



ST. MARY'S UNIVERSITY

SCHOOL OF GRAUATE STUDIES

MBA PROGRAM IN ACCOUNTING AND FINANCE

**ASSESSMENT OF THE BENEFITS AND CHALLENGES OF
ADOPTION INTERNATIONAL FINANCIAL REPORTING
STANDARDS FOR SMALL AND MEDIUM ENTERPRISE: A CASE
OF SOME SELECTED SMALL AND MEDIUM ENTERPRISE
COMPANIES IN BOLE SUBCITY**

BY

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JUNE, 2023

ADDIS ABABA, ETHIOPIA

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**A THESIS SUBMITTED TO ST. MARY'S UNIVERSITY SCHOOL OF
GRADUATE STUDIES IN PARTIAL FULFILLMENT OF THE
REQUIREMENTS FOR THE DEGREE OF MASTER OF
ACCOUNTING AND FINANCE**

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ENDORCEMENT

This thesis has been submitted to St. Mary's university, school of graduate studies for examination with my approval as a university advisor.

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ACKNOWLEDGEMENTS

I would like to express my gratitude to those who helped me to write this article. First of all, I thank God for being my creator, savior and source of strength. I am deeply grateful to Zinegnaw Abay (PhD) for his valuable help and guidance during my research. I was very lucky to have him as my mentor and course instructor.

Additionally, I want to thank all company employees. Without the assistance of the staff members of those companies TYM Agro Importer PLC, Tibeb Studio, M and Y Business Investment PLC, Tiladar Business & Industry PLC, Mikada Construction PLC, and Trade Path International PLC and their willingness to give of their time, this paper would not have been feasible.

I want to thank my family in particular for their prayers and support. Thank you for your help, my husband and my daughters. Love to you all!

Finally, I would like to thank everyone who contributed to the successful completion of my thesis and apologize for not mentioning each person individually. I respect you all very much. I'm thankful.

ACRONYMS

| | |
|------|---|
| AABE | Accounting and Auditing Board of Ethiopia |
| GAAP | Generally Accepted Accounting Principles |
| IASB | International Accounting Standard Board |
| IASC | International Accounting Standards Committee |
| IAS | International Accounting Standards |
| IFRS | International Financial Reporting Standards |
| ROSC | Report on observance of Standards and Codes |
| SME | Small and Medium enterprises |
| SPSS | Statistical Package for the Social Scientists |

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DECLARATION

I, the undersigned, certify that the work submitted here is the first I've ever completed while enrolled in the Master of Business Administration in Accounting and Finance program. The thesis properly credits all informational sources. I certify that the course has not been submitted in whole or in part for any degree at any other higher education institution.

Tsega Debebe

June, 2023

St. Mary's University

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ABSTRACT

This study aims to assess the benefits and challenges of adoption International Financial Reporting Standards for small and medium enterprise: a case of some selected small and medium enterprise companies in bole sub city. This study was employed a descriptive research type and a survey research design for the research design. And besides a qualitative and quantitative research approach also applied. A census sampling was used for the sampling techniques. The questionnaire data were analysed using descriptive statistics. In order to achieve this goal, 6 small and medium enterprise members from the IFRS implementation team have been deliberately selected based on their role and participation in the implementation process. Primary data was collected through questionnaire. The result of the study show that poor understanding of the standard, lack of high qualified professional bodies, high cost of implementation and weak management support are the major challenges of adopting IFRS by small and medium enterprises. On the other hand the results show that IFRS adoption in small and medium enterprises were result in a number of important benefits to companies. Finally, the findings facilitating and actively taking part in trainings for top management and level changes, aggressive theoretical and practical demonstrations carried out by the company for employees, choosing experts from highly qualified institutions and lowering the company's implementation cost, facilitating training programs for employees and hiring experts at affordable prices.

Keywords: Adoption, challenges, International Financial Reporting Standards

CHAPTER ONE

1. INTRODUCTION

In this chapter the following points were explain like background of the study, statement of the problem, objective of the study, research question, significance of study, scope and limitations of the study, operational definition of terms, and organization of the study.

1.1 Background of the Study

International Accounting Standards (IAS) is the first international accounting standards issued by the International Accounting Standards Committee (IASC) in 1973. Its main objective is to facilitate the comparability of businesses around the world, to increase transparency and confidence in financial reporting, and to promote international investment, empowering investors and other market players to make informed economic investment decisions, opportunities and risks. (IFRS Foundation 2017)

As globalization occurs in the international market, companies apply different accounting practices in different countries. This difference is a barrier to investing in the world. Therefore, an international accounting standard simplifies accounting processes by allowing a common reporting language worldwide (Apostolos, 2010). A common set of accounting standards should be applied to reduce differences in those accounting reporting languages. Therefore, IFRS has been accepted and implemented in various countries. Meanwhile, there are various advantages and challenges in reducing the variance of these standards in the adoption process Yichilal (2015).

IFRS for SME is a cost-benefit analysis-based revision and simplification of full IFRS that aims to fulfil the demands of private company financial reporting users for SMEs and lessen the burden of financial reporting on private companies (ACCA Global 2021). It applies to general purpose financial statements and other financial reporting for entities known as small and medium-sized entities in many countries. IFRS is a stand-alone international accounting and

financial reporting standard for SMEs. The International Accounting Standards Board ("IASB") has acknowledged full IFRS and IFRS for SMEs (AICPA 2017).

According to World Bank (2020), small and medium enterprises (SMEs) play an important role in most economies, especially in developing countries. Therefore, if SMEs present their reports in a reliable and accurate manner, they will have a greater chance of entering the international market and it can provide more economic benefits to the country than it currently provides. (Alp & Ustundag, 2009 and Teklemuze 2018).

1.2 IFRS Implementation in Ethiopia

IFRS have been implemented in Ethiopia since December 2014 outlined a roadmap for the adoption of the IFRS through enhancement of proclamation (Teferi, 2016). Various private and government offices in Ethiopia have been able to submit reports to the relevant parties by implementing this Full IFRS. Accounting and Auditing Board of Ethiopia (AABE), a legal body that oversees and controls the presentation of financial reports, has taken responsibility and is working. /.

Federal Democratic Republic of Ethiopia, the House of People's Representatives authorized AABE in Proclamation No. 847/2014 and the Council of Minister Regulations No. 332/2014, AABE plans three-phase transition over three years period. Based on the road map set by the regulatory body, companies would be categorized in to three phases, in the first phase On July 8, 2017, businesses with substantial public interest entities, such as financial institutions and public enterprises owned by the federal or regional government, would report their financial statements using IFRS. The second phase includes IPSAs for Charities and Societies and other Public Interest Entities (ECX member firms and reporting entities that meet PIE quantitative standards). Adoptions were beginning on July 8, 2018. Finally, businesses outside of those two phases were required to adopt as of July 8, 2019. (AABE Road Map 2016).

Based on the above roadmap, although the financial reporting period for SMEs is in 2019, due to the challenges still not identified, the SMEs are struggling to adopt the standard in their operations instead of translating the financial statements from GAAP to IFRS and securing the

benefits related to the organization. Accordingly, business operators categorized under SME are required to transit and provide a financial report starting from the fiscal year of 2022 as per IFRS for SMEs.

As a result of the road map mentioned above, the SMEs were standardize and report its financial statements on July 07, 2024. But the transition period for this company starts on the date of July 08, 2022 and until the reporting date adoption process were be held, and during this period benefit and challenges were occur. Therefore, the goal of this study is to evaluate the benefits and challenges of implementing IFRS for SMEs in Ethiopia.

There are few studies on IFRS related issues in Ethiopia. For instance, (Emebet Muche 2021; Netsanet Shiferaw and Demissew Assefa 2020; Worku Shiferaw 2019 and Zewdu Eskezia 2019;) found that adoption of IFRS have a benefit and challenge on better quality of report, transparency, comparability, increase cross border investment, reliability are the main opportunity of the study. And also, accessibility of reports lack of capacity, high level of training cost, lack of sufficient IFRS advice, the complexity of IFRS principles, the scarcity of qualified specialists, lack of adequate financial resource are the main challenges. Therefore, many domestic studies have been conducted to explore the benefits and challenges of IFRS for SMEs. But this study aims to fill in the benefits and challenges that past studies have not seen and explored. Therefore, the study aims to identify the benefits and challenges of adopting IFRS for small and medium enterprises in bole sub-district.

1.3 Statement of the Problem

International Financial Reporting Standards (IFRS) are now a widely accepted standard for financial reporting that have been adopted and applied in many nations throughout the world. The primary goal of IFRS is to unite the numerous business languages that are used by business communities around the globe.

According to ROSC, 2011 different accounting standards applied in Ethiopia lead to different financial reports within the same industry. Based on this lack of clarity in the reporting standards was occurred. Non uniformity in the accounting environment produces financial statement which

is not understandable to the public and concerned bodies because there is absence of uniform standards in the environment. IFRS minimize the difference that were occur due to the differentiation in the reporting standards.

As of 2021 more than 144 jurisdictions have adopted these standards (Zehra G Kavame Eroglu 2021 and IFRS Foundation 2018). Accounting and Auditing Board of Ethiopia (AABE, 2015), announce that companies oblige to adopt the IFRS/IFRS to produce high level quality reports in order to get the accessing the global capital markets and international financial resources.

According to previous studies conducted by different scholars (Maria Ming Bengtsion 2021: Manea Salem Almansour 2019 and Richmell 2017) in different countries, adopting IFRS had many challenges faced in their first-time adoption like lack of competent specialists, lack of clear guidance, weakness of enforcement body, high knowledge shortfall, high implementation cost, management knowledge gap and the complexity of standards. On the other hand, they found reliability, comparability, better transparency and economic development as the benefits of IFRS adoption.

African previous studies researched by (Musab Basher Mohamed 2020: Ajibade & Olabowale 2020: Joseph 2018 and Amanamah 2017) Adopting IFRS enhances the level of quality of financial reporting, makes it simpler for businesses and investors to evaluate a company's financial performance, and gives banks the confidence to lend money based on the financial statements of the company. And also adoption of IFRS in the less developing countries were lead to the high transition cost, lack of professionals in the adoption of the standard and potential knowledge- shortfall were found as the challenge in the first-time adoption process. A research conducted by (Emebet Muche 2021: Netsanet and Demissew 2020: Zewdu Eskezia 2019 and Teklemuz 2018) also showed that complexity of standard, high cost of implementation, and lack of availability of competent specialist wear the main challenges in the adoption of IFRS. On the other hand, they discovered that the adoption of IFRS had advantages in harmonizing reporting standards, better risk management, encouraging international investment, ensuring the accuracy and comparability of accounting information, and making the preparation and auditing of financial statements more transparent and simple.

Hence, most research studies conducted by (Joseph 2018: Zewdu Eskezia 2019 and Teferi Deyuu 2016) focused on the benefit and challenges of implemented full IFRS Companies and the study motivate to do this research to look over the adoption benefit and challenges on specific some selected SMEs company in Bole Sub City because the standard application differs based on industry and the study motivate to see the benefit of IFRS for the companies. And also challenges of IFRS on the lack of competent professional, high level of implementing cost, management knowledge gap and the complexity of IFRS standard which is more specific on as mentioned in the title the companies are small and medium enterprise in bole sub city and the company were forced to deliver a financial statement based on the standard at July 07, 2024. Therefore, this study is motivated by the fact that there are few studies on the benefits and challenges of organizations implementing IFRS for SMEs to focus on the points that these studies have not explored. Therefore, based on the above reasons we motivate to do this research on benefit and challenges of adopting IFRS for SMEs.

1.4 Objective of the Study

1.1.1 General Objective

The general objective of this research is to assess the benefit and challenges of adoption International Financial Reporting Standards for Small and Medium Enterprises in the case of SMEs Companies in Bole Sub city.

1.1.2 Specific Objective

- ✓ To assess the professionals knowledge of IFRS implementation for SMEs in Ethiopia.
- ✓ To assess the execution cost on the adoption of IFRS for SMEs in Ethiopia.
- ✓ To evaluate the difficulty of standards of IFRS for SMEs in Ethiopia.
- ✓ To assess the Management Knowledge Gap in SME companies.
- ✓ To evaluate the benefit of IFRS for SME adoption for companies.

1.5 Research Questions

The researches were design in a way to address the following questions:

1. How is the complexity of the standard a challenge on the adoption of IFRS for SMEs in Ethiopia?
2. How the professional competency is a challenge in adoption of IFRS for SMEs in Ethiopia?
3. What is the benefit of adopting IFRS for SMEs on the quality of accounting reports?
4. What is the implementation cost of IFRS adoption for SMEs in Ethiopia?

1.6 Significance of the study

The study was being useful in identifying challenges and opportunities for small business enterprises and identifying them in the first step. (AABE) For these organizations, early knowledge of the risks and benefits of applying IFRS were help them to deliver flawless reports within the time limit set by the regulator and help the local body, especially senior management, and the basic management of international financial reporting standards and how to adopt these international standards effectively and efficiently. It provides insight and practical benefits. The study was providing management with adequate knowledge about the benefits of IFRS to the organization and the potential challenges in the adoption process. Subsequently, based on this knowledge, it helps administrations to make adjustments in management practices, investment decisions and policy formulation. It were also be useful for students who want to do further research on IFRS adoption challenges by addressing the critical steps in IFRS adoption. Finally, it provides a good lesson for other companies.

1.7 Scope of the Study

This research paper focused on evaluating the benefits and challenges of IFRS in selected small and medium enterprises in Bole sub-district in Ethiopia. There are many organizations in the district and out of them 6 small and medium enterprises have been selecting. They were select

because those organizations are required to issue a statement based on the standard and the companies in the final stages of implementation. This research was including the changing expertise of experts, the complexity of IFRS standards, the management knowledge gap and the high cost of implementing the standards. Also were including the benefits of applying IFRS to the companies. This research proposal uses first hand sources through questionnaires. The target audience for this research paper were being employees in management, finance department staff, auditors and IFRS conversion teams.

1.8 Limitation of the Study

The study has limitations in its sample. This is because the study focuses on six SMEs firms that have applying IFRS. In addition, the researched companies do not have a well-organized accounting department and sufficient knowledge of IFRS, so their responses may not give us the right direction for the study. Furthermore, despite the fact that the Likert scale favoured respondents, it had a limit on the outcomes of the neutral scale because it creates ambiguity and makes it feasible for respondents to give judgments that were not firmly held by using the neutral range of the scale. Also, the findings may not be representative of industries across the country.

1.9 Organization of the Study

The research proposal study incorporated with five chapters. First chapter explain issues on the matter of introduction, background of the study, statement of the problem, objective of the study, research question, scop of the study, significance, limitation of the study and Operational definition of terms of proposal paper. Second chapter of the research were address review of literature about the study paper form different materials and empirical evidence on the benefit and challenges of the standards. Third chapter presents the research methodology and this part includes the research design, research approach, data source, sample and sampling technique and method of data presentation of the study paper. The fourth chapter deals with the data analysis, interpretation and presentation and finally the fifth chapter were presents about the conclusion and recommendation the study paper.

CHAPTER TWO

2. LITERATURE REVIEW

This chapter reviews related literature on the International Financial Reporting Standards (IFRS) from a theoretical and empirical perspective. The definition of international financial reporting standards (IFRS), harmonising international accounting standards, adoption challenges for IFRS, adoption benefits for IFRS, and a review of empirical research are all included in the theoretical review.

2.1 Theoretical Literature Review

2.1.1 Conceptual Discussion

Previously, it was very difficult for one entity to control companies from different countries. Additionally, there were many industry-specific accounting trends that could not be easily translated around the world. This is why IFRS is needed. As a result, accounting organisations from ten different countries founded the International Accounting Standards Committee (IASC) in June 1973. These include the formulation and publication of International Accounting Standards (IAS), definitions and conceptual frameworks. (Teferi 2016 and IFRS Foundation 2018)

According to Barclay Palmer (2022) the goal of the International Financial Reporting Standards (IFRS) is to make financial statements for publicly traded corporations consistent, transparent, and simple to compare globally.

Amanamah (2017) asserts that the implementation of IFRS finally results in the harmonization of financial statements across national boundaries. IFRS are more unbiased and based on principles. The main objective of financial reporting, which is to measure economic activity, were be achieved by IFRS. Since IFRS was created with the balance sheet in consideration, it begins with the definition of assets and liabilities using the fair value measurement method.

2.1.2 Theoretical review

2.1.2.1 International Financial Reporting Standards – IFRS for SMEs

Using a cost-benefit analysis, IFRS is a revision and simplification of full IFRS that aims to fulfil the demands of private business financial reporting users for SMEs and lessen the burden of financial reporting on private enterprises. It applies to general purpose financial statements and other financial reporting for entities known as small and medium-sized entities in many countries. IFRS is a stand-alone international accounting and financial reporting standard for SMEs. The International Accounting Standards Board (IASB) accepts both full IFRS and IFRS for SMEs. This standard makes the globe to make comparison and understand easily the reports in easy way. Difficulty of understanding occurred due to continuous uniformity of standards. And companies prepare different reports in the same industry and external parties and different investors get vague financial information regarding the same industry. And this standard emerges to narrowing the gap between the financial reporting (Gyasi, 2009).

2.1.2.2 Harmonizing International Accounting Standards

Making a circumstance, action, or process cohesive and compatible with other similar activities is the act of creating harmony. The process of minimizing disparities in accounting standards around the globe is known as harmonisation of accounting standards. As a result, financial reporting is standardized and comparable. Improving consistency and comparability in the creation and presentation of financial reports, records, and statements is the main goal of this harmonization. It became vital to rely on standard accounting reports for the financial markets in the age of globalization. Only by mutual cooperation and understanding can nations come to an international agreement on accounting standards. When generating financial reports, the same recording and reporting guidelines and criteria must be adhered to (Cleophas Samusodza 2016).

International investors benefit from increased understanding and trust as a result of harmonised accounting standards. Financial statements of businesses worldwide can be easily compared and interpreted by creditors and investors. They have the ability to precisely locate, assess, and pinpoint businesses that fit their investment criteria and have solid financials. These were encouraging international investment. Additionally, it supports businesses in choosing wise

investments. Making wise investment choices is the secret to gaining a competitive edge and raising investment returns. (Gyasi, 2009)

2.1.3 IFRS challenges in the adoption process

Various challenges were discovered, according to studies conducted by Shimaa & Young (2012) and Iyoha & Faboyede (2011). According to the experts, the problems were the lack of an ethical workplace and the inability to stop competent workers from being taken by other businesses. In addition, there are expenses associated with adoption, the requirement for training, the complexity of standards, and actual implementation instructions. Increased profits volatility, the tax-driven nature of earlier standards, and issues with IFRS's use of fair value accounting was among issues that the experts addressed.

Numerous advantages of adopting IFRS have been listed by accounting professionals around the world. Despite these advantages, adopting IFRS is a challenging task with numerous obstacles. For instance, Netsanet and Demissew (2020) cite high implementation costs, a lack of expertise, a lack of training, and widespread changes in the accounting industry as the key problems facing Ethiopian businesses. In his thesis on the adoption of IFRS in Ethiopia, (Tesfu, 2012) noted that the main obstacles to implementing IFRS are the high cost of doing so, the requirement for training, the complexity of some of the IASB's standards, and a lack of adequate implementation guidance. Other significant challenges include an increase in earnings volatility, the tax-driven character of earlier standards, and issues with IFRS's application of fair value accounting. In addition, Shimaa and Young (2012) discovered that the scale of capital markets, taxes, and inflation all induce adoption disincentives, pointing to the internal political and practical costs of changing present accounting systems to IFRS.

2.1.4 IFRS Benefit in the adoption process

IFRS accounting standards offer excellent quality; globally accepted accounting standards that help financial markets all around the world become more open, accountable, and efficient. This is how they handle this difficulty. In order to help investors and other market participants make wise financial decisions, IFRS accounting standards improve the quality and comparability of financial data on a global scale. And IFRS accounting standards support economic efficiency by

assisting investors in recognizing global opportunities and threats. Businesses can cut their capital expenses and their expenditures associated with international reporting by utilizing a single, trusted accounting language.

2.2 Empirical Review

According to Joseph (2018), a study was conducted to look at the advantages and disadvantages of IFRS implementation in Ghana and to compare the characteristics of young and experienced accountants in the ICAG. Purposive sampling was utilized in the study's cross-sectional survey of charter accountants in order to gather field data. The study noted issues with IFRS's "continuous improvement and related improvements," fair value as a benchmark, the training of relevant accountants in IFRS applications, linked accounting, accounting knowledge, and financial literacy. Description the main difficulties encountered in the research were consumer compliance and performance, complexity of change, timely interpretation of standards, conversion financing, and ethical business environment.

Amanamanah (2017) investigated the advantages and difficulties of adopting international financial reporting standards in Ghana: The Perspective of Accountants and Business Managers. The study's primary goal was to determine the benefits and drawbacks of Ghana's adoption of the International Financial Reporting Standards (IFRS) in terms of accounting and business management. The researcher employed a purposeful sample as their study strategy. In the past, implementing cost-effective and equitable measurement concerns has been extremely difficult due to the introduction of IFRS.

Zakari (2014), conducted a research on challenges of International Financial reporting standards (IFRS) adoption in Libya. The aim of the study was to examine the challenges and obstacles that facing Libyan context in adopting of IFRS particularly to identify the effects of legal, accounting education, economic and cultural structure on the adoption of IFRS in Libya. According to the researcher he used a self-administered questionnaires' to collect data and statistical data was undertaken to analyses the result. Accordingly, the findings in the paper was weakness of professional accountancy body, lack of an independent oversight body, inconsistency of existing laws and regulatory frame works of accounting in Libya, lack of technical skill and adequate knowledge of professional accountants, lack of trained professionals was the main challenges found

in the study.

Emebet Muche (2021) did another study with the aim of examining the difficulties in adopting International Financial Reporting Standards (IFRS) on Private Limited Companies in the case of chosen PLCs in Addis Ababa. The article is employed for explanatory research design and quantitative research techniques. 48 PLCs in the construction and real estate sectors were chosen for the study by the researcher. The legal system of the nation, the presence of professional bodies, and the size of the company are among the difficulties in adopting IFRS, according to Embet; attitudes and perceptions of IFRS and the complexity of the standards are the biggest roadblocks.

Netsanet Shiferaw, Demissew Assefa (2020) the purpose of this study is to assess the transition of International Financial Reporting Standards (IFRS) in Ethiopia: benefits, prospects and challenges of adoption and implementation in 13 significant PEEs. The study uses both quantitative and qualitative (mixed) research methods. Primary and secondary data sources were used for the study. The respondents are selected using judgment sampling method. Then, the data collected from the companies were be analysed through descriptive and economic analysis. Accordingly, the findings of the paper include IFRS provide transparency, comparability, enhancing the quality of financial statements and creating investment opportunity at large for the company are the main benefit in the study. Lack of knowledge, lack of training, high cost of adoption, Human psychology (resistance to adopt new things), Institutional readiness, and difficulties of the application and enforcement issues are the main challenges in the study.

Worku Shiferaw (2019), conducted research on Challenges and Benefits of IFRS Adoption in Ethiopia: The Case of First Phase Adopters The objective of the study was to find out the perception of users and preparers about what the benefits, prospects and challenges of IFRS adoption are in Ethiopian countries. Descriptive study in which questionnaire was used to collect data. They found that IFRS adoption in Ethiopia have potential benefits like; better quality of report, better risk management practice for management, increase cross border investment, reliability and accessibility of reports, financial statement disclosure is improved, mobility of professionals from one country to another country and intra country organization is easy and simple to a wide range of stakeholders, investors, companies and management as well. The benefits notwithstanding, there are however, a

number of challenges to be faced Challenges: Lack of adequate financial resource, Lack of change management process, Lack of training materials, Lack of capacity by the independent Oversight body to enforce acc. standards

Zewdu Eskezia (2019) carried out another investigation, the main objective of which was to identify the main challenges to Ethiopia's adoption of international financial reporting standards. The researcher utilized a method of systematic meta-analysis review. A qualitative research approach was adopted by the researcher. Secondary data were used in this investigation. The researcher discovered that the complexity of financial reporting, the scarcity of qualified specialists, and the high cost of training are the main challenges to Ethiopia's adoption of IFRS. Based on the study's findings, the researcher advises stakeholders to take into account the availability of sufficient resources to enable the long-term implementation of IFRS in Ethiopia before implementing them.

Aytnew Agumas (2018) this research is intended to investigate the practical challenges of IFRS adoption in Ethiopia, particularly in private commercial banks. To achieve this objective, both primary and secondary data were collected from IFRS implementation team members of 12 private banks who were selected purposively based on their role and involvement in the implementation process. Primary data were collected through questionnaire and interview whereas secondary based were collected through documentary evidence and analyzed by using different descriptive statistical tools. Finally, the result of the study revealed that weak corporate governance, poor quality of education and training, lack of supports from accountancy professional bodies, weak enforcements of regulatory body, inadequacy of transition period, improper planning, non-availability of transparent market information, high cost of implementation and weak management support are the major challenges of adopting IFRS by private banks in Ethiopia.

Teklemuz (2018) carries out research on the Advantages and Difficulties of Ethiopian Public Enterprises Adopting International Financial Reporting Standards. The purpose of this study is to evaluate the benefits and challenges of using IFRS in Ethiopian public organizations. Both a survey and a descriptive research design were used in the creation of this study. Additionally to a mixed-methods or applied research approach. Techniques for sampling were non-probability samples. Descriptive statistics were used to analyse survey data. The findings demonstrate that many stakeholders gain from the implementation of IFRS in public organizations in a variety of

significant ways. The biggest obstacles to the adoption of IFRS include ignorance, a significant potential knowledge gap, an outdated taxonomic nature, and a lack of a supportive environment.

Another study was conducted by Eyob Lema Teshome (2017) the major objective of this study is to determine the benefit and challenges of adopting international financial reporting standards commercial banks in Ethiopia. The researcher used both primary and secondary data collection method. The researcher used (Mixed) qualitative and quantitative research approach and descriptive research design. The analysis found that there is a significant relationship between the dependent and independent variables. IFRS has a significant relationship with transparency, accountability and economic efficiency among the components of financial reporting quality.

Teferi Deyuu Alemi (2016) conducted this study with the intention of assessing Ethiopia's progress in adopting IFRS, as well as looking into the benefits and difficulties associated with doing so. The study has used data from both primary and secondary sources. Open-ended interviews were used to gather primary data, while document analysis techniques were used to get secondary data from IFRS-compliant annual reports of corporations as well as Ethiopian laws and regulations that deal with financial reporting-related concerns. The survey discovered that some businesses in Ethiopia have voluntarily started preparing their financial statements using IFRS.

Another research was done by Fikru (2012), the study investigates on the adoption of IFRS in Ethiopia: Benefits and Challenges. The objective of the study was to examine the adoption of IFRS in Ethiopia including the factors that could influence its adoption with a specific attention to the benefit, challenges and factors that affect the adoption of IFRS. The paper was used a mixed approach research and survey research design. According to Fikru the main challenges in the process of adopting IFRS include significant cost of adoption of IFRS, need for training, the complex nature of some of the IASB's standards and the lack of adequate implementation guidance. Other key challenges include increased volatility of earnings, tax driven nature of previous standards and problem with IFRS's use of fair value accounting.

2.3 Research Gap

Due to the advantages it provides for countries and multinational companies, many countries adopt International Financial Reporting Standards. Adoption of IFRS has a lot of benefits for a stakeholders such as, increase the quality of financial information, enhancing the quality of financial statements and creating investment opportunity at large for the company, Quality information for control and decision making purposes, better access to the global capital markets and other stakeholders (Teklemuz, 2018; Joseph, 2018; Worku Shiferaw, 2019; Netsanet Shiferaw and Demissew Assefa, 2020; Embet Muche, 2021). And also certain specific challenges like; Lack of knowledge, lack of training, high cost of adoption, global accounting diversity, efforts to reduce accounting differences in countries have been underway for decades is a major challenge for IFRS. Although studies have been conducted on the benefit and challenges of adoption in IFRS in Ethiopia, there is a literary gap in the benefit and challenges of adopting IFRS in a specialized company, focusing more on national rather than corporate art. Therefore, the researcher is motivated to study this gap and evaluate SMEs company's tests.

CHAPTER THREE

3. METHODOLOGY

3.1 Research Design

This paper is designed to assess the adopting IFRS for SME in Ethiopia: the case of some selected SMEs company in bole sub city. Descriptive research aims to accurately and systematically describe a population, situation or phenomenon. It can answer what, where, when and how questions, but not *why* questions (Shona McCombes 2019).

3.2. Research Approach

Research approach can be classified in to three approaches. These are qualitative, quantitative and mixed approach (Creswell, 2002 and Carrie Williams 2007). Qualitative approach to research questions that require quantitative data that means that can be measured in numerically (Kent, 2007). The qualitative approach to research questions that require textual data that means cannot be measured (Bryman & Bell, 2007). And a mixed methods approach to research questions that require both quantitative and textual data (Creswell, 2009). In this research paper both qualitative and quantitative data analysis were used. Data that were collect through questionnaires was analysing by descriptive statistics and conclude through SPSS Version 20. And also, data collected from interview were be interpreting qualitatively.

3.3 Data Sources

Primary data were be used in this research. Interviews and questionnaires are examples of primary sources of data since they allow researchers to gather information directly from those who are providing it. (Kothari, 2004).

3.3.1 Population or Universe

The target population for this study is small and medium enterprises registered in bole sub city Addis Ababa. There are many small and medium enterprises in Ethiopia. But since most companies have not started mandatory adoption according to the AABE roadmap, the researcher were focus on six organizations that have implement IFRS for SMEs.

3.3.2 Sample and Sampling Techniques

The total population for this research were be 60 /Sixty/ and all the target population were used for the study and a census sampling were adopt which is all total target were used for the research. Census is all items in any field of inquiry constitute a Universe or Population. A complete enumeration of all items in the population is known as a census inquiry.

3.4 Data Collection Instruments

3.4.1 Questionnaire

These proposals were plan to use self-administered questionnaire which were distribute to all the target populations. It is a research tool appropriate for observing information from respondents far from the researcher location. Questionnaires were be distributing to all target population members who have detail understanding about the subject. Closed and open ended questionnaires were adopted to collect the information. Open-ended questions prompt people to answer with sentences, lists, and stories, giving deeper and new insights. Closed-ended questions limit answers: thus tighter stats. (Susan Farrell, 2016).

The design or construction of the questionnaires was taken from many researchers (Teklemuz (2018), Worku (2019), and Embet (2021), with alterations taken into account for the study's

current context. A five Level-point Likert scale were applied on the questionnaires and this helps respondents to give level of agreement on the items placed on the questionnaires. Likert scales were: It is well-liked because it is one of the most accurate ways to evaluate respondents' ideas, attitudes, and behaviors, and it also reduces conflicting aims by giving respondents enough options and controlling situations. Respondent responses increase frustration level and response rate and response quality. A score of 1 indicates Strongly Disagree, 2 indicate Disagree, 3 indicate Neutral, 4 indicates Agree and a score of 5 indicates Strongly Agree.

3.5 Reliability and Validity

Validity refers to how well a study measures what it purports to measure. To increase the credibility of researchers, we need to do the following. This research data were be collected through questionnaires prepared from different papers in accordance with the current situation of the study. To help validate the data, this research incorporates a variety of data sources, including interviews and questionnaires. Questions are tested on their clarity and understanding and using those questions to obtain significant conclusions, the researcher selects respondents who are familiar with the subject and representative of experts in the field to maintain accuracy, which increases the accuracy of the results. After developing the questioner, the researcher checks the advisor to ensure the correctness of the questions.

3.6 Ethical Considerations

Ethical issues in research are a set of principles that guide research designs and practices. Researchers must adhere to ethical standards when collecting data from people. This research includes key ethical issues regarding what it decides to investigate and how to conduct that research. In particular, the study's participants are chosen after the study's objective has been clearly stated and obtained their consent, their responses are kept private and used exclusively for that purpose, and the researcher's conclusions were only be based on the information gathered.

CHAPTER FOUR

4. RESULTS AND DISSCUSSIONS

4.1 Introduction

The data required for this research paper was collected from questionnaires and open questions from 6 selected companies in Bole sub city. These are TYM Agro Importer PLC, Tibeb Studio, M and Y Business Investment PLC, Tiladar Business & Industry PLC, Mikada Construction PLC and Trade Path International PLC. Some of adopted and implemented IFRSs, some of which are in the process of implementation, while others have not yet started implementation. The questionnaires included finance directors, manager, senior accountants, accountants and junior accountants from these organizations, and a total of 60 structured questionnaires were distributed that explored the benefits and challenges of adopting IFRS.

Out of the 60 questionnaires distributed for the study, 60 of the respondents answered the question appropriately and based on the responses given by the respondents and carefully analysed the responses obtained from the questionnaires. Statistical Analysis for Social Sciences (SPSS) version 20 was used.

4.2 Descriptive statistics of data Collected through Questionnaire

4.2.1 Background of Respondents

Descriptive statistics were used to analyse the demographic background of participants such as sexual category, educational level, operational experience, and company type and adoption progress.

Table 1 Demographic characteristics of respondents

| Sexual Category | | |
|------------------------|------------------|----------------|
| | Frequency | Precent |
| Female | 29 | 48.3 |
| Male | 31 | 51.7 |
| Total | 60 | 100.0 |

| Educational Level | | |
|--------------------------|------------------|----------------|
| | Frequency | Precent |
| Master's Degree | 23 | 38.3 |
| Bachelor Degree | 37 | 61.7 |
| Total | 60 | 100.0 |

| Operational Experience | | |
|-------------------------------|------------------|----------------|
| | Frequency | Precent |

| | | |
|----------------|-----------|--------------|
| 1 to 5 years | 6 | 10.0 |
| 6 to 10 years | 23 | 38.3 |
| 11 to 15 years | 23 | 38.3 |
| 16 to 20 years | 3 | 5.0 |
| Over 20 years | 5 | 8.3 |
| Total | 60 | 100.0 |

Source: Questionnaires result, 2023

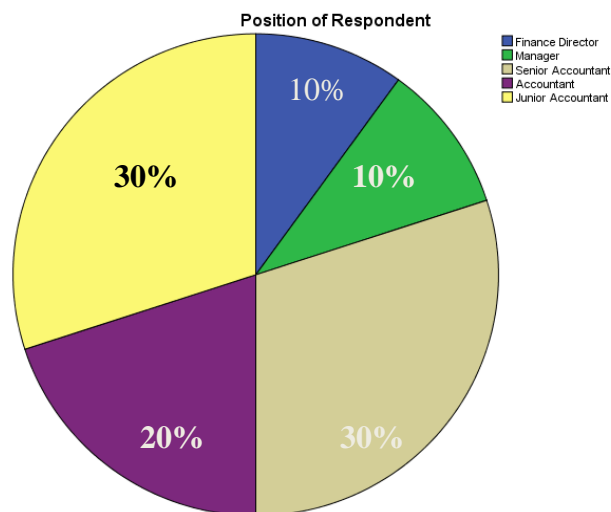
As shown in Table No. 1 above, out of the 60 respondents, 48.3% (29) are female while the other 51.7% (31) respondents are male. The results indicate that there was an unbiased gender distribution. Also, the table shows that a total of 38.3% (23) of the participants have a master's degree and 61.7% (37) of the participants have a bachelor's degree. This shows that the respondents can easily understand the survey questions and the responses obtained from such groups can be reliable. As shown in the table, 10% (6) of the respondents have one to five years of experience, 38.3% (23) of the participants have six to ten years of work experience, and 38.3% (23) of the participants have work experience. Between eleven and fifteen years, 5% (3) of the participants have work experience between sixteen and twenty years, the remaining 8.3% (5) of the respondents have more than twenty years of work experience. This shows that the experience of the respondents was good in achieving good information.

Table 2 Descriptive statistics on Current Position of Respondent

| |
|-------------------------------|
| Position of Respondent |
|-------------------------------|

| | Frequency | Percent |
|-------------------|-----------|--------------|
| Finance Director | 6 | 10.0 |
| Manager | 6 | 10.0 |
| Senior Accountant | 18 | 30.0 |
| Accountant | 12 | 20.0 |
| Junior Accountant | 18 | 30.0 |
| Total | 60 | 100.0 |

Figure 1 Current Position of respondents



Source: Questionnaires result, 2023

As shown in table 2 or figure 1 above, 20% (12) of the respondents are Accountants, Managers and Finance Director with equal percentages of 10% (6) for each position and also Senior

Accountant and Junior Accountant with equal percentage of 30% (18) for each. The result shows that the majority of respondents has many years of work experience and is qualified to carry out the research study.

Table 3 Descriptive statistics on business type and IFRS for SMES adoption level

| Identify the primary business of your company | | |
|--|------------------|----------------|
| | Frequency | Precent |
| Construction | 13 | 21.7 |
| Real estate | 13 | 21.7 |
| Service | 15 | 25.0 |
| Import/Export | 13 | 21.7 |
| Other | 6 | 10.0 |
| Total | 60 | 100.0 |

| What is the general adoption progress of IFRS for SME in your organization? | | |
|--|------------------|----------------|
| | Frequency | Precent |
| Adopted | 7 | 11.7 |
| In progress | 13 | 21.7 |
| not ready to adopt yet | 40 | 66.7 |
| Total | 60 | 100.0 |

Source: Questionnaires result, 2023

As shown in Table 3 above, according to the type of company, 21.7% (13) of the respondents are engaged in construction, 21.7% (13) of the participants are engaged in real estate, 25% (15) of the participants are engaged in service organizations, 21.7% (13) of the participants are engaged in importing/ For exporting firms, the remaining 10% (6) of the respondents are employed in manufacturing firms. And finally, the results of the data analysis indicate that 11.7% (7) of the companies have adopted IFRS for SMEs, 21.7% (13) are in the process of adopting the standard and 66.7% (40) are not ready to adopt IFRS for SMEs. . The result indicates that the level of acceptance is very low.

4.2.2 Challenges of adopting IFRS

In order to learn more about the difficulties that were arise with the adoption of IFRS for SMEs in Ethiopia, sixteen questions were given to the respondents in this section, divided into four categories: professional skill cost of implementation, complexity of standards, and management knowledge gap. The sixteen questions posed under the heading "Challenges of Adoption of IFRS for SMEs" had a mean response of greater than 3, and the standard deviation was likewise less than 1, indicating that respondents' perceptions were generally in agreement.

4.2.2.1 Competence of Professionals

As a challenge on the adoption of IFRS for SMEs, five questions were posed in this section to the respondent's professional competence.

Table 4 Descriptive statistics on challenges of IFRS adoption with competence of professionals

| Competence of Professionals | N | Mean | Std. Deviation |
|---|----------|-------------|-----------------------|
| Lack requisite skill and knowledge of IFRS standard. | 60 | 3.8833 | 0.94046 |
| Availability of professional's competent specialists. | 60 | 3.8333 | 0.90510 |

| | | | |
|--|----|---------------|----------------|
| Well trained employees on IFRS for SMEs adoption. | 60 | 3.8667 | 0.98233 |
| Lacks technical skill and adequate knowledge on IFRS implementation. | 60 | 3.8500 | 0.73242 |
| Lack of training centers to provide the IFRS adoption. | 60 | 3.9500 | 0.81146 |
| Grand mean | | 3.8766 | 0.87435 |

Source: Questionnaires result, 2023

As shown on the above Table No 4, Out of total 60 respondents on the question that Lack requisite skill and knowledge of IFRS standards as a challenge in adopting of IFRS having with mean and standard deviation 3.8833 & 0.94046 respectively. An open-ended question were also asked to the respondent and answered that difficulties and low level of skill and knowledge of the standard was a one challenge in adopting the standard in the companies. This finding were consistent with that of the previous studies Zakari (2014), conducted a research on challenges of International Financial Reporting Standards (IFRS) adoption in Libya and he found that lack of technical skill and adequate knowledge of professional accountants was the main challenges found in the study. This indicates that the companies have a shortage of high qualified professionals to implement the new standards.

As shown on the above descriptive statistics table, the second point raised to the respondents were asked to give their answer on the availability of professional's competent specialists and out of total 60 respondents with a mean and standard deviation 3.8333 & 0.90510 respectively. The result implies that availability of professional's competent specialists were as a challenge in the company by the respondents. The finding was consistent with previous studies of Teferi (2016). This implies that lack of availability of competent professionals and this is because of the first time adoption of IFRS the environment could not deliver sufficient and appropriate professional's competent specialists and this lead to the improper implementation of the standard

in the company and qualified professionals joined international organizations from where they are getting high payment which the company can't afford to pay them.

The third points raised to the respondents were asked to give their answer on the well trained employees on IFRS a mean and standard deviation of 3.8667 & 0.98233 respectively. The findings were consistent with previous studies of Zakari (2014). The result implies that well trained employees on IFRS adoption were as a challenge by the respondents because the company may find difficulty in acquiring competent and well trained professionals who may able to review the financial statements with the pay scale of the company.

The fourth point raised to the respondents were asked to give their answer on the lack of technical skill and adequate knowledge on IFRS and out of total 60 respondents draws a mean and standard deviation with 3.8500 & 0.73242 respectively. The finding of this study paper consistent with the result drawn by Teklemuz (2018), result indicates employees in the companies has to be competent enough in their filled in order to minimize the challenge occurred due to the adoption process.

The fifth point raised to the respondents were asked to give their answer on Lack of training centers to provide the IFRS adoption and out of total 60 respondents draws a mean and standard deviation with 3.9500 & 0.81146 respectively. The finding of this study paper consistent with the result drawn by Teklemuz (2018), result show that the majority of respondents regarded the lack of training facilities and instructors to facilitate IFRS adoption as a barrier.

The grand mean of this dimension were with a mean response of 3.8766 and standard deviation of 0.87435 respectively. The grand mean of all questions were greater than 3, this implies that the respondents agreed there was a competence of professionals on the adoption of IFRS. In addition, the standard deviations of all questions under competence of professionals were less than 1.00, indicating that respondents' attitudes were similar.

4.2.2.2 Implementation cost

The second dimension that participants were asked their opinion was high implementation cost as a challenge with a four question included on it.

Table 5 Descriptive statistics on challenges of IFRS adoption with implementation cost

| Implementation Cost | N | Mean | Std. Deviation |
|---|----------|---------------|-----------------------|
| High fee spent on external consultants familiar with IFRS. | 60 | 3.9500 | 0.81146 |
| Employment of additional staff for reporting activity. | 60 | 3.9667 | 0.75838 |
| High additional fee to auditors due to adoption of IFRS. | 60 | 3.8000 | 0.87914 |
| Training Material of IFRS are not readily available at affordable cost. | 60 | 3.9000 | 0.70591 |
| Grand mean | | 3.9042 | 0.78872 |

Source: Questionnaires result, 2023

As shown on the above descriptive statistics table, the first point raised to the respondents were asked to give their answer on high fee spent on external consultants familiar with IFRS and a mean and standard deviation of 3.9500 & 0.81146 respectively. The result indicates that the cost of consultants in the implementation process was high and this was supported by the previous study Zakari (2014). This was happened due to the reason that a lack of active professional in the environment and lack of expertise in the environment.

The second points raised to the respondents were asked to give their answer on the employment of additional staff for reporting activity and mean and standard deviation of 3.9667 & 0.75838 respectively. Based on the research result most of the respondents agree or strongly agree by this statement that employment of additional staff for reporting activity was an additional cost for the company. This implies that in the implementation process loads on day to day activities and it need additional staff member for the implementation process. The study result was consistent with the previous studies of (Zakari, 2014; Joseph, 2018).

The third points raised to the respondents were asked to give their answer on the high additional fee to auditors to provide the IFRS and a mean and standard deviation of 3.8000 & 0.87914 respectively. The result indicates that majority of the respondents agreed on the high additional fee to auditors to provide the IFRS adoption as a challenge. The findings of this study were consistent with the previous studies Amanamah (2017). The reason was that the regulator body states that the delivery of audited financial statement by the new standards acceptable and hence

the company announce to the regulatory body by the previous GAAP report but now it mandatory to overview the implemented standard and comment on the implementation new report. So it may arise additional fee to auditors.

The forth point raised to the respondents were asked to give their answer on the IFRS materials are not readily available at affordable cost and a mean response of 3.9000 and standard deviation of 0.70591 respectively. This implies that there was a problem to get IFRS demonstrated materials at affordable cost. The result of the study consistent with Amanamah (2017). The indication for this is that IFRS materials not available at affordable cost.

The grand mean of this dimension were with a mean 3.9042 and standard deviation of 0.78872 respectively. The grand mean of all questions were greater than 3, this indicates that implementation cost were a challenge for the adoption of IFRS in the SMEs Companies in Ethiopia. Furthermore, standard deviations for all questions were below 1.00, indicating that respondents' attitudes were identical.

4.2.2.3 Complexity of Standards

Respondents were asked about the complexity of standards as a challenge in the adoption of IFRS. Four questions were asked, which were Standards are too complicated and difficult to understand, need much time to prepare IFRS reports, lack of implementation guidelines and wording on the standard need much time to internalize.

Table 6 Descriptive statistics on challenges of IFRS adoption with complexity of standards

| Complexity of Standards | N | Mean | Std. Deviation |
|---|----------|-------------|-----------------------|
| Standard are too complicated and difficult to understand. | 60 | 3.6833 | 0.89237 |
| There is lack of IFRS Implementation guidelines. | 60 | 3.8167 | 0.89237 |
| Need much time to prepare IFRS Reports. | 60 | 3.7500 | 0.95002 |

| | | | |
|--|----|---------------|----------------|
| Wording on the standard need much time to internalize. | 60 | 3.8333 | 0.84706 |
| Grand mean | | 3.7708 | 0.89546 |

Source: Questionnaires result, 2023

The first points raised to the respondents were asked to give their answer on the IFRS Standards are too complicated and difficult to understand and mean and standard deviation of 3.6833 & 0.89237 respectively. The result showed that most of the respondents were perceived that the standard is too complicated and difficult to understand as a challenge. The finding of the result was inconsistency with previous studies of (Joseph, 2018). This result implies that respondents understanding on the complexity of the standard were a challenge.

The second points raised to the respondents were asked to give their answer on the lack of implementation guidelines, and the mean & standard deviation of 3.8167 & 0.89237. The result indicates that the lack of implementation guidelines, as a challenge in the adoption of IFRS. The findings of this study were consistent with Fikru, (2012). The reason for this result was that only the consultants employed by the company prepare an accounting policy and there is no demonstrated example of Sample Company done before i.e. keeping knowledge transfer.

The third point raised to the respondents were asked to give their answer on the need much time to prepare IFRS reports and a mean and standard deviation of 3.7500 & 0.95002 respectively. The findings of this study were consistent with Joseph, (2018). The result implies that majority of the respondents were agree and strongly agree on need much time to prepare IFRS reports as one challenge on the adoption of IFRS. This indicates that in the preparation of reports by the standard took much time.

The last points raised to the respondents were asked to give their answer on the standard need much time to internalize and a mean and standard deviation of 3.8333 & 0.84706. This implies that respondents were on majority agreed wording on the standard need much time to internalize.

The result implies that words in the standard are much difficult to internalize. The findings of this study were consistent with Joseph, (2018).

In this section, in order to analyse the level of agreement of the respondent on the complexity of the standards to implement IFRS for SMEs, the researcher used four questions to assess their opinions. The results of the study showed that the average value of the category sum was 3.7708 respectively. This indicates that the respondents agree on the complexity of standards in IFRS adoption. Additionally, standard deviations for all questions were below 1.00, indicating that respondents' attitudes were similar.

4.2.2.4 Management Knowledge Gap

Respondents were asked about the management knowledge gap in IFRS adoption as a challenge and three questions were asked in this section.

Table 7 Descriptive statistics on challenges of IFRS adoption with management knowledge gap

| Management Knowledge Gap | N | Mean | Std. Deviation |
|---|----------|---------------|-----------------------|
| Management's understanding of the new standards | 60 | 3.6167 | 0.94046 |
| Low Experience of Managers in implementing IFRS | 60 | 3.7167 | 0.97584 |
| Lack of manager's cooperative on the implementation decision. | 60 | 3.9833 | 0.70089 |
| Grand mean | | 3.7722 | 0.87240 |

Source: Questionnaires result, 2023

The first points raised to the respondents were asked to give their answer on the IFRS management's understanding of the new standards and mean and standard deviation of 3.6167 & 0.94046 respectively. The results show that most of the respondents found it difficult that managers do not understand IFRS standard. The finding of the result was inconsistency with previous studies of (Ayteneu, 2018).

The second point raised to the respondents were asked to give their answer on the IFRS low experience of managers in implementing IFRS and mean and standard deviation of 3.7167 & 0.97584 respectively. The finding of the result was inconsistency with previous studies of (Aytenew, 2018). The results show that most of the respondents assessed that the experience of managers applying IFRS is low. This suggests that managers with less experience were reducing their support for the implementation.

The third points raised to the respondents were asked to give their answer on lack of manager's cooperative on the implementation decision and a mean and standard deviation of 3.9833 & 0.70089 respectively. The result implies that majority of the respondents were agree and strongly agree on lack of managers cooperative as one challenge on the adoption of IFRS. This shows that managers need less support for the new standard.

The grand mean of this dimension were with a mean response of 3.7722 and standard deviation of 0.8724 respectively. This implies that the respondents agreed there was a management knowledge gap on the adoption of IFRS. This result would happen due to weak management's understanding of new standard, lack of experience of managers implementing IFRS and lack of manager's cooperative of the implementation decision. In addition, the standard deviations of all questions under management knowledge gap were below 1.00, indicating that respondents' attitudes were similar.

4.2.3 Benefits of IFRS adoption

The results of the questionnaire about the advantages of IFRS adoption for SMEs in Ethiopia were examined in this section. Data regarding the advantages adopting IFRS for companies were be provided and discussed. The seven questions asked about the advantages of adopting IFRS for SMEs had a mean response of more than 3, and the standard deviation was less than 1, suggesting that respondents' opinions were generally in agreement.

4.2.3.1 Benefits of IFRS Adoption to Companies

Table 8 . Descriptive statistics on benefits of IFRS adoption to companies

| Benefit for the company | N | Mean | Std. Deviation |
|--------------------------------|----------|-------------|-----------------------|
|--------------------------------|----------|-------------|-----------------------|

| | | | |
|--|----|---------------|----------------|
| Quality management information and quick decision making. | 60 | 3.7833 | 0.92226 |
| Adoption of IFRS facilitates for local and foreign investment and creates financing sources to countries | 60 | 3.9000 | 0.95136 |
| It provides greater transparency and understand ability of accounting practices. | 60 | 3.7833 | 0.86537 |
| Improved competitiveness | 60 | 3.9333 | 0.75614 |
| Financial statement based on IFRS are reliable | 60 | 3.9000 | 0.70591 |
| Financial statements based on IFRS are more comparable. | 60 | 3.8667 | 0.98233 |
| Use of fair value measurement in preparation of statements under IFRS helps to provide useful and accurate information for economic decision making. | 60 | 3.9333 | 0.79972 |
| Grand mean | | 3.8714 | 0.85472 |

Source: Questionnaires result, 2023

The first points raised to the respondents were also questioned about level of agreements on quality management information and quick decision making by adoption of IFRS. The outcome was presented with mean and standard deviation values of 3.7833 and 0.92226, respectively. As a result of the majority of respondents agreeing or strongly agreeing with this statement, the adoption of IFRS by organizations is likely to result in the provision of high-quality management information and prompt decision-making, which is a key advantage of doing so. The results of this study were corroborated by Teklemuz (2018) and Fikru (2012). This standard's statements provide complete information on both the financial and non-financial aspects of the business, which can assist managers in making timely decisions and saving money.

The second points raised to the respondents also believe that the implementation of IFRS encourages and creates as a source of finance for foreign investments, with a mean and standard deviation of 3.9000 and 0.95136 respectively. The result indicates that there are advantages in adopting IFRS as a link and source of finance for foreign investments. This finding is supported by previous studies Teklemuz (2018) and Joseph (2018).

When respondents were asked for their views on the statement that IFRS would greater transparency and understandability of accounting practices, with a mean of 3.7833 and a standard deviation of 0.86537. This suggests that the introduction of IFRS were increase the transparency and understanding of accounting practices. This is one of the benefits of applying IFRS. This finding was consistent with a previous study by Joseph (2018) and Teklemuz (2018). The disclosure and fair presentation of useful information and the fact that financial statements are easier to interpret are likely reasons why IFRS were bring more transparency and clarity to accounting practices.

The forth points raised to the respondents also believe that the implementation of IFRS would make them improved competitive, with an mean and standard deviation of 3.9333 and 0.75614 respectively. The result indicates that there are advantages in adopting IFRS as a link and source of finance for foreign investments. This finding is supported by previous studies Joseph (2018). The result shows that almost all the respondents strongly agree with the statement and this indicates that the adoption of IFRS can enhance competitiveness as an important benefit for companies.

When respondents were asked for their views on the statement that IFRS financial statement based on IFRS are reliable, with a mean of 3.9000 and a standard deviation of 0.70591. The results indicate that most of the respondents agreed with the statement that financial statements based on IFRS are reliable. This finding was consistent with a previous study by Fikru (2012).

The respondents were asked for their views on the statement that IFRS financial statement based on IFRS are more comparable, with a mean of 3.8667 and a standard deviation of 0.98233. The results indicate that most of the respondents strongly agreed with the statement that financial statements based on IFRS are comparable. This finding was consistent with a previous study by Teklemuz (2018).

The last points raised to the respondents also believe that use of fair value measurement in preparation of statements under IFRS helps to provide useful and accurate information for economic decision making, with a mean of 3.9333 & a standard deviation of 0.79972 respectively. This finding is supported by previous studies Addis (2017). The results show that by measuring the actual values in the financial reports incorporating an appropriate valuation

were increase the value of the information for decision making by investors, creditors, government or other interested parties.

The grand mean and standard deviation of benefits of adopting IFRS to companies were 3.8714 and 0.85472 respectively. This indicates that the adoption of IFRS would many benefits and that adoption of IFRS allows local and foreign investors to invest in the company and get additional financial resources for the company, it allows management to make quick and quality decisions based on the information provided, the company improves its competitiveness with other companies, also respondents agree that IFRS based financial statements are reliable, reasonable and transparent.

CHAPTER FIVE

5 SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of Findings

The findings from the preceding chapter are summarized in this section. With a grand mean response of 3.8766 and a standard deviation of 0.87435, the study's findings indicated that the competency of professionals was a challenge in the acceptance of the standard. Additionally, respondents provided their opinions regarding the cost of implementation. The findings revealed a grand mean of 3.9042 and a standard deviation of 0.78872. The respondents viewed the complexity of standards, which had a grand mean of 3.7708 and a standard deviation of 0.89546, as a challenge. The respondents then indicate how much they agree or disagree with the

managerial knowledge gap, with a grand mean response of 3.7722 and a standard deviation of 0.87240 as a challenge.

According to the results, which show that adoption of IFRS was advantageous for businesses with a grand mean of 3.8714 and a standard deviation of 0.85472, respectively, this suggests that the standard's adoption was beneficial for companies.

5.2 Conclusions

The main objective of this study was to assess benefit and challenges of IFRS for SMEs adoption in Ethiopia with the dimensions on as a challenge implementation cost, complexity of standards, lack of professional competency and management knowledge gap and benefit for the companies in some selected bole sub city companies.

This study has provided evidence on benefits and challenges of the adoption of IFRS for SMEs in Ethiopia: some selected SMEs companies in bole sub city. Finding of the study was found that adoption of IFRS faced a challenge on the competence of professionals by addressing the questions following Lack requisite skill and knowledge of IFRS standards, Availability of professional's competent specialists, well trained employees on IFRS for SMEs adoption, Lacks technical skill and adequate knowledge on IFRS implementation and lack of technical capacity on financial report prepares. In the second dimension was the complexity nature of the standard with the points focused on standards are too complicated and difficult to understand, there is lack of IFRS implementation guidelines, need much time to prepare IFRS reports and Wording on the standard need much time to internalize. The third dimension was implementation cost with the points focused on High fee spent on external consultants familiar with IFRS, Employment of additional staff for reporting activity, High additional fee to auditors due to adoption of IFRS and training material of IFRS are not readily available at affordable cost. Management knowledge gap also the main challenge in the company with the testing points like management understands of the new standards, low experience of managers in implementing IFRS and managers cooperative on the implementation decision. Those points were addressed by questionnaires'. The implication of lack of availability of competent professionals and this is because of the first time adoption of IFRS the environment could not deliver sufficient and appropriate

professional's competent specialists and this lead to the improper implementation of the standard in the company and qualified professionals joined international organizations from where they are getting high payment which the company can't afford to pay them, well trained employees on IFRS adoption were as a challenge by the respondents because the company may find difficulty in acquiring competent and well trained professionals who may able to review the financial statements with the pay scale of the company, result indicates employees in the company has to be competent enough in their filled in order to minimize the challenge occurred due to the adoption process, shortage of high qualified professionals to implement the new standards indicates that in the preparation of reports by the standard took much time, lack of implementation guidelines, as a challenge in the adoption of IFRS, words in the standard are much difficult to internalize due to the complexity of standards and improper interpretation, lack of proper oversight institutions to timely interpretation, unstructured training by training institutions, taking it, the cost of consultants in the implementation process was high, the implementation process loads on day to day activities and it need additional staff member for the implementation process, there was a problem to get IFRS demonstrated materials at affordable cost and IFRS materials not available at affordable cost. And also those benefit to the companies indicate that to quality management information and quick decision making, facilitates for local and foreign investment and creates financing sources to countries, provides greater transparency and understandability of accounting practices, improved competitiveness, statement for IFRS are reliable and comparable and finally using fair value measurement helps to provide useful and accurate information for economic decision making. Generally speaking, IFRS adoption were benefit companies by enabling them to acquire more accurate, transparent, comparable, and intelligible financial reporting, which were help them make quicker and better decisions.

5.3 Recommendations

- ✓ To enhance the management knowledge gap it is better to facilitate trainings for the top management and participate actively and the changes on the matter of the standard.
- ✓ Aggressive theoretical as well as practical demonstration held by the company to the employees in order to solve the lack of inadequate skill and knowledge on the implementation of the standard.

- ✓ The company were select competent professionals from high qualified institutions and from abroad. And giving them the opportunity to develop what they have learned in practice.
- ✓ To minimize the implementation cost of the company also facilitate training programs for staff and employ experts with affordable price to follow up the post implementation process.
- ✓ In order to minimize the complexity nature of standard the staff members and the company follow up interpretations realized by the regulatory body.
- ✓ To minimize the high implementation cost by consultants the companies develop strategy like employing experts have experience on the standard from the environment.

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APPENDIXES

Appendix (A)

Questionnaire

St. Mary University

School of Graduate Studies

Dear Sir / Madam

The questionnaire seeks information on the benefit and challenges facing the adoption of the International Financial Reporting Standards (IFRS) for SME in Ethiopia. The questionnaire is distributed to all employees in the target population. Information provided in the questionnaire by your organization.

I want to assure you that the information you provide will only be available for academic purposes. Your participation is considered a major input for the quality of research results. Therefore, we hope that you will increase your support by participating in the study.

Your answer is honest and invaluable.

Thank you for your participation

Your sincerely

Tsega Debebe

Section 1: Demographic Background

Please check your answer in the appropriate boxes (√) or reply in the space provided for your answer (if desired).

1. Sexual Category:

Female

Male

2. Educational level:

PhD

Level IV/Diploma

Masters degree

Other (specify) _____

Bachelors degree

3. Operational Experience:

1 to 5 years

11 to 15 years

6 to 10 years

Over 20 years

16 to 20 years

4. Current responsibilities in your organization _____

Section 2: Company profile

The following questions seek general information about your company. Please provide your response by ticking (√) or writing.

5. Identify the primary business of your company:

Construction

Import/Export

Real estate

Other, please specify _____

Service

6. What is the general adoption progress of IFRS for SMEs in your organization?

Adopted

In progress

not ready to adopt yet

Section 3: Benefit and Challenges of Adopting IFRS for SME in Ethiopia

| Challenges of Adopting IFRS | Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree |
|---|-------------------|----------|---------|-------|----------------|
| Competence of Professionals | | | | | |
| 1. Lack requisite skill & Knowledge of IFRS Standard. | | | | | |
| 2. Availability of professionals' competent specialists. | | | | | |
| 3. Well trained employees on IFRS for SMEs adoption. | | | | | |
| 4. Lacks technical skill and adequate knowledge on IFRS implementation. | | | | | |
| 5. Lack of technical capacity on financial report prepares. | | | | | |

6. Apart from those mentioned above, If you have any additional Competency of Professionals Challenges in your company, please mention them?

| Challenges of Adopting IFRS | Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree |
|---|--------------------------|-----------------|----------------|--------------|-----------------------|
| Implementation cost | | | | | |
| 1. High fee spent on external consultants familiar with IFRS. | | | | | |
| 2. Employment of additional staff for reporting activity. | | | | | |
| 3. High additional fee to auditors due to adoption of IFRS. | | | | | |
| 4. Training Material of IFRS are not readily available at affordable cost. | | | | | |
| 5. If any additional implementation costs you have incurred in your company? <hr/> <hr/> | | | | | |

| Challenges of Adopting IFRS | Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree |
|--|-------------------|----------|---------|-------|----------------|
| Complexity of Standards | | | | | |
| 1. Standard are to complicated and difficult to understand. | | | | | |
| 2. There is lack of IFRS Implementation guidelines. | | | | | |
| 3. Need much time to prepare IFRS Reports. | | | | | |
| 4. Wording on the standard need much time to internalize. | | | | | |
| 5. If any additional complexity of standards you have incurred in your company? <hr/> <hr/> <hr/> | | | | | |

| Challenges of Adopting IFRS | Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree |
|--|--------------------------|-----------------|----------------|--------------|-----------------------|
| Management Knowledge Gap | | | | | |
| 1. Management's understanding of the new standards | | | | | |
| 2. Experience of managers in implementing IFRS | | | | | |
| 3. Managers cooperative on the implementation decision | | | | | |
| <p>4. If there are any additional management knowledge gap challenges that you have encountered in your office apart from those mentioned above, please mention them?</p> <p>_____</p> <p>_____</p> <p>_____</p> | | | | | |

| Benefit of Adopting IFRS | Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree |
|--|--------------------------|-----------------|----------------|--------------|-----------------------|
| Benefit for the Company | | | | | |
| 1. Quality management information and quick decision making | | | | | |
| 2. Adoption of IFRS facilitates for local and foreign investment and creates financing sources to countries. | | | | | |
| 3. It provides greater transparency and understandability of accounting practices | | | | | |
| 4. Improved competitiveness | | | | | |
| 5. Financial statement based on IFRS are reliable | | | | | |
| 6. Financial statements based on IFRS are more comparable | | | | | |

| | | | | | |
|---|--|--|--|--|--|
| 7. Use of Fair value measurement in preparation of statements under IFRS helps to provide useful and accurate information for economic decision making. | | | | | |
|---|--|--|--|--|--|

8. If any benefits that your company by adopting IFRS please mention it?
