucial and timely in this era of increased globalization. Although, it might create some difficult experience, but then, the benefits to be derived from it seem to overshadow the problems.

The idea of convergence has roots in the 1950s, and was a response to greater economic integration and international capital flows after World War II . Before the 1990s, convergence took the form of harmonization, the reduction of differences between the various accounting standards used internationally. The American Institute of Certified Public Accountants in 1962, many participants expressed the need for the development of accounting standards on an international basis; in the same year the AICPA reactivated the

Committee on International Relations ,that aimed to improve cooperation among accountants globally. The International Accounting Standards Committee (IASC), the antecedent to the International Accounting Standards Board (IASB) was established in 1973 with the goal of developing accounting standards and promoting them internationally; by 1987 the IASC had issued 25 standards, and by the late 1980s there was "worldwide interest" in the need for convergence.(Retrieved from https// en Wikipedia .org/ convergence of accounting standards)

In 1991 the FASB formally set out the goal of developing an internationally used set of accounting standards, and in subsequent years the FASB and IASC undertook various projects to lay the groundwork for convergence. In 1996, the National Securities Markets Improvement Act became law; the act expressed support for convergence efforts and required the SEC to report to congress on progress towards convergence. The IASC was reconstituted into the IASB in 2001, and the FASB and IASB began working towards convergence in 2002, expressing their commitment to convergence in the financial Accounting Standards Board(FASB) and the international Accounting Standards Board(IASB) and pledging to make their respective standards "compatible as soon as is practicable" and to maintain compatibility by coordinating future programs. In the European Union (EU), the European parliament passed a regulation in July 2002 requiring companies listed in the EU to prepare their consolidated financial statements in accordance with the IFRS from 2005.(retrieve from https://www.icaew.com).

In 1991 the FASB formally set out the goal of developing an internationally-used set of accounting standards, and in subsequent years the FASB and IASC undertook various projects to lay the groundwork for convergence. In 1996, the National Securities Markets Improvement Act became law; the act expressed support for convergence efforts and required the SEC to report to congress on progress towards convergence. Additionally, Ajibade (2011) disclosed that in1973, the International Accounting Standard Committee (IASC), the professional accounting bodies of major countries comprising UK, Ireland, United States (US), Australia, Canada, France, Germany, Japan, Mexico, Netherlands agreed to develop a uniform set of accounting principles that would be applicable globally and supersede the International Accounting Standards (IAS) which allowed for different treatments of transactions and events making comparative analysis difficult. Membership of IASC expanded to 140 professional bodies including the International Federation of Accountants (IFAC) under which Nigeria belongs. Because of globalization and to address comparability issues, IASC was restructured leading to the creation of International Accounting Standard Board (IASB) that issues IFRS.

The IASB and FASB signed a memorandum of understanding in 2006 which laid guidelines on their convergence projects and set short-term goals such as to issue converged standards on business combinations by 2008. Works towards the goals were reviewed in 2008, and a progress report published that also set out subsequent steps for each convergence topic. The FASB and IASB met again in 2009 and agreed to "intensify their efforts" in working towards the goals of the memorandum of understanding, while laying down future plans and targets.

The securities and exchange commission has for many years been a strong leader in international efforts to develop a core set of accounting standards that could serve a frame work for financial reporting in cross border offerings.

In 2000, the international organization of securities commission (IOSCO) in which the SEC plays a leading role, recommended that its member allow multinational issues to use 30 cores standards issued by the IASB's predecessors body in cross-border offerings and listings.

2.4 Acceptance of IFRS in the world

The international accounting standard setting process has been able to calm a number of successes in achieving greater recognition and use of IFRS.A major breakthrough came in 2002 when the European countries implemented IFRS through European Union Act 1606/20020.The Legislation came into effect in 2005 and applies more than 8000 companies (Needle and Powers ,2011, Epstein and Jermakowicz.2010).

In addition, In November, 2007 in surprise move that is considered by some as the most significant nod of friendliness and an astounding move toward convergence in recent times, the U.S SEC opened its doors to IFRS The SEC dropped the reconciliation to US GAAP requirement that had formerly applied to foreign private registrants: thereafter, those reporting in a manner fully compliant with IFRS.

2.5 Challenges and Prospects of Adopting IFRS

Accounting Professionals across the world have listed various benefits realized and challenges faced for the first time of adopting IFRS. As evidenced by the global experience, adopting 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 IAS regulation, requiring all EU listed companies to prepare their consolidated accounts inconformity with IFRS, EU publically listed companies are facing many challenges, including fair value measurements to be considered to 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 composition structures would need to be evaluated(Apostolos et al.,2010; Jermakowicz,2004).

Adoption of international Financial Reporting standards is becoming trend among countries because of its advantages it provide for countries and multinational companies. According to the proponents of accounting harmonization, worldwide comparability of financial statements is necessary for the globalization of capital markets. It would be easy for investors to evaluate potential investment in foreign securities and it would also simplify multinational companies' evaluation of possible foreign takeover targets. International Financial Reporting Standards would reduce the cost of preparing worldwide consolidated financial statements. Multinational companies would also find if easier to transfer accounting staff to other countries (Apostoles et al., 2010; Iyoha and Faboyede, 2011 Jermkowicz, 2004; 2004)

According to Uwadiae (2013) as cited by Edeigble et .al (2018) one of the challenges in Nigerian company in the adoption process is the dissimilarities of market data for measurement and valuation and its impacts on the comparability of financial statements

(International Financial Reporting Standard Foundation, 2012).The need for availability of market data is particularly true in the case of IFRS 13 (Fair Value Accounting Standard). Another concern about the company's adoption IFRS is the absence of an active capital market for the measurement and valuation of some assets such as biological assets in the case of Nigerian companies.

Companies who convert their accounting systems to IFRS driven many benefits as they do not operate their businesses in isolation. Therefore, in this time of globalization, preparing their financial statements in line with international reporting requirements will help streamline their financial reporting and they reduce reporting costs, produce comparable financial statements, easily accessed to foreign capital and can trade stock sand securities on worldwide stock exchange markets(Ikpefan and Akande,2012).

2.6 History and Practices of Accounting in Ethiopia

The evolution of accounting can be seen from international perspective and from national point of view. Accounting professionalization in western societies is closely related to the rise and development of industrialization (Hoskin and Macve, 1986).In developing countries the accounting systems has been designed by western countries. This is due to the impact of colonizers and the development of accounting professionalization by western countries. For instance most of former British colonies modeled their accounting practices around the British systems (Ashraf and Ghani 2005) (cited in Kidane, 2012).

Ethiopia is an independent country throughout the history but it has had a good relationship with the western countries especially Britain and USA (Miheret and Bobe, 2014).

The development of accounting in Ethiopia could be better understood if examined in a range of decades beginning from pre- 1970s to date. The development of accounting in Ethiopia seems to exhibit distinct patterns during the three chronological periods: pre-1974, 1974 to 1991, and post- 1991. The modern accounting started in Ethiopia in 1905 with the establishment of the Bank of Abyssinia as a branch of Bank of Egypt, which in turn administered under the British financial System (Miheret and Bobe, 2014, kidane, 2012). British experts were the first to introduce public accounting practice in Ethiopia; and the first

Ethiopian professional accountants obtained certification from British accountancy bodies (Kidane, 2012).

According to kinfu (1990) the establishment of the commercial school in 1943 provided an important only place for training of would be office clericals in commercial subjects such as banking, secretarial and finance. These graduates in the area of banking, secretarial and Finance did try to form some type of association with a view to establish a link among them. Public accounting started in Ethiopia in the 1940s with the establishment of Ethiopian branches by British accounting firms, namely Price Waterhouse and Peat, opened branches in the country (Mihert, 2009).

In Ethiopia in the 1960 the Commercial code of Ethiopia was proclaimed. The code comprises accounting and external auditing provisions, which serve as the basis of companies financial reporting (Aragaw, 2000).In Article 63(1)

"any person or business organization carrying on trade to keep books and accounts as are required in accordance with business practice and regulations having regard to the nature and importance of the trade carried on"(commercial code of Ethiopia,1960)

The other one development was the formation of the Office of the Auditor General (OAG) in 1961 by proclamation 199/1961(Government of Ethiopia,1961).The OAG had a greater authority than the Audit Commission that was established in 1944(kinfu 1990;Aregae 2000). An exertion to establish indigenous professional accounting association in Ethiopia occurred in 1973 when the Ethiopian Professional Association of Accountants and Auditors (EPAAA) was established).

In 1974 the change of the political order of the Ethiopia, the overthrown of the Derg regime the development of the accounting appears to have been held back (Argaw,2000;Kinfu,2005)(cited Ayetenew,2018).An important history of accounting and Auditing in the period was the formation of the audit service corporation (ASC) by proclamation 126/1977(Government of Ethiopia,1977).

After the fall of the Derg regime, the country shifted back to a free market economic order, and in this case money government companies privatized, which resulted in a new corporate governance structure that would be expected to develop the importance of financial reports. The change of the government is important influence on the development of the accounting profession. According to Miheret, 2009 this period the establishment of People's Democratic Republic of Ethiopia (PDRE) the power and function of the Auditor General reformulated and revised the proclamation 13/1988. In addition to this the Ethiopian Accounting and Finance Association (EAFA), the Ethiopian chapter of the Institute of Internal Auditors (IIA), and The Accounting Society in Ethiopia (ASE) have been established.

Reports on observance of the Standards and Codes (ROSC) a World Bank and IMF joint initiative that helps member countries strengthen their financial systems was reviewed accounting and auditing practice and institution supporting the accounting and auditing environment in the corporate sector in Ethiopian from September to November 2007. According to this report there is no accounting and auditing standards set in Ethiopia and in a sample 35 sets of audited financial statements the accounting practice vary among institution and differ from IFRS (Hanna2019).

Consequently, ROSC (2007) provides policy recommendation aimed to improving the quality of the financial reporting in the country. Among others, revise the Commercial Code 1960 and the other relevant laws and regulations, enact a financial reporting low, issue accounting and auditing standards and establish a National Accountants and Auditors Board was the major once. In recognizing this effort the Ethiopian government has taken major regulatory actions to improve the accounting and auditing practice of the country. Accounting and Auditing board of Ethiopia (AABE) through council of Ministers regulation number 332/2014 a body responsible to regulate the accounting and Auditing profession of the Ethiopia.

Accounting and auditing board of Ethiopia (AABE) has the following duties and responsibility as set forth in the regulation number 332/2014:

- Setting accounting and Auditing standards and code conduct to regulate the behavior of professionals:
- Register and certify professionals and firms to provide such service:
- Review and Monitor the work of professionals and firms rendering accountancy and/or audit services and reporting entities ;
- Providing professional qualification training, supporting education and continuous professional development programs;
- Enforcing the financial reporting law and the regulation set by the government and directives other relevant policies and guidelines issued by the Board.

Proclamation Number 847/2014 sets out financial reporting frame work applicable to different reporting entities. As per article 5(1) of this proclamation the financial statements to be used when preparing financial statements shall be:

1. International financial reporting standards
2. International financial reporting standards for SMEs
3. International Public Sector Accounting standards applicable to societies and charities issue by the international accounting standard board or its predecessor or issued by the international public sector accounting standard board or its successors as adopt , adapted or amended by the board

AABE plans three phase transition over a period of three years for the reporting entities in Ethiopia (AABE, 2016)

Phase 1: Significant Public Interest Entities – Financial Institutions and Public enterprises owned by Federal or Regional Governments

Phase 2: Other public Interest Entities (ECX member companies and reporting entities that meet PIE quantitative thresholds) and IPSAs and Societies

Phase 3: Small and Medium –Sized Entities

Similar to many developing countries, Ethiopia's financial reporting practices are driven by its tax laws and fragmented accounting practice acquired from the countries institution of higher learning. Adopting IFRS as a national standard will have significant benefits for countries to improve corporate transparency that required by investors and public. Many countries are currently migrating to IFRS by abandoning their national accounting standards. This is an opportunity for countries like Ethiopia, which do not have national accounting standards even if transiting to international standards with weak financial reporting practice in the country may pose many challenges that must be overcome through time.

2.7 Empirical Review

Companies compete globally for limited resources, shareholders, potential investors and creditors as well as multinational enterprise are required to bear the cost of adopting financial statement that are prepared using national standards and adoption of international reporting standards in developing economy (Alexander,2003).

Andriwes, Theophilus and Abraham, 2017 a research entitled the challenges of adopting and implementing of IFRS for SMEs in Ghana Kumasi Metropolis the paper has two objectives. The first objective was to explore the extent of for SMEs adoption and implementation by SMEs in the Kumasi Metropolis. The second objective of the study is to ascertain and analyze the implementation challenges of IFRS for SMEs adoption by SMEs in the Kumasi Metropolis. The result of the study revealed doubt the academic about whether this would be so. This was in spite of the good and sincere intentions establishing IFRS for SMEs. After reviewing the literatures and the empirical result, the high cost of implementation may further prevent micro and small firms from adopting and implementing it since the financial burden may be much more as compared to larger firms. This may also explain why financial statements preparation is very low among micro and small firms. The study also concludes that inadequate skills and technical know-how on IFRS for SMEs as a result of lack of awareness creation and education by regulatory and professional bodies are the main implementation challenges being encountered by SMEs that have adopted the standard.

Vinayagam, 2018 conducted a research on opportunities and challenges in adopting IFRS in India. The aim of the paper is to evaluate the benefit and challenges of Adopting IFRS in India. The business adopts IFRS, the business will be able to present its financial statement on a single set of high quality and global standards, high quality transparent and comparable financial statement. It is also IFRS will improve cross border investment by enhancing comparability of financial statement. The result shows merely adopting international accounting and auditing standards is not enough. The directors and top management must ensure that financial statements are prepared in compliance with established standards. And also Auditors must act independently and judiciaries to ensure that financial statement comply with applicable. Additionally regulators, both self-regulatory organization and statutory regulators must implement arrangements for efficient monitoring of regulatory companies.

Bapna (2017) also conducted a research on A study Of IFRS and its Adoption in India- Prospects and Challenges; the first objective was to comprehend the applicability, implementation and prospects of the IFRS. The second objective was to encompass the present scenario and the adoption phases of IFRS in India and lastly to embrace the challenges faced by corporate firm in adopting IFRS and IAS. The findings of the study are that the first important thing is dealing with the challenges and works to filly adopted IFRS through the implementing the roadmap in India. IFRS skills and knowledge of Indian accounting professionals should be built to supervise the conversion processes in the country. Relevance, transparency, reliability and comparability of financial reports and benefiting global investors are expected from converging the national accounting standards to IFRS. Therefore, mutual international understanding about the objectives of financial reporting and harmonization are the basic factors to successfully and efficiently adopt IFRS.

Jude and Felxamenkhienan, 2015 in their paper described the influence of IFRS adoption on corporate Transparency and accountability, evidence from New Zealand. The aim of the research shows the implementation of IFRS in New Zealand is different from the experience in most countries in four ways. The motive for the variation between IFRS and NZIFRS for tier two entities is associated with an effort to streamline contents of the financial statements from non-listed entities. The implication is that transparency is unlikely for tier two entities if limited information is provide to stakeholders under the concessional accounting measurement and disclosure approaches.

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 extend 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 their formal application, are realized. 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.

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 objects 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 relevant legislation, published annual reports and reports on the effects of the application of IFRS by Greek firms as well as the results of 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 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.

Uthman Sahead, 2015 conducted research title of Adoption of IFRS in Nigeria and implementation challenges, the researcher examined the adoption of IFRS in Nigerian; implementation and challenges among the Nigerian money deposit banks. Eighty five (85) responses were analyzed using the simple percentage and Z-test statistical method to test, its implementation challenges those the result of the study, first time implementation of the IFRS is very expensive and costly, and also there is low level of public awareness on the use of IFRS by the stack holder.

Robin pilcher and Graeme Dean (2009) conducted a study on the implementation of IFRS in local government adding value or additional pain. The aim of this paper was to determine the impact financial reporting obligation and in particular, the International Financial Reporting Standards (IFRS) have on local government management decision making.

In turn, this will lead to observation and conclusion regarding the research question;" Does reporting under the IFRS regime add value to the management of local government?" following analysis of the survey instrument distributed to all local governments in all states of Australia, this research reports on interviews with in 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 or complying with IFRS and various other legislative demands results in management accounting issues often being down played. According to the researcher 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.

Because of the problem associated with worldwide accounting diversity, attempts to reduce accounting difference across countries have been ongoing for decades (Nobes,2004). Because of the advantage it provides for countries and multinational companies, many countries adopt International Financial Reporting Standards. Adoption of IFRS has a number of important benefits for the wide range 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(Apostoles et el,2010;Iyoha and Faboyede,2011, Jermakowcz,2004).

Growing bodies of literature revealed that more complex financial reporting requirements ; results increase in costs, complexity of standards availability of resources with expertise in IFRS, lack of implementation guidance lack of proper instruction from regulatory bodies problem, and problem with IFRS of fair value accounting were identified as major challenges IFRS adoption in Ethiopia. However, all of these researcher were conducted their study based on the perception of the respondent and theoretical justification of IFRS adoption. As a result they failed to communicate the practical challenges of IFRS as the implementation was inaugurated recently and still ongoing.

Teferi deguu, (2016) a research investigated IFRS adoption progress in Ethiopia. The research is descriptive research designed together with primary and secondary data was applied a data were connected from annual reports of 40 companies. The research concludes the companies started to apply the IFRS in preparing their financial statement and the adoption of the IFRS is motivated by the internal and external factors.

Various accounting items exhibit high level relevance in common law countries that have effective judicial systems, better investor protection and higher quality accounting practices (including more transparent reporting) and auditing systems compared with code law countries. It is expected that the smaller the deviation of domestic practice from the IFRS, the higher the value relevance of the practice.

The study conducted by the local researcher Abel Abayneh (2018) IFRS implementation readiness in Ethiopia in the case of private commercial banks. The capability of the banks to implement IFRS and knowledge of implementation schedule will support the change highly. The capability of the banks to implement IFRS and knowledge of implementation schedule indicates higher level efficiency. The banks have understood IFRS implementation highly.

Hailemichael, (2016) the study reveals the International Financial Reporting Standards implementation costs, the complexity of financial reporting, lack of availability of components, specialists, high level training requirement, lack of proper instruction from regulatory bodies, and problems with International Financial Reporting Standards implementation proper plan and absence of commitment and proper plan of financial institution to implement IFRS and requirement of the existing tax law amendment are the challenges.

2.8 Summary and Gap in the Existing Literature

In spite of the quite many benefits of IFRS adoption, it also a difficult task and has many challenges. As evidence global experience, convergence with IFRS has a significant challenges common to all countries and companies and there are also certain specific challenges that unique to particular countries and companies. Growing bodies of literature revealed that more complex financial reporting requirements; resultant increase 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 system are the main challenges of IFRS (Iyoha and Fadoyede,2011;Apostolos et al.,2010Wong,2004)

Therefore, the focus of this study is the benefits and the practical challenges of IFRS implementation in Ethiopian Toll Roads Enterprise.

CHAPTER THREE

3. Research Methodology

This section describes the research has explained the research purpose, research design, Sources, methods and Tools of Data collection, sampling Techniques and sample size, Methods of Data Analysis, and description of variables used in the research.

3.1 Research Purpose

The purpose of the study was to describe practical challenges of IFRS adoption by Ethiopian Toll Road Enterprise. It has described the status of IFRS implementation in and the practical challenges faced during the adoption through primary and secondary or documentary evidences.

The challenges that has been focused under this study are adoption of IFRS costly, IFRS increase the complexity of financial reporting, lack of IFRS implementation guidance, proper instruction from regulatory bodies, lack of availability of competent specialties, planning, Availability and transparency of market information, cost of transition and management support. The challenge are identified by referring different sources such as existing studies published in well journals, ABBE strategic plan, Ethiopian Financial reporting Proclamation847/2014. Besides this challenges are the main challenges which affected IFRS implementation in many countries.

3.2 Research Design

The study investigates the benefits and challenges of IFRS adoption in Ethiopian Toll Road Enterprise. The research approach used mixed method design that encompasses a combination of both a qualitative and quantitative research approach method. The quantitative data were used to substantiate and support the qualitative data that were collected using different data collection methods and tools.

3.3 Types of Data and Data Collection Instrument

This instrument uses both primary and secondary data.

3.3.1 Primary Data

In this study, the primary data will collect though questioner and Interview. The survey questionnaires are prepared based on the literature, so as to properly address the research question and achieve its objective and as well to draw valid conclusion in accordance with previous studies. The researcher has interviewed the finance directorate director and Questionnaires were distributed to 35 finance department staffs. The source of the survey instruments for this study was partially adopted from previous studies including (Gyasi, 2009) and (Tesfu 2012). The other portion were developed by the researcher and pretested in pilot study to test its validity. The questioner items will carefully develop to address the research objective and mostly used liker like measurement scales. The survey instrument develop in such rigor are distributing to survey participants and capture their perception of the benefits and the challenges of IFRS adoption in Organization.

3.3.2 Secondary data

The secondary data is collected from various secondary data sources. These sources include the organization financial report, organizational profile, Journals, articles, proclamation and directives issued by federal government, books, reports, e-Books and other internet sources. These sources provide the researcher with knowledge in developing survey instruments, in analyzing the results of the survey measurements, in separating the research constructs and in offering concluding remarks. Using the above different types of procedures for collecting data and obtaining the information through different sources helped to boost the validity and reliability of the data and interpretation.

3.4 Population of the Study

3.4.1 Target Population

The target population for this study is accountants confessing in the case study organization. As IFRS is a recent phenomenon its company penetration among non- accountants was scant. Due to this the target population is scoped down to finance department employees. In such effort data were collected from tall road enterprise accounting professional which including accountants, auditors, cashers and managers. The very reason for accounting practitioners to be the only target population is due to their expertise, relevance and Knowledge to IFRS and local reporting practices since they are preparers and auditors of the financial statement.

3.4.2 population Size

The employees working in the finance department under various functions are 45 in number and the researcher has distributed questionnaires to 35 finance department staffs.

3.5 Sampling Technique

The researcher tries to conduct on the sample basis. In order to increase the sample's representativeness and achieve the research's objective the researcher used appropriate sampling techniques and producers. The researcher will use non random sampling technique that uses judgmental / purposive/ sampling. The reason for selecting this purposive sampling to select participants that will best help the researcher to understand the problem and the research question (Creswell, 2003).

3.6 Methods of Data Analysis and Interpretation

Following the completion of the data collection, the data were edited, structured, coded and entered in to SPSS version 20, for analysis and interpretation purposes. The data were analyzed using descriptive statistical methods. These includes Frequencies, percentages, means and standard deviations were summarized and give condensed picture of the collection data.

The parameter employed to describe the variables being studied were measured by five point likert scale. The scale consist of the level of the agreements or disagreements of the respondents ranging from strongly disagree to strongly agree. The levels are comprising ordinal values as follows: 1=Strongly Disagree on the statement (SD), 2= Disagree on the statement (D), 3=Neutral on the statement (N), 4=agreed on the statement (A), 5=Strongly Agreed on the Statement (SA).Therefore, the data analysis of this research has been conducted by using Frequencies, percentages, means and standard deviation as deemed necessary. The result of the analysis are interpreted by taking the mean value of the response of the respondents.

CHAPTER FOUR

4. Data presentation, Analysis and Interpretation

4.1 Introduction

The objective of this study was to analyses the benefit and key challenges of the in IFRS adoption in Ethiopian Toll Road Enterprise. This chapter explains and discuss the result of findings based on the analysis done on the data collected to address its objective. The results of study are presented by triangulating the analysis of the response on survey of questionnaire, expert's opinion and organizational settings. The survey questionnaire administered in Ethiopian Toll Road Enterprise to Finance department employees from 35 questionnaire distributed 31 usable questionnaires were collected all the items dually filled and replied.

4.1.1 Demographic Characteristics of the Respondents

It has an importance to analyze the background of the respondents to put the study in context as these factors are cross- cutting determinants of responses given by respondents.

4.1.1.1 Gender Distribution

One of the demographic characteristics of the respondents to be analyzed was their gender distribution. Hence, the researcher gathered and presented the demographic characteristics of the respondents covering their gender distribution in table 4.1 below.

Table 4.1 Demographic Characteristics of the respondents

Gender Distribution	frequency	
	count	%
Female	8	25.8
Male	23	74.1
Total	31	100

Source, own survey may 2021

As the table shows 8 (25.8%) respondents are female and 23(74.1%) respondents are male.

4.1.1.2 Academic Level respondents

Table 4.2 Education level of the respondents

Education level of respondents		
Education	count	%
Degree	27	87
Masters	4	13
Total	31	100

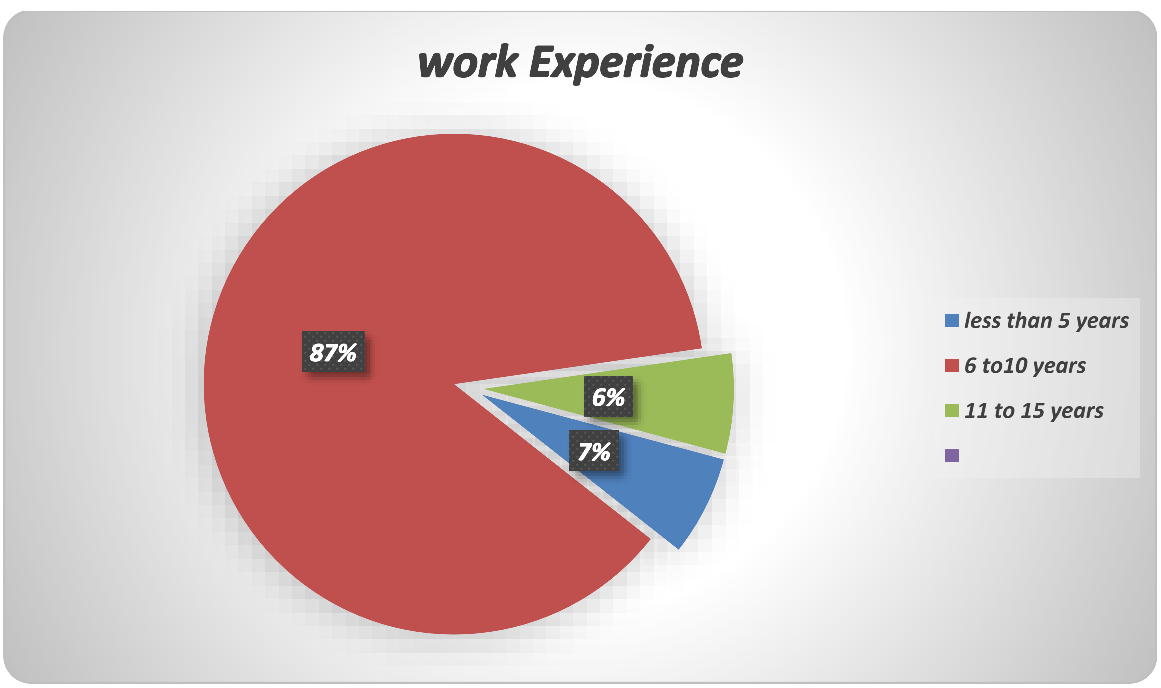
Source, own survey may 2021

As described on the above table most of the finance department staffs educated. The above table show the majority (87%) of the respondents are bachelor degree holder, master degree holders (13%). It is a combination of professional ranging from high level and specialists.

4.1.1.3 Work Experience of respondents

In studying the benefits and challenges of IFRS the experience of the respondents play a significant role. The participant's exposure to both previous GAAP and to IFRS enables them to quickly pinpoint the major benefits that were realized or could be realized in their perception. Further they easily indicate the key challenges faced and technique of overcoming from their ample experience.

Chart 4.1 professional experience of the respondents



As shown in chart 4.1 above majority of the respondent (87%) have a work experience of 6 to 10 years, as followed by respondents with 11 to 15 years' experience and less than 5 year experience.

4.2 Applicable Accounting Standards

The applicable accounting standards that were in use are of dominant importance to analyze perceived benefits of IFRS adoption and its key challenges. In such regard, the following data was collected as summarized in table 4.3 below.

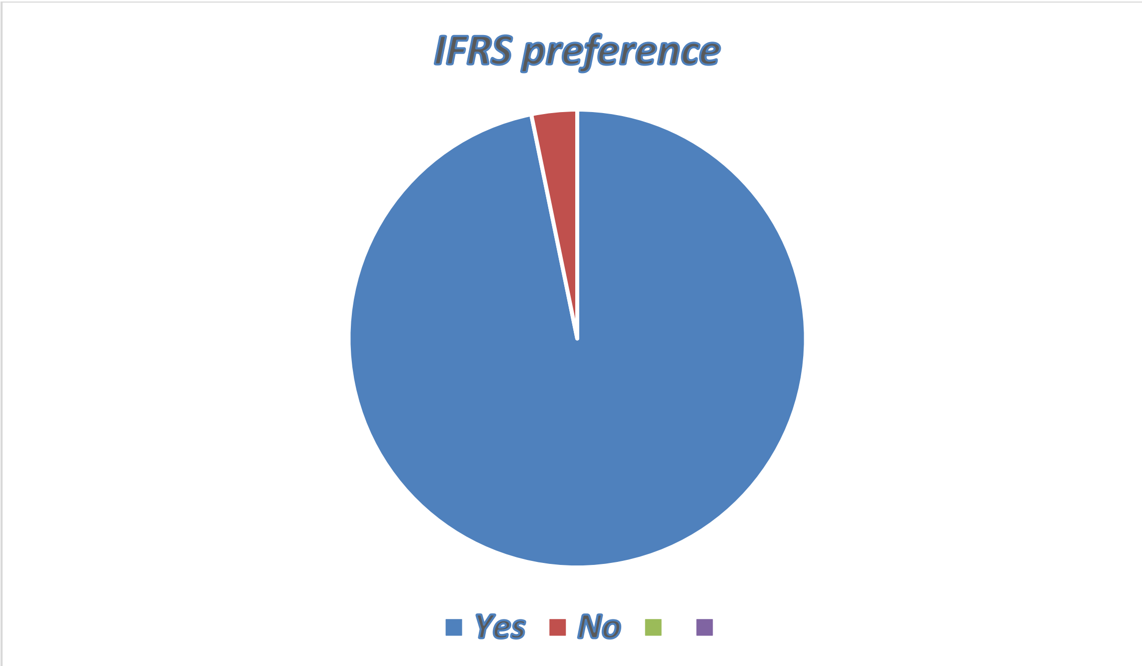
Previous GAAP	Frequency	
	Count	%
Customized standards	31	100%
Total	31	100%

Source, own survey may 2021

4.3 Preference of IFRS

In attempts to capture the apparent benefit and challenge of adopting IFRS, the participant were asked whether they obtained any preference of IFRS over previous. The following data were collected regarding preference of IFRS over previous, as summarized in chart 4.2 below.

Chart 4.2 IFRS preference



It is apparent from the above table that significant majority (97%) stated that they perceived IFRS has preference over previous while the rest 3% does not prefer it. This implies that the attitude towards the implementation of IFRS is positive. This positive sign towards IFRS can be taken as one of the benefits obtained from adoption of IFRS would also provide greater reporting transparency for the financial statement and improve management information decision making.

4.4 Reasoning behind IFRS preference

Analyzing the general preference towards IFRS was made to identify the factors that the participants reasons as summarized in table 4.4 below.

Previous GAAP	Frequency	
	Count	%
Relevance	16	51.6%
Cost	6	19.3%
Faithful	7	22.6%
Comparability	2	6.45%
Total	31	100%

Source, own survey may 2021

As it is represented in the above table majority of the respondents identified IFRS preferred over previous because of its relevance. Relevance is one of the qualitative characteristics of information that enables users of information to differentiate one alternative than other. Relevance will exist if information is timely, if it has prediction and conformation values. As a result, this result should not be a surprise due to the fair value attributes unique to measurement in IFRS. The other reason for their preference is the faithful of figures reported for each element of financial statement as indicated by 22.6% of the respondent. This is also due to the constancy that exist in fair values users in different corners of the world enjoy different comparability while they use IFRS than previous. The participants indicated cost representation and compatibility to be the least in their preference with frequency distribution of 19.3% and 6.45% respectively. Faithful representation means that the information reflects the real world represent. Relevance and faithful representation make financial statement useful to predictive value, confirmatory value and verifiability to the reader.

4.5 Benefits of IFRS adoption

There could be plenty of opportunities that may be associated with use of IFRS. These may include cost saving in reporting, reliability of financial information, achieving the purpose of reporting, simplicity, audit facilitation, and cost of capital reduction. In this regarding, the researcher gathered the following data reporting the opportunities collected through IFRS adoption as summarized in the table below.

Table 4.5 Benefits of IFRS adoption

Benefits	Financial reporting efficiency		Financial reliability		Effectiveness of financial reporting		Ease of financing		Effective of audit quality		Less cost of capital	
Response	Frequency		Frequency		Frequency		Frequency		Frequency		Frequency	
	count	%	count	%	count	%	count	%	count	%	count	%
Strong Agree	19	61.2	13	41.9	17	54.8	15	48.3	15	48.4	11	35.4

Agree	11	35.4	17	54.8	13	41.9	12	38.7	15	48.4	7	22.5
Neutral	1	3.22	1	3.22	1	3.22	4	12.9	-	-	4	12.9
Dis Agree	-	-	-	-	-	-	-	-	1	3.22	7	22.5
Strongly Disagree	-	-	-	-	-	-	-	-	-	-	2	6.45
Total	31	100	31	100	31	100	31	100	31	100	31	100

Source, own survey may 2021

From the above we can see 61.2% of respondents strongly agreed IFRS realized the financial reporting efficiency,35% of respondents agree the financial reporting efficiency, 3.2 % of respondents neutral about the financial reporting efficiency. The result shows that IFRS result in improved efficiency of financial reporting.

In the table 4.5 also shows that 41.9% of respondents strongly agreed on reliable financial statement based on IFRS, 54.8% of respondents agreed on the reliability of financial statement based on IFRS, only3.2% of respondents also neutral the reliability of financial statement based on IFRS. From the result most of the respondent agreed with the offer that the financial statement prepared based on IFRS are more faithful.

Regarding respondents perception on adoption of IFRS improves effectiveness of financial reporting from the table shows that most respondent agree on adoption of IFRS improves effectiveness of financial reporting which is 55% were strongly agree, 42% also agree on effectiveness, 3% of respondents were neutral. From the above description that IFRS enhances effectiveness of financial reporting.

IFRS is also associated with easier external source of financing. In table 4.5 48.3% of respondents strongly agreed that IFRS make external financing easier. 38.7%of respondents also agreed on the idea and the remaining 12.9% of respondents were neutral. From this we can understand that most of the respondent believe that IFRS would makes external financing easier and adoption of IFRS would also enables the enterprise to secure funds from external capital provides much ease.

Table 4.5 also displays perception toward the adoption of IFRS enables greater effectiveness of internal audit. It shows that 48.4% of respondents strongly agreed and 48.4% of respondent agreed and 3.22 of respondent strongly disagreed. IFRS also associated with reducing audit costs as the different segment and subsidies of the enterprise uses the same standards across the globe.

In addition, IFRS enables that reduce cost of capital 35.5% of the respondents strongly agreed on the proposition that IFRS reduces cost of capital, 22.5% of the respondents agreed on the proposition and 6.4% of the respondents strongly disagreed, 22.5% of the respondent disagree and 12.9% were neutral on the proposition. From this one can understand that majority of the respondents agreed on the fact that IFRS would significantly reduce cost of the capital.

Table 4.5 Benefits of IFRS adoption (continued)

Benefits	Providing greater capability		Provides better financial reporting		Financial statements are comparable		Improved economic prospects for the accounting profession		Enhance value of information different aspects of business		It improved transparency in the adoption of IFRS		IFRS achieves the objectives of financial reporting	
Response	Frequency		Frequency		Frequency		Frequency		Frequency		Frequency		Frequency	
	count	%	count	%	count	%	count	%	count	%	count	%	count	%
Strong Agree	18	58.1	14	45.2	23	74.2	7	22.3	13	41.9	14	45.2	19	61.3
Agree	13	41.9	16	51.6	7	22.6	22	71	16	51.6	16	51.6	11	35.5
Neutral	-	-	1	3.22	1	3.2	-	-	1	3.22	1	3.22	-	
Dis Agree	-	-	-	-	-		1	3.2	1	3.22	-	-	1	3.22
Strongly Disagree	-	-	-	-	-		1	3.2	-	-	-	-	-	-

Total	31	100	31	100	31	100	31	100	31	100	31	100	31	100

Source, own survey may 2021

As shown in the above table, majority of the respondents believes that IFRS provides greater capability and provides better financial reporting. It shows that 58.1% of respondent strongly agree and 41.9%of respondent agree.

Further, 45.2% of the respondents strongly agreed on the proposition that IFRS provides better financial reporting, 51.6% of the respondents agreed on the proposition and 3.2% were neutral. This implies that IFRS provides better financial reporting and credibility.

The above table also shows that 74.2% of the respondents strongly agreed that IFRS enhance the comparability of financial statement, 22.6% of respondents also agreed on comparability enhancement of IFRS and remaining 3.2% neutral. Standing from respondent response that IFRS make financial reporting comparable. Respondent who do not agree that IFRS increase comparativeness of the financial statement may be influence the widely acknowledgement tendency of IFRS to sanction multiple alternative treatment (bowrin,2007)

Also 22% and 71% of the respondents strongly agree and agree on that IFRS enables improved economic prospect for the accounting profession. The same result of 3.2% of the respondents strongly dis agree and agree. From the response of the respondent that IFRS enables improved economic prospect for the accounting profession.

As clearly shown from the above table 41.9% of respondent strongly agree, 51.6% of the respondents agree in the proposition that IFRS enhance information and 3.2% of respondents neutral and 3.2% of respondents were disagree, from this we can understand that IFRS enhance information.

From table that 45.2% of respondent strongly agree on proposition IFRS improves transparency, 51.6% of respondents agree on IFRS improves transparencies and 3.2% were neutral. From this result the adoption of IFRS improve transparency of the companies through better reporting and they will have more confidence in information presented.

From the table 61.3% of respondent strongly agree and 35.5% of the respondent agree that IFRS achieve the objective of financial reporting. High quality, transparent and comparable information in financial statement and other financial reporting to help for decision making.

Table 4.5.1 descriptive statistics of IFRS benefit

	N	Minimum	Maximum	Mean	Std. Deviation
Adoption of IFRS improves the efficiency of financial reporting	31	3	5	4.58	.564
Financial statement based on IFRS are reliable	31	3	5	4.39	.558
Financial statement based on IFRS improves effectiveness of financial reporting	31	3	5	4.52	.570
IFRS makes external financing easier	31	3	5	4.35	.709
It enable greater effectiveness of internal audit	31	2	5	4.42	.672
reduce cost of capital	31	1	5	3.45	1.502
IFRS provides greater capability	31	4	5	4.58	.502
It provides better financial reporting	31	3	5	4.42	.564
Financial statement based on IFRS are comparable	31	3	5	4.71	.529
IFRS enables improved economic prospect for the accounting profession	31	1	5	4.06	.814

IFRS enhance value of information with different aspects of business	31	1	5	4.26	.893
It improved transparency in the adoption of IFRS	31	3	5	4.42	.564
The adoption of IFRS achieves the objectives of financial reporting	31	2	5	4.55	.675
Valid N (list wise)	31				

Source, own survey may 2021

As shown in table 4.5.1 above the question distributed to assess the benefit of adoption of IFRS in the Enterprise. The mean response was above 4 and standard deviation is less than 1.00 except the variable of reduced cost of capital. It indicates' perception close to one another. This shows that in the opinion of respondent the adoption of IFRS improves the efficiency of financial reporting, the reliability of financial statement, making financing easier, increasing effectiveness of internal audit, providing of grater capability and comparability, it provides better financial reporting, enabling improved economic prospect for the accounting profession and transparency.

The mean score 3.45 and standard deviation 1.50 of the variable reduce cost of capital, the respondent response neither agree nor disagree (neutral). Therefore the respondent view that the adoption of IFRS to some extent costly. The study of George et al (2013) and Stokdyk (2010) (cited in Dowa,2017) documented that " IFRS adoption as costly to firms because of greater effort, Knowledge, and information system needed to implement the new standards, and the additional effort needed to manage the risk of material misstatement appearing in IFRS-compliant financial statement."

4.6 Challenges of IFRS adoption

There are different challenges of IFRS adoption. The most prominent ones may include adoption cost, complexity of financial reporting, lack of implementation guidance, complex financial frame work, lack of awareness. According the researcher gathered the data presented to identify and analyze the challenges encountered in IFRS adoption by the descriptive statistics in tables 4.6 and of 4.6.1.

Table 4.6 Challenges of IFRS

Challenges	Adoption of IFRS costly		IFRS increases the complexity of financial reporting		Lack of IFRS implementation guidance		Lack of training institution		Proper instruction from regulatory bodies		Lack of availability of competent specialties	
Response	Frequency		Frequency		Frequency		Frequency		Frequency		Frequency	
	count	%	count	%	count	%	count	%	count	%	count	%
Strong Agree	10	32.2	5	16.1	4	12.9	9	29.03	8	25.8	5	16.1
Agree	12	38.7	7	22.3	14	45.2	11	35.5	18	58.1	13	41.9
Neutral	-	-	6	19.3	1	3.2	3	9.7	1	3.2	3	9.7
Dis Agree	1	3.2	9	29.03	9	29.03	2	6.45	4	12.9	6	19.3
Strongly Disagree	8	25.8	4	12.9	3	9.7	6	19.3	-	-	4	12.9
Total	31	100	31	100	31	100	31	100	31	100	31	100

Source, own survey may 2021

As it shown in the above table 32.2% of respondents strongly agreed that adoption of IFRS is costly, 38.7% of the respondent also agreed on the proposition that IFRS is costly and 25.8% of respondents strongly Disagreed, 3.2% of the respondent were dis agree. This indicate that one of the significant challenge that could explain poor adoption is its implementation cost.

Furthermore 16.1% of the respondents strongly agreed on the proposition that complexity of IFRS based financial reporting 22.3% of respondent agree on complexity of financial reporting and 12.9% strongly disagree on such proposition, 29% of the respondents disagree on the proposition that IFRS complicate financial reporting and 19.3% of the respondent were neutral. From this we can say that respondent observation were far away from one to another. But this is due to the complex and less understandable nature of IFRS.

The above table shows that 12.9% of the respondents strongly agreed on the proposition that lack of IFRS implementation,45% of respondents agree on lack of IFRS implementation and 29% of respondents strongly disagree, 9.7% disagree on lack of IFRS implementation and 3.2% of the respondents were neutral and this show that lack of IFRS implementation guidance.

On the issue that lack of training institution that 29% of the respondent strongly agree on lack of training,35.5% respondents agreed on lack training institution and 19.3% of respondent strongly dis agreed on the idea of lack of training institution, 6% of respondents disagree on the idea of lack of training institution and 9.7%were neutral from this respondent result that training program for staff across the enterprise is also another costly investment and of course one of the most important factors that increase the adoption of IFRS.

There is lack of implementation guidance and IFRS brings about increased unpredictability of earnings, tax driven nature of previous standards is a challenge for IFRS adoption. In the case of Ethiopian Toll Road Enterprise readymade two types of report for the organization based on IFRS and ERCA based on previous.

Table 4.6 shows 25.8% of respondent strongly agree on proposition that lack of proper instruction from regulatory bodies, 58% also agree on lack of proper instruction from regulatory bodies and 13% of respondent were dis agree on lack of proper instruction from regulatory bodies and 3.2% respondent were neutral from this, there is problem in get instruction from regulatory bodies.

In the table shows that 16.1% respondents strongly agree on proposition that lack of availability of competent specialties, 41.9% of respondents also agree on proposition, 9.7% were neutral and 12.9% of respondents strongly disagreed on the proposition while 19.3% of the respondents disagree on the issue. The respondents also believe that lack of availability of competent specialists the most significant challenges.

Table 4.6 Challenges of IFRS (continued

Challenges	Problem with IT system in handling the transition to IFRS		Absence of structured market		Problem with IFRS use of fair value accounting	
Response	Frequency		Frequency		Frequency	
	count	%	count	%	count	%
Strong Agree	7	22.6	9	29.03	10	32.2
Agree	9	29.03	6	19.3	7	22.6
Neutral	3	9.7	4	12.9	6	19.3
Dis Agree	5	16.1	5	16.1	7	22.6
Strongly Disagree	6	19.3	7	22.6	1	3.2
Total	31	100	31	100	31	100

Source, own survey may 2021

The respondents stated there are challenges in their IT system in handling the transition to IFRS. In this regard, 22.6% of the respondents strongly agree and 29% of the respondents agree,19.3%of the respondents strongly disagree, 16.1% of the respondents were neutral from this we understand that problem with IT system is challenges to adoption of IFRS.

Also 29% of respondents strongly agreed on the absence of structured market, 19.3% of respondents agree with the idea of absence of structured market and 22.6% respondents strongly disagree, 13% of respondents disagree and 12.9% of the respondents were neutral, so problem with structured is another challenge to adoption of IFRS.

It can also be seen from the table 32.2% of the respondents strongly agree and 22.6% of the respondents agree on problem with IFRS use fair value accounting and 19.3% were neutral, 3.2% respondents strongly disagree and 22.2% of respondents were dis agree on the problem with the fair value accounting in handling the transition to IFRS, increased volatility of earning as a result of IFRS and tax driven nature of previous standards as a challenge of adopting IFRS. Most of the respondents believe that the adoption of IFRS which uses fair value financial reporting approach introduce significant volatility in balance sheet and more important in earnings.

Table 4.6.1 descriptive statistics of challenges of IFRS

	N	Minimum	Maximum	Mean	Std. Deviation
Adoption of IFRS is costly	31	1	5	3.48	1.610
IFRS increase the complexity of financial reporting	31	1	5	3.00	1.317
There is lack of IFRS implementation guidance	31	2	5	3.32	1.137
Lack of training institution	31	1	5	3.48	1.480
proper instruction from regulatory bodies	31	2	5	3.97	.912
Lack of availability of competent specialty	31	1	5	3.29	1.321
Problem with IT system in handling the transition	31	1	5	3.19	1.470
Absence of structured market	31	1	5	3.16	1.573
problem with IFRS use of fair value accounting	31	1	5	3.58	1.259
Valid N (list wise)	31				

Source, own survey may 2021

The mean of the response of the respondents on the variable of adoption of IFRS is costly revealed that 3.48. Scholars categorized mean score range from 4.51-5.00 strongly agree, 3.50-4.49 Agree in the class of HIGH. Neutral (Moderate) from 2.50up to 3.49. And dis agree 1.50-2.49 and strongly dis agree 1.00-1.49 as LOW level. In the above shown respondent on average that adopting is costly (mean 3.48 and s.d 1.61) moderate. This shows the adopting of IFRS to some extent costly. The main costs are external consultant, training material and so on.

In the above table IFRS increase the complexity of financial reporting variable mean 3.00 and s.d 1.31. From the result IFRS is being agreed for its wide and complex nature, In the other way some respondents argue that the complex nature of IFRS adoption seems decreasing.

The other challenge with mean 3.32 and s.d 1.13 is lack of IFRS implementation guidance creates risks for different local or national interpretation of IFRS and risks for manipulation in interpretation of financial statement. The result shows the respond of the respondent is moderate, so the Enterprise should be available implementation guidance for the workers.

The mean of the variable of lack of training institution 3.48 and s.d 1.48. The reason is higher learning institution given the training short list period of time. However the IFRS standards upgrade frequently.

The descriptive statistics from the respondent shows proper instruction of the regulatory bodies, lack of availability of competent specialty, problem with It system is handling the transition, absence of structured market (mean 3.97,3.29,3.19 and 3.16 respectively) which comes with adopting IFRS. The training program for staff is good for the enterprise. The regulatory bodies, especially AABE, Audit firms, ERCA play the decisive role in the training and supportive program.

The table that the use of fair value accounting mean shows 3.58. This indicate the fair value of accounting use instead of historical cost is another challenge in adopting the IFRS. The fair value incorporate more information in financial statement than historical costs , the implementing fair value accounting due to lack of achieving observable market price and accurate estimates of liquid market price, IFRS use of this accounting method is a challenged by most respondents.

CHAPTER FIVE

5. CONCULISION AND RECOMMENDATION

5.1 Conclusion

IFRS become the financial reporting standards for a significant amount of countries around the world. The decision of IFRS adoption would be the right choice for Ethiopia. However, number of practical implementation challenges needs to address to utilize the full benefits of adopting IFRS. This study examined the adoption of International Financial Reporting Standards (IFRS) its benefits, the challenges of adopting International Financial Reporting's Standards in Ethiopia. The research tested the adoption in three ways. First understand practical benefits of adopting IFRS. The second understand the challenges in the process of adoption of IFRS. The study used document analysis and questioner to finance office and accountants. Questionnaire data were analyzed using descriptive statistics.

The result of the survey disclose that IFRS should have been implemented earlier in Ethiopia due to the greater benefits it has compared to the associated problems. In the case of Ethiopia Toll Road Enterprise IFRS has the benefit of more transparent financial statement to enterprise. Adoption of IFRS would also significantly reduce cost of capital of firms through lower cost of information.

The main challenges in the process of adopting IFRS including significant cost of adoption of IFRS, lack of IFRS implementation of guidance, lack of training institution, proper instruction and evaluation from regulatory bodies, lack of availability of competent specialties. Other key challenges including increased volatility of earning, tax driven nature of previous standards and problem with IFRS use of fair value accounting. IFRS use of fair value accounting instead of historical cost so another challenge for the enterprise to implement the IFRS. The other challenge for the enterprise was there is no benchmarking organization similarly working structure.

5.2 Recommendation

The adoption and implementation of IFRS in Ethiopia should not be rushed decision. The country commenced the actual implementation without having identifying the resources it has had what is needed for implementation. Based up on the findings of the study, the following recommendations forwarded.

1. The regulatory body should ensure IFRS coherence with existing national laws such as ERCA laws and AABE. There are inconsistent laws and regulation developed by this organization.
2. AABE should support the reporting entities by organizing capacity, build workshop and trainings.
3. AABE should provide clear and proper instructions when providing orders regarding reporting and auditing.
4. The Ministry of Education should also open training for the accountants about IFRS continuously.

3.5 Implications for future Research

This study was conducted on the challenges and benefits of IFRS implementation in the case of Ethiopian Toll Road Enterprise. However it appropriate research study about disclosure in this Enterprise or other IFRS implemented organization in Ethiopia.

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Appendix

St. MARY"S UNIVERSTY

SCHOOL OF GRADUATE STUDIES

MBA PROGRAM

Questionnaire on the Benefit and challenges of the Adopting IFRS

Samuel Bahiru(MBA Student)

St. MARY"S UNIVERSTY

Department of Accounting and Finance

Dear Respondent,

The aim of this questionnaire is to seek information regarding the adoption of international Financial Reporting System (IFRS) in Ethiopia. The questionnaire is distributed to accountant and finance officer of the Toll road Enterprise. The information you provide in response to item in the questionnaire will be used as part of the data needed for study on the adoption of IFRS benefit and challenges.

I would like to assure that the information you provide will be accessible only to academic purpose. Your involvement is regarded as a great input to the quality of the research results. Hence, I belive that you will enlarge your assistance by participating in the study.

Your honest and thought full response is invaluable.

Thank you for your participation

Kind regards

Samuel Bahiru

Samuel Bahiru

PART 1 Demographic profile of Respondents

Please put "X" mark to your answer in the appropriate box

1. ***Gender***

   Female ☐ ***Male*** ☐

2. ***Academic level***

   Technical/Vocational Certificate (Diploma) ☐ ***Master Degree*** ☐

   Bachelor Degree ☐ ***Other specify ----------------------------------***

3. ***Work experience***

   Less than 5 Years ☐ ***11 to 15 years*** ☐

   6 to 10 years ☐ ***16 to 20 years*** ☐

   Over 20 year's ☐

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

PART 2 Adoption and Practices of IFRS

1. ***When did your organization start using IFRS? State the year -----------------------------------***
2. ***Before the adoption of IFRS what reporting standard did your company use?***

   US GAAP ☐ ***UK GAAP*** ☐

   Others ---

3. ***If you compare the previous standard to the IFRS is IFRS preferable?***

   Yes ☐ ***No*** ☐

4. ***What is reason for your preference?***

   Relevance ☐ ***faithful*** ☐

   Cost ☐ ***Comparability*** ☐

PART 3 The Benefits of Adopting IFRS

In this section the researcher is seeking your specific perception toward the adoption of IFRS and its benefit.

Please put "√" mark to appropriate number for the following question according to the instruction given below.

5= strongly agree 4 = agree 3= Neutral 2= disagree 1= Strongly dis agree

NO	Question	SA	A	NE	DA	SDA
1	Adoption of IFRS improves the efficiency of financial reporting					
2	Financial statement based on IFRS are reliable					
3	Financial statement based on IFRS improves effectiveness of financial reporting					
4	IFRS makes external financing easier					
5	It enable greater effectiveness of the internal audit					
6	Reduce cost of capital					
7	IFRS provides greater capability					
8	It provides better financial reporting transparency					
9	Financial statement based on IFRS are comparable					
10	IFRS enables improved economic prospect for the accounting profession					
11	IFRS enhance value of information with different aspect of business					
12	IT improved transparency in the adoption of IFRS					
13	Adoption of IFRS achieves the objective s of financial reporting					

PART 4 Challenges of IFRS Adoption

In this section the researcher is seeking your specific perception toward the adoption of IFRS and its challenges.

Please put "√" mark to appropriate number for the following question according to the instruction given below.

5= strongly agree 4= agree 3= Neutral 2= disagree 1= Strongly dis agree

1. ***How the following challenges are key segregation IFRS adoption***

NO	*Question*	*SA*	*A*	*NE*	*DA*	*SDA*
1	*Adoption of IFRS is costly*					
2	*IFRS increases the complexity of financial reporting*					
3	*There is lack of IFRS implementation guidance*					
4	*Lack of training institution*					
5	*Proper instruction from regulatory bodies*					
6	*Lack of availability of competent specialties*					
7	*Problem with IT System in handling the transition to IFRS*					
8	*Absence of Structured market*					
9	*Problem with IFRS use of fair value accounting*					

INTERVIEW QUESTION

1. ***What accounting standards were employed in Enterprise before the adaption of IFRS?***
2. ***From your of point of view how beneficial IFRS to ETRE?***
3. ***What are the main problems faced by stockholder in the process of adoption of IFRS?***
4. ***Do you think you have enough awareness?***
5. ***Any comment.***