



**ST MARY'S UNIVERSITY**

**SCHOOL OF GRADUATE STUDIES**

**BENEFITS AND CHALLENGES OF ADOPTING INTERNATIONAL  
FINANCIAL REPORTING STANDARDS (IFRS) IN ETHIOPIAN  
PUBLIC ENTERPRISES**

**BY**

**TEKLEMUZ TESFAYE**

**JUNE, 2018**

**ADDIS ABABA, ETHIOPIA**

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**A THESIS SUBMITTED TO ST. MARY'S UNIVERSITY SCHOOL OF RADUATE  
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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.

Abebaw Kassaye (PhD)

Signature\_\_\_\_\_

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## ACRONYMS

AABE	Accounting and Auditing Board of Ethiopia
ASC	Audit Service Corporation
ASE	Accounting Society of Ethiopia
EAFA	Ethiopian Accounting and Finance Association
ECX	Ethiopian Commodities Exchange
EPAAA	Ethiopian Professional Association of Accountants and Auditors
EU	European Union
FDI	Foreign Direct Investment
GAAP	Generally Accepted Accounting Principles
IASB	International Accounting Standard Board
IASC	International Accounting Standards Committee
IAS	International Accounting Standard
ICAG	Institute of chartered accountants Ghana
IFRS	International Financial Reporting Standard
IIA	Ethiopian chapter of the Institute of Internal Auditors
OAG	Office of the Auditor General
MOPE	Ministry of Public Enterprise
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, declared that this is my original work, prepared under the guidance of Master of Business Administration in Accounting and Finance. All sources of materials used for thesis have been duly acknowledged. I further confirm 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.

Declared by: -

Name: - Teklemuz Tesfaye

Signature \_\_\_\_\_

Date: - May 30, 2018

## ABSTRACT

*This study aims to assess the benefit and challenges of International Financial Reporting Standards (IFRS) adoption in public enterprises of Ethiopia. This study was employed a descriptive research type and a survey research design for the research design. And besides a mixed or pragmatic research approach also applied. A non-probability sampling which was purposive sampling was used for the sampling techniques. The questionnaire data were analyzed using descriptive statistics and data from interview were interpreted qualitatively. The results show that IFRS adoption in public enterprises will result in a number of important benefits to a wide range of stakeholders. Lack of awareness, high potential knowledge gap, tax driven nature of previous system, lack of ethical environment are the main challenges of IFRS adoption. From the findings it is recommended that a rigorous IFRS capacity building program should be embarked by the government, all regulatory bodies, firms and training institutions in order to provide the needed and companies, investors, policy makers and national regulators should work together towards the increment of awareness for managing the dynamics of continuous amendments of IFRS.*

**Keywords: Adoption, benefits and challenges, International Financial Reporting Standards, Ethiopia**

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background of the study

Now a day's globalization in the international markets integration affects the activities of multinational entities for long period of times. One challenging aspect of the globalized international market integration is the effect of diversified accounting applications in different countries through the external environments like culture, economic, Social and political situation. Due to this situations common set of globally accepted financial reporting standards would emerge and simultaneously decreasing the diversity of financial reporting practices across world countries happened. This globally accepted standards enable companies a cross-border movement of capital and greater economic integration in international (Kılıça and Uyarb, 2017).

According to Report on observance of Standards and Codes (ROSC, 2011) there is no specific set of accounting regulations in Ethiopia and therefore accounting practices vary across institutions. As a developing country, Ethiopia also needs international financial reporting standard sets (IFRS/IFRS for SMEs) to produce high-quality financial information for accessing global capital markets and international financial resources (Alp & Ustundag, 2009).

Accounting and Auditing Board of Ethiopia (AABE, 2015) noted that, full set IFRS has become mandatory for only companies who have significant public interest entities like financial institutions and public enterprises owned by federal or regional governments had started their transition period on July 8, 2016 and shall mandatorily to adopt as of July 8, 2017 and finally produce their financial statement by IFRS standards on July 07, 2018. The board stated also the choice of July 8, 2016 is fixed on the need to give sufficient period (22 months) over which to effectively transit to IFRS. All other public interest entities and Charities and Societies are expected to mandatorily adopt IFRS and IPSAS, for statutory



purposes, by July 8, 2018. Small and Medium-sized Entities shall mandatorily be adopted IFRS for SMEs as of July 8, 2019.

The aim of this study was to investigate the benefit and challenges of adopting IFRS in selected public enterprises of Ethiopia. According to Rudzani and Charles (2016), adoption of IFRS would increase the comparability of financial information either national or international level; make it easier to implement planned cross-border acquisitions and to initiate proposed partnerships or cooperation agreements with foreign entities; help companies to spread in international markets, and enhance the financial well-being of them. In addition, they have also found that low level of awareness, lack of accounting education, training and inability to acquire relevant resources as some of the main obstacles. The research paper also has importance for the public enterprises as to minimize challenges and exploit opportunities and benefits that it has for them, and then the study can be used as an input for policy makers to set standards and making relevant decision. In addition, this research paper also be used as an initiation for those who are interested to conduct a detailed and comprehensive study regarding the benefit and challenges of adoption of IFRS Ethiopia.

## **1.2 Statement of the problem**

In Ethiopia, there is no legal requirement for compliance with accounting and auditing standards, but some laws such as the financial reporting proclamation 847/2014 and Public Enterprises Proclamation no 25/1992 do require the acceptance of Generally Accepted Accounting Principles (GAAP) (ROSC, 2011). According to different Scholars (Zoubi, 2017; Kenneth and Grazyina, 2013; Owolabi and Iyoha, 2012; Bhattacharje and Islam, 2009) adopting IFRS improves financial reporting quality and that makes easier for investors and businesses to evaluate the financial performances of organizations, and affords banks' the confidence to grant loans based on the financial statements of a company. Besides, scholars (Joseph, 2018; Zoubi, 2017; Kılıça and Uyarb, 2017; Hossain, Hasan, and Safiuddin, 2015; Zakari, 2014; Kenneth and Grazyina, 2013; Owolabi and Iyoha, 2012) also found that the adoption may face challenges like; inadequate accounting education and training, lack of awareness, lack of technical skills and inadequate

knowledge of companies' professional accountants and the complex nature and interpretation by the professionals.

Adoption of IFRS requires that a high level of knowledge, capability and skill in order to understand, interpret and then make use of those standards. The existence of qualified and knowledgeable professionals has a major role in adoption of IFRS. Beside to this, ethical environment, level of awareness, high level of education will also have a role in the adoption (Zoubi, 2017).

Various survey studies (for example; Kılıça and Uyarb, 2017; Owolabi and Iyoha, 2012; Zoubi, 2017; Hossain, Hasan, and Safiuddin, 2015; Zakari 2014; Amanamah, 2017; Joseph, 2018) have been conducted to assess the adoption of IFRS in different countries of the world. The researchers found that lack of technical skills and inadequate knowledge of professionals, Lack of training and awareness as the main challenges of IFRS adoption. On the other hand, they found that increasing of the accounting information quality, investors' confidence, comparability of financial statement among companies both nationally and internationally, made the preparation and auditing of financial statement very transparent and easier as the benefits of IFRS adoption.

Studies have been also conducted in Ethiopia about the factors, benefit and challenges of Adopting IFRS by (see for example; Firdawok, 2017; Eyob, 2017; Mekonnen, 2016; Fikru, 2012). Those studies were focused on the perspectives of authorized Accountants and Auditors of the country by Firdawok, (2017); on financial institution by Mekonnen (2016) and on members of Ethiopian Commodities Exchange (ECX) which are adopted voluntarily by Fikru (2012). Those public enterprises which were selected because they were obliged to produce a statement based on the standard at July 07, 2018 and those selected were almost at the final stage of implementation stage and another point were based on their diversity of business types which were manufacturing, hotel, construction and merchandising. Therefore, this study was motivated because of the absence of studies in the area of benefit and challenges of adopting IFRS in the public enterprise of Ethiopia.

## **1.3 Objective of the study**

### **1.3.1 General Objective**

The main objective of the study is to assess the benefits and challenges adoption of International Financial Reporting Standards (IFRSs) in Ethiopian public enterprise.

### **1.3.2 Specific Objective**

- To assess the availability of ethical environment on adoption of IFRS in public enterprise.
- To evaluate the awareness of public enterprises on the adopting IFRS.
- To investigate the competency of professionals on adoption of IFRS.
- To assess the existing legal systems on the adoption of IFRS.
- To investigate the benefit of IFRS adoption for companies.
- To assess the benefit of IFRS adoption for managements.
- To evaluate the benefit of IFRS adoption for investors.
- To investigate the benefit of IFRS adoption for the other stakeholders.

## **1.4 Scope of the study**

This research paper confines to the assessment of the benefits and challenges IFRS adoption in public enterprise of Ethiopia in selected federal public enterprises. The target population of the study is 24 and of which, 4 Public enterprises are selected because those public enterprises were obliged to produce a statement based on the standard on July 07, 2018 and they were almost at the final stage of implementation stage and another point were based on their diversity of business types which were manufacturing, hotel, construction and merchandising. In addition, location of the enterprise compared to the other enterprises is suitable. This study focused on challenges which were: environmental ethics, competency, awareness and legal system because these dimensions were a basic challenge in the adoption process based on previous studies and it also focused on the benefit to investors, management, companies and other stake holders.

## **1.5 Significance of the study**

The research paper will have an advantage to different organizations to aware them the critical benefits of IFRS adoption, and challenge of its adoption and the means to minimize challenges and exploit opportunities and benefits that it has for them, and it also for practitioners and academicians to familiarize themselves with benefit and challenges of international financial reporting standards in Ethiopia. Furthermore, it will give awareness for the governing body, specifically the higher responsible body, and the managements of companies on perceived and actual benefits of International Financial Reporting Standards and give insight on how to adopt these international standards most efficiently and effectively. The study also has an importance for investors to have an adequate knowledge on the benefit of IFRS for investors and the potential challenges in the adoption process. This research paper also be used as an initiation for those who are interested to conduct a detailed and comprehensive study regarding the benefit and challenges of adoption of IFRS Ethiopia.

## **1.6 Limitation of the study**

The research paper had a limitation on the descriptive statistics because it has inability to generalize research findings to all the public enterprises because they differ in nature, size and service delivery to the society. Another limitation for this study were the questions in regard to the benefit to investors, benefit to managements and other stakeholders were answered by the IFRS conversion team which didn't represent the investors, managements and other stakeholder's opinion and this lacks the study an empirical response. Furthermore, the study had also limitation on the sample because it was very small to generalize its findings to the target population. And besides, though Likert scale had an advantage to respondents, it had a limitation on the neutral scale results because it makes confusions as it is possible that the respondents provided non-committal assess by responding to neutral range of scale.

## **1.7 Organization of the Paper**

This study is organized in to five chapters. The first chapter states the background of the study, statement of the problem, objective of the study and scope and significance as well as limitations faced during the study. The second chapter relays on concepts and empirical evidences on the subject matter with its summary of literature were presented. The third chapter outlines on the research methodology. The research results are presented in chapter four. The last chapter draws summary of findings, conclusions, recommendations and wind up the study by highlighting future research areas.

## **CHAPTER TWO**

### **REVIEW OF RELATED LITERATURE**

#### **2.1 Introduction**

This chapter was discussing on a review of related literature to benefit and challenges on IFRS adoption. It consists of general overview about IFRS, benefits and challenges of adopting IFRS, historical Background of accounting in Ethiopia and empirical evidence on the title.

#### **2.2 The Concept of IFRS**

The necessity for a global set of high-quality financial reporting standards has long been expected and the process of international convergence towards a global set of standards started in 1973 when 16 professional accountancy bodies from different western developed countries like Australia, Canada, France, Germany, Japan, Mexico, the Netherlands, the United Kingdom and the United States of America agreed to form the International Accounting Standards Committee (IASC). (UNCTAD Secretariat; 2008) as cited in Teferi and Pasricha (2016).

International Financial Reporting Standards (IFRS) have been known long time ago under the name International Accounting Standard (IAS). IAS was issued since 1973-2000 by International Accounting Standards Committee (IASC). IAS was issued in order to fix the global accounting standard thus there would be better financial understanding of all companies. However, on April 1, 2001 International Accounting Standard Board (IASB) replaces the IASC and took over responsibility to build international accounting standard and named it IFRS. IFRS has been a trending topic since the European Union (EU) decides to convergence their financial reporting standard to IFRS, leaving the US Generally Accepted Accounting Principles (US GAAP) (Latifah et al., 2012; IFRS Foundation, 2010) as cited in Zakari (2014).

IFRS adoption according to Amanamah (2017), is believed to enhance greater transparency and disclosures in financial statements. This will eventually lead to the harmonization of financial statement across borders. IFRS are more objective and principled based. IFRS was intended to meet the fundamental objective of financial reporting, which is to measure economic activity. IFRS was developed from a balance sheet-perspective so it begins with the definition of assets and liabilities adopting a fair value measurement approach.

### **2.3 IFRS for Public owned enterprises**

The term public enterprise refers to enterprises established under the ownership of the state or public authorities. However, the particular features of such enterprises are not the same in all definitions Tewodros (2014).

Tewodros (2014), defined public enterprise as;

“Any commercial, financial, industrial, agricultural or promotional undertaking – owned by public authority, either wholly or through majority shareholding – which is engaged in the sale of goods and services and whose affairs are capable of being recorded in balance sheets and profit and loss accounts. Such undertakings may have diverse legal and corporate forms, such as departmental undertakings, public corporations, and statutory agencies, established by Acts of Parliament or Joint Stock Companies registered under the Company Law.”

According to Public Enterprises Proclamation No. 25/1992, public enterprises defined as a wholly state owned public enterprise established pursuant to the same Proclamation to carry on for gain manufacturing, distribution, service rendering or other economic and related activities.

Public enterprises are subject to different accounting systems. The establishment of a public enterprise is contingent upon its capital which is indispensable for its existence. Owing to its commercial nature, the law requires it to maintain two books of account, i.e., a balance sheet and a profit and loss account. It should also follow generally accepted accounting principles in maintaining financial records and preparing financial documents.

According to AABE (2015), stated in its five-year strategic plan public enterprise need huge financial resource for investment, both from domestic resources and from foreign direct investment (FDI). Therefore, to keep FDI inflow sustained, there is a need to improve the investment climate. Among other prerequisites for the sustained growth and improved business climate is high quality financial reporting underpinned by a robust accountancy profession regulated by a strong independent oversight body. High quality financial reporting in Ethiopia will also contribute to more efficient tax collection.

Accordingly, implementing high quality International Financial Reporting Standards (IFRS) is critical to meeting and sustaining Ethiopia's economic growth potential. IFRS provides international investors with a brand of trust in the quality of financial reporting. That trust in financial reporting is essential if investors are to be encouraged to step in to promote continued economic growth. IFRS will also have a profound impact on the country's growth potential because nationally supported IFRS will increase stability, stewardship, accountability and transparency both at institutional and government level. It will also increase the general level of professional education of accountants and standards setting bodies and improve their policies and decision making. It will lay the foundation to the much needed domestic capital market to mobilize financial resources for long-term investment. In general, implementation of IFRS contributes to Government efforts of improving good governance and reducing the level of corruption and rent seeking behaviors.

## **2.4 IFRS for SMES**

According to Ethiopian proclamation of 847/2014, Small and medium sized enterprises are defined as an enterprise which is a reporting entity and does not have public interest. International Accounting Standard Board (IASB 2007) stated small and medium-sized entities (SMEs) are defined as entities that do not have public accountability and publish general purpose financial statements for external users. In addition, the board explains entities are regarded as not having public accountability if they do not file their financial statements with any securities commission or regulator for the purpose of issuing any class of instruments in a public market. However, general purpose financial statements are



directed towards the common information needs of a wide range of users who are not in a position to demand reports tailored to meet their particular information needs (IASB 2007). Rudzani and Charles (2016) stated on their study Small and Medium sized enterprises (SMEs) have usually been perceived as the dynamic force for sustained economic growth and job creation in developing countries. They play multifaceted role such as boosting competition, innovation, as well as development of human capital and creation of a financial system.

It was in 2001 when IASB formally started to develop accounting standards for the suitability of SMEs while keeping the emerging economies in focus. The first exposure draft of IFRS for SMEs was published by IASB in February 2007, with the aim to provide simple and self-explanatory set of accounting principles for non-listed companies based on full IFRS. Based on this exposure draft field tests were conducted by IASB on a sample of 116 small entities from 20 different countries. On the basis of comments and reviews of exposure draft, and results from field tests eased the job for IASB in further enhancing and simplifying the accounting standards for SMEs, and finally launching the official and final version of IFRS for SMEs on 9<sup>th</sup> July, 2009 (IASB, 2009). After the initial comprehensive review of the standard, in 2013, the IASB has issued the Exposure Draft on the proposed amendments to the IFRS for SMEs, including some clarifications and supportive guidance (Perera & Chand, 2015). Then, in late 2015, a revised version of IFRS for SMEs was published including further amendments.

## **2.5 Historical Background of Accounting in Ethiopia**

Development of accounting and keeping of records in different forms in Ethiopia was started in the 3rd century A.D. during the Axumite Kingdom (Mihret, James & Mula, 2012; Kinfu, 1990) as cited in Yichilal (2015). At the beginning of the 20th century modern accounting is traced. According to Yichilal (2015), Emperor Menelik II established Ministry of Finance and at that time formal records of government activities started in the 1900s. In addition, in 1905 modern financial accounting in the private sector started in Ethiopia when the Bank of Abyssinia was established Yichilal also indicates. According to (ROSC, 2007; Argaw, 2000; Mihret et al., 2012; Kinfu, 1990) cited in Fikru, (2012) the

development of accounting in Ethiopia classified in to three periods; the first is before 1974 and according to his statement two developments occurred in the history of Ethiopia that was the declaration of commercial code of Ethiopia and the second point addressed by the researcher was the establishment of Office of the Auditor General (OAG) in 1961. In the second period as described by Fikru was from 1974 -1991 and stated in the study communist ideologies and development of accounting have to been held back. Another point was the establishment of Audit Service Corporation (ASC). At this period Fikru stated that private companies were nationalized and the number of state owned enterprises in the country increased. As a result of these changes, international public accounting firms, i.e. Price Water House Peat & Co. and Mann Judd & Co. closed their Ethiopian branches. Third period was After-1991 at this time a number of public enterprises were privatized, which resulted in a new corporate governance structure that would be expected to enhance the importance of financial reports. During this period The Auditor General were reformulated and revised by proclamation 13/1988. In addition to this, the Ethiopian Professional Association of Accountants and Auditors (EPAAA) has been re-activated and three other professional associations, i.e. the Ethiopian Accounting and Finance Association (EAFA), the Ethiopian chapter of the Institute of Internal Auditors (IIA), the Accounting Society of Ethiopia (ASE), the Accounting and Auditing Board of Ethiopia (AABE) and appearance of financial reporting proclamation 847/2014 have been established.

ROSC (2007), stated that after Public democratic republic of Ethiopia (PDRE) came to power a number of developments in accounting occurred and there is no specific set of accounting regulations in Ethiopia. Challenges related to accounting regulations and financial reporting are now being recognized and appreciated in Ethiopia. For example, the recent proclamation on banking business has set a direction for banks to use international standards when reporting their results. In addition, the newly established Ethiopian Commodities Exchange Authority has issued a draft directive on independent auditors to require members of the Exchange to use International Financial Reporting Standards in preparing financial statements and for the auditors to use International Standards on Auditing Gizaw, n.d cited in Firfu (2012).

(Carson and Dowling, 2010; Zeghal and Mhedhbi, 2006; Levich, 2001) as cited in Firdawok (2017) stated on their study now a day's world economic trade like business and financial markets became growing and globalized, financial information which are not prepared and audited in modern/principle based accounting and auditing system may no longer satisfy the needs of users whose decisions are more international in scope. According to the increasing popularity of participating in the global economy investors are becoming increasingly interested in emerging markets as they present a diversified opportunity.

## **2.6 IFRS Adoption and Implementation in Ethiopia**

Ethiopia is taking great strides to build an accountancy and auditing regime fit for a country with an ambitious economic agenda. The country is the second most populated nation had neither a regulatory body nor any professional accounting organization. As per AABE it is a formidable task one that will not be completed for long time to come. The foundation of this Board has a clear watershed in the development of accountancy profession in the country and before the proclamation there was no ownership of the profession and with this point the country lacking a well-established and properly functioning professional accountancy organization, AABE needs to act as an independent regulator as well as carry out some functions that are normally handled by a professional accountancy organization. According to the board Ethiopia had no national accounting or auditing standards before the appearance of AABE. The Board was developed a five-year strategic plan for 2016-2021 for the adoption of IFRS standards.

To adopt the standards, AABE has developed a Roadmap. There are three steps described by Teferi and Pasricha (2016), that new adopters of IFRS should pass through before adopting it. According to them, making policy decisions through building consensus among concerned stakeholders is the first step and following this preparing a plan by building in targets and deadlines, and making them public and helps to identify obstacles that must be overcome and the last step addressed by them was identifying the resources that we have on hand and what we need to implement the new standard (such as availability of local

professionals at company and national level, finance for capacity building, and source of finance, materials and technical supports).

## **2.7 Empirical Evidence on benefit and challenges of IFRS adoption**

According to Joseph (2018), observed on his study titled perceived benefits and challenges of IFRS adoption in Ghana: view of members of Institute of chartered accountants, Ghana (ICAG). The purpose of the research was to examine the perceived benefits and challenges of IFRS adoption in Ghana and to determine differences between young and old accounting professionals in ICAG in their evaluation of perceived benefits and challenges of IFRS adoption in Ghana. The study used cross-sectional survey that sought to collect field data on chartered accountants' and the total target population on this research was 4005 chartered accountants. He used a purposive sample size of 762 to determine the sample size from the total population the researcher was used a record of Annual Accountants conference attendance held at Accra because according to him they constitute active ICAG members in good standing. The study was used a self-administered, structured questionnaire based on past empirical research on perceived benefits and challenges identified with the adoption of IFRS and a five-point Likert scale was used to measure variables for the research. Data instruments used by the researcher was questionnaire which was pre-tested and finally administered to the target population. Data was analyzed based on descriptive analysis. The researcher categorize the benefit of adopting IFRS to investors, policy makers and regulators and based on this the researcher found that adopting IFRS has its own benefit like easier comparability of financial data across borders, in addition to the elimination of multiple reporting standards, better quality of financial reporting, facilitating easier international mobility of professional staffs across national boundaries, greater transparency and understandability of accounting practices, improved management information for decision-making and better access to capital. The study states also some challenges in adopting IFRS continuous amendment of IFRS and its associated effect in the continuous amendments, fair value as measurement base, training of relevant accounting professionals in the applications of IFRS, training of relevant accounting and accounting knowledge and expertise possessed by financial statement user compliance and enforcement, complexity of conversion, timely interpretation of standards, funding of

conversion, ethical business environment were the main challenges addressed by him on the research.

Amanamah (2017), studied on the benefits and challenges of international financial reporting standards adoption in Ghana: Accounts and business Managers Perspectives. The objective of the study was to identify benefits and challenges associated with the implementation of International Financial Reporting Standard (IFRS) in Ghana from account and business managers' perspective. The research methodology applied by the researcher was purposive sampling to collect data from 187 accounting professionals and managers in all business sectors of Ghana and data was collected from respondents using a well-structured questionnaire containing both closed and opened ended questions. Data collected was analyzed using descriptive and inferential statistics with the help of SPSS. Furthermore, He found that the adoption of the IFRS has with those benefits, increase the quality of accounting information, increased investors' confidence, increase comparability of financial statement among companies both nationally and internationally, made the preparation and auditing of financial statement very transparent and easier. In addition, he found also the cost of implementation was very high and accounts and business managers' faced some challenges like fair value measurement issues are a big challenge as majority of the assets do not have an inactive market and it is difficult to determine fair value for those assets and lack of efficient training for professionals. The benefit derived from its implementation outweighed the challenges. Respondents perceived that IFRS is too complicated to understand the standards adoption. Finally, he observed that contrary to the view of other authors, the benefits of adopting the IFRS outweighs the cost.

Kılıça and Uyarb (2017), conducted a research and they stated that lack of trained personnel, interpretation difficulties, and language issue were some of the challenges they found. They observe that on their interview lack of trained personnel will be the most important challenge for the adoption process. In addition, the researchers stated that the lack of IFRS education and knowledge, training at the university, business enterprise, and accountancy bodies will be critical and vital challenges in the IFRS adoption process and interpretation problem will emerge while applying the IFRS, especially in the early years of the adoption process. They also denoted that there are some problems caused by

interpretation, because interpretation plays a very important role in the effective application of standards and therefore in the achievement of comparability in Turkey. Besides to this he stated also high-quality financial information is the benefit of adopting IFRS.

The main challenges as per the study applied by Firdawok (2017), was that significant cost of adoption of IFRS, need for training, lack of readiness to implement within the time frame set by the AABE, lack of adequate implementation guidance and lack of enforcement capacity.

Zoubi (2017), studied expected benefits and challenges of adopting IFRS: A focus on Saudi Arabia. The aim of the study was to examine and explore contradiction and the question of the relevance of IFRS to Saudi Arabia using the perception of users and preparers. The methodology used in the study was descriptive study in which questionnaire was used to collect data the preparers and users of annual reports. The study found that benefit to companies; ease of using one consistent reporting standard in subsidiaries from different countries will accrue to companies, benefit to investors; more confidence in the information presented in financial statements with easy understand and use of it; for policy makers (management), it creates better access to the global capital markets and a higher standard of financial disclosure for national regulatory bodies. In addition, other stakeholders would benefit from overall better reporting and information on new and different aspects of the business. Besides to this, there are a number of challenges to be faced in the process of adoption of the new standard. These among others include ethical environment and the ability to protect qualified and competent employees from being poached by other companies.

In Rudzani and Charles (2016), in their journal article entitled ‘An assessment of the challenges of adopting and implementing IFRS for SMEs in South Africa’. The objective of the paper was to establish, empirically, the reasons and, subsequently, to determine the attributing causes of the problem, if that was the case. The researchers used on this study, both desk search and questionnaire and interviews were used to collect information. Structured and unstructured questionnaires based on the research questions developed were administered on a randomly selected SMEs. Data collection involved respondents from a

sample of 30 SMEs and four accounting firm. Descriptive data analysis was used to analyze the data collected. Specifically, the paper investigates to what extent have South African SMEs adopted IFRS for SMEs, what challenges have stopped them from doing so, if they have not adopted the standards and What implementation challenges they face, if any, if they chose to adopt the standards. They also found that lack of knowledge, low level of awareness, lack of accounting education and shortage of qualified accountants, high cost of using the standard training and inability to acquire relevant resources were the challenges stated by them. Besides to this, the researchers also observe that easy access finance from financial institutions in doing business with government as a benefit.

Babajide Michael Oyewo (2015), studied on how Nigerian SMEs are Prepared to adopt IFRS. The aim of the paper was to assess the level of preparation of Nigerian SMEs for IFRS adoption, to know how is it crucial for Nigerian SMEs to adopt IFRS and What factors affect the level of preparedness. The finding regarding the benefits was increase market liquidity and value; attraction of local and foreign investment: and wider access to funds. In spite of the acknowledged necessity for its adoption such as quality-improvement, and reliability-enhancement in financial reporting, the level of preparedness for IFRS adoption by SMEs in Nigeria was found to be low, partly because of the factors hampering adoption, especially the short time-frame and high cost of acquiring requisite technological infrastructures that support an IFRS-compliant accounting systems and internal business processes. Aside these explicit inhibitions to IFRS-for-SME adoption, other perceptual factors such as necessity for adoption, perceived benefits, and personal qualities such as work experience, level of education, and age of SME proprietor significantly exact on the level of preparedness for IFRS adoption by SMEs in Nigeria.

Hossain, Hasan, and Safiuddin (2015), described on their title Adoption of International Financial Reporting Standards in Bangladesh: Benefits and Challenges. The study had different objectives and of them identifying benefits and challenges of adopting IFRS in Bangladesh were the one. The study used a primary data: interview with some qualified accountants and secondary data: research papers, articles, working paper and different books have been used for the study. According to the findings of the study adoption of IFRS would have benefits like decreased cost of capital, efficiency of capital allocation,

easier international capital mobility, capital market development, improved and higher market liquidity and value, enhanced comparability, cross border movement of capital, and improved transparency of results. In addition, they found that some challenges potential knowledge shortfall, high demand for education and training, legal system effect, tax system effect, development of a legal and regulatory framework, enforcement, and compliance mechanism.

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. In addition, the study used a Likert scale to develop the questionnaires' because of the advantage to obtain respondents feeling and opinion and also give participants a range of option and increase a response rate. Descriptive statistics was used to analyze the data. According to findings in the paper 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.

Kenneth and Grazyina (2013), studied on the adoption of IFRS for SMES in Zimbabwe. The aim of the study was to explore the level of the adoption of the IFRS for SMEs in Zimbabwe, the benefits increasing to such SMEs, the advancement of the adoption of these IFRS, keep of acceptable accounting records and related challenges for the adoption of IFRS for SME. The researcher used descriptive survey design by integrating both the quantitative and qualitative approaches and random sampling technique was used to come up with 40 participants. The major finding on this study was adopting IFRS for SMEs has a benefit like ensuring comparability of financial statements, building investor confidence, allowing for growth through accountability, and tax compliance. Beside to this, he mentioned also lack of awareness, lack of capacity and absence of separation between ownership and management of businesses were the key challenges. And the study



recommended that SMEs should outsource financial reporting to professional accounting firms, add IFRs for SMEs to the curricular of universities and finally policy makers should prepare awareness campaign.

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. The total target population of the study was 103 companies and using simple random sampling he took 20% of the total population as a sample. Primary and Secondary data instruments was applied by him and descriptive statistics also applied to analyze the data. generally, he found that adoption of IFRS improves comparability and reliability of financial statement, it reduces agency problem, reduce information asymmetry and increase the confidence of investors on the financial statement presentation were the benefit ones. 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 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 use of fair value accounting.

Owolabi and Iyoha (2012), conducted research on Adopting International Financial Reporting Standards (IFRS) in Africa: benefits, prospects and challenges. 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 African countries. Descriptive study in which questionnaire was used to collect data. They found that IFRS adoption in Africa have potential benefits like; ease of using one consistent reporting in subsidiaries from different countries, benefits of better access to capital and lower cost of audit fees, confidence in the information presented, comparability of companies by peer group of companies, confidence in the information presented, better access to global capital market, cross-border investment. The benefits notwithstanding, there are however, a number of challenges to be faced ethical environment, compliance and enforcement, complexity of conversion and

retention of qualified employees is the most important challenge for the successful adoption of IFRS.

## **2.8 Benefits of Adopting IFRS**

Several studies have been conducted in different countries to identify benefit realized and challenges faced in adopting IFRS for the first time. According to Bhattacharje and Islam (2009), conducted a research focusing on the adoption and application of IFRS in the context of Bangladesh and found that IFRS might provide resolving Agency problem between management and shareholders, it also give an advantage to investors for reduce the cost processing financial information and the improving financial reporting quality and hence reduces the risk they are trading with a better-informed professional and another point stated by the researcher was it reduce accounting diversity and encourage the foreigners for cross border investment which in turn may improve the liquidity of the capital markets and enlarge firm's investor base to improve risk-sharing and lowers the cost of capital.

Another researcher Rudzani and Charles (2016), described that adopting IFRS would deliver the following benefits: increase the comparability of financial information at either national or international level; make it easier to implement planned cross-border acquisitions and to initiate proposed partnerships or cooperation agreements with foreign entities; help to spread in international markets, and enhance the financial well-being of the companies.

## **2.9 Challenges of Adopting IFRS**

The practical challenges that may be faced in Ethiopia as a result of adopting the IFRS need to be identified and addressed in order to benefit fully from the introduction of IFRS. These challenges have been evidenced by previous studies conducted by scholars such as: Rudzani and david, 2016: Potential knowledge shortfall, Mekonnen, 2016: Level of Awareness, Yicilal (2015): legal system effect and Economic development, Owolabi and Iyoha, 2012: Ethical environment were studied. The main reason of selecting those

variables was previous studies showed those variable was used by different scholars on different financial institutions and some selected companies before the practical implementation of IFRS but not public enterprises. Therefore, the researcher wants to address those variables on the practical challenges happened on the adoption and implementation of IFRS on those public enterprises. So, to identify the practical challenges of these variable on this sector and in order to meet the objectives of this paper, the challenges are discussed as follows:

### **2.9.1 Ethical Environment**

Adoption of IFRS and corporate governance has positive impact on transparency of financial statements and disclosure. In many developing countries, the quality of local governance institutions is low and thus are important determinants of the decision to adopt IFRS (Owolabi and Iyoha, 2012). The main reason on which ethical environment was to be one of the variable of this study was to examine strong corporate governance as a challenge to adoption of IFRS in Public enterprises.

### **2.9.2 Level of Awareness**

The transition plan to IFRS and its implications for preparers and users of financial statements, regulators, educators and other stakeholders have to be effectively coordinated and communicated. This should include raising awareness on the potential impact of the conversion, identifying regulatory synergies to be derived and communicating the temporary impact of the transition on business performance and financial position. The implementation of IFRS requires considerable preparation both at the country and entity levels to ensure coherence and provide clarity on the authority that IFRS will have in relation to other existing national laws. The main reason on which level of awareness was to be one of the variable of this study was to assess the knowledge understanding IFRS standards, continuous amendment of IFRS and its associated effect in the continuous amendments and complexity of conversion and timely interpretation of standards (Mekonnen, 2016).

### **2.9.3 Potential Knowledge Shortfall**

Practical implementation of IFRS requires adequate technical capacity among preparers and users of financial statements, auditors and regulatory authorities. Countries that implemented IFRS faced a variety of capacity-related issues, depending on the approach they took. One of the principal challenges in the adoption of IFRS, shall be the shortage of accountants and auditors who are technically competent in implementing IFRS. As accounting standards and practices become more complex, the ability to apply and interpret those standards and practices will depend on the educational level of the population (Rudzani and David, 2016).

### **2.9.4 Legal System**

Legal systems have been directly associated with disclosure practices and variations in reporting incentives and earnings properties. IFRS adoption may translate into market benefits only where there are greater incentives for better disclosure (Shimaa and Young, 2012; Daske et al., 2008; Li, 2009) cited in Yicilal (2015). Information asymmetry is likely to be resolved by timely and greater public disclosures to stakeholders.

### **2.9.5 Economic Development**

As business transactions become more numerous and complex, the process of recording and reporting these transactions will necessarily become more sophisticated as well (Choi and Meek, 2008) as cited in Yichila (2015). The main reason on which ethical environment was to be one of the variable of this study was to examine the corporate governance, foreign direct investment and increase the level of education as a challenge in the adoption of IFRS.

## **2.10 Summary and Gap in the Existing Literature**

As a result of the difficulties connected with worldwide accounting diversity, efforts to reduce accounting differences across countries have been ongoing for decades (Nobes, 2004). Due to the advantages it provides for countries and multinational companies, many countries adopt International Financial Reporting Standards. Adoption of IFRS has a number of important benefits for a wide range of stakeholders such as, increase the quality of accounting information, increased investors' confidence, increase comparability of financial statement, Quality information for control and decision making purposes, better access to the global capital markets and other stakeholders (Zoubi, 2017; Kenneth and Grazyina, 2013; Fikru, 2012; Owolabi and Iyoha, 2012; Bhattacharje and Islam, 2009). Notwithstanding the quite many benefits of IFRS adoption, it is also a challenging task and has many challenges. As proved by the global experience, are also certain specific challenges like; increase in costs; ethical environment, the ability to protect qualified and competent employees from being poached by other companies, amendments to regulatory requirements and tax laws; complexity of conversion and timely interpretation of standards, Lack of technically skilled and adequate knowledge of professional accountants are the main challenges of IFRS (Joseph, 2018; Kılıça and Uyarb, 2017; Zoubi, 2017; Firdawok, 2016; Hossain, Hasan, and Safiuddin, 2015; Zakari, 2014; Fikru, 2012; Kenneth and Grazyina, 2013; Owolabi and Iyoha, 2012). Though, studies have been conducted to the benefit and challenges of adoption IFRS in Ethiopia there is a literature gap in the benefit and challenges of adopting IFRS in public enterprises of Ethiopia. So, the researcher was motivated to study this gap and asses the benefit and challenges for the public enterprises of Ethiopia.

## **CHAPTER THREE**

### **RESEARCH DESIGN AND METHODOLOGY**

#### **3.1. Introduction**

This chapter describes the methodology used in order to conduct the study. It describes the types of methods selected for data collection, samples and sampling techniques for the research, and data analysis and interpretations and the reasons for why these methods were chosen in comparison to the other alternative methods.

#### **3.2. Research Design**

The focus of this research paper is to assess the challenges and benefits of adopting IFRS in public Enterprise. To do this, Descriptive research type was employed with the intent on the describing of characteristics, specific predictions with narration of facts concerning individuals, groups or situation (Kothari 2004). It provides also answers to the questions of who, what, when, where, and how associated with a particular research problem; a descriptive study cannot conclusively ascertain answers to why. Descriptive research is used to obtain information concerning the current status of the phenomena which were the adoption of IFRS and to describe the potential benefit in regard to company, investors, management and other stakeholders and challenges with respect to those variables which were environmental ethics, competency, legal system awareness and economic development. A survey design study is used for this research. In survey design method research, participants answer questions by self- administered interviews or questionnaire (Jackson, 2009).

### **3.3. Research Approach**

Research approach mention to the methods of data collection, data analysis, interpretation, communicating findings, validation and the questions to be answered, the selected strategy of inquiry equally determines the research methods. According to Creswell (2003) research approach can be classified in to three approaches and a researcher can be used those approaches in conducting a given research. These are quantitative, qualitative and mixed research approach. Quantitative research approach emphasizes primarily on the building of quantitative data where a systematic record that consists of numbers constructed by researcher utilizing the process of measurement and imposing structure (Kent, 2007). The quantitative research approach gives emphasis on measurement that can be quantifiable while qualitative cannot be measured (Bryman & Bell, 2007). In mixed research approach inquirers draw liberally from both qualitative and quantitative assumptions (Creswell, 2009). In this paper the researcher was used mixed research approach to better understand a research problem by combining both numeric values from quantitative research through questionnaires and those which were not covered by the questionnaires were gathered through the qualitative research which were interviews to neutralize limitations of applying any of a single approach. According to Creswell (2009), this approach enables to offset the weaknesses inherent within one method with the strengths of the other method. Goal of the study is to investigate the challenges regarding the ethical environment, level of awareness, competency, the legal system and economic development and to assess the benefit adopting the standard in line with investors, companies, policy makers and other stakeholders in selected public enterprises.

### **3.4. Sample and Sampling Techniques**

The total population for this study were 24 federal public enterprises as per the record of Ministry of Public Enterprise (MOPE) and of which 4 of them are selected namely Ethiopian Construction Works Corporation, Ethiopian petroleum supplies Enterprise, Gihon hotels Enterprise and National Alcohols Liquor Factory enterprise. The selection of those enterprises were based purposive judgment. According to Kothari (2004) Purposive sampling is a sampling technique in which researcher relies on his or her own judgment

when choosing members of population to participate in the study. It occurs when elements selected for the sample are chosen by the judgment of the researcher. Researchers often believe that they can obtain a representative sample by using a sound judgment, which will result in saving time and money. It is a non-probability sampling method and it occurs when elements selected for the sample are chosen by the judgment of the researcher. So, those public enterprises were selected based on their diversity of business types which were manufacturing, hotel, construction and merchandising. Furthermore, location of the enterprise compared to the other enterprises is suitable. The study sample size in terms of respondents was 86 which includes finance directors, internal audit managers, senior accountants, senior auditors, accountants and Junior accountants and this was done purposively from the IFRS conversion team due to their expertise background relevance and better knowledge to IFRS and local reporting practice since they are the preparers and examiners of the financial statements and this enables the researcher to obtain better information.

### **3.5 Data Sources**

This study used primary data. Primary sources of data mean original data that has been collected from the original source first hand. The source for this study includes: interview and questionnaire. The main reason for using primary data sources were to get a first-hand data for getting solution to the problem at hand (Jackson, 2009).

### **3.6 Data Collection Instruments**

#### **3.6.1 Questionnaire**

This research was conducted by means of self-administered questionnaire which was distributed IFRS Implementation Teams in each selected public enterprises. Questionnaire is an instrument which suitable for observing data away from the physical reach of the researcher (Leedy, 1989). The researcher distributes 86 questionnaires to the IFRS conversion team which includes finance directors, internal audit managers, team leaders, senior accountants, senior auditors, accountants and Junior accountants who are deemed to be knowledgeable about IFRS and could provide important perspective on its



implementation. Of which 70 questionnaires were collected and usable for the study. The response is expected to help understand the issues that could explain the implementation of IFRS public enterprises in Ethiopia, the benefits and challenges of IFRS both for enterprises and for the country at large. The research evidence will be gathered by using both close-ended and open-ended structured questionnaires to use its considerable flexibility (Kothari, 2004).

The questionnaires were adopting from different researchers (Fikru (2012); Mekonnen (2016); Owolabi and Iyoha (2012) with a modifications considering the existing situation of the study. Respondents were asked to respond to the items by indicating their level of agreement using a five-point Likert scale. The reasons behind employing Likert-type scales were: it can make a compromise between the conflicting goals of offering enough choice and making things manageable for respondents, quite popular because they are one of the most reliable ways to measure opinions, perceptions, and behaviors and it would reduce also the frustration level of tolerant respondents and increase response rate and response quality. Furthermore, it is mostly recommended from previous studies (i.e. Fikru, 2012; Mekonnen 2016; Owolabi and Iyoha (2012)). So, because of the above reasons respondents were asked to indicate their level of agreement on a five points based on Likert scale with respect to the closed ended questionnaires on the following; A score of 1 indicates Strongly disagree, 2 indicates Disagree, 3 indicates Neutral, 4 indicates Agree and a score of 5 indicates Strongly Agree. On this scale a score of 5 or 4 indicates that the item is perceived to be essential while a score of 3 or 2 indicates that the item is perceived to be fairly important, but not essential, while a score of 1 indicates that the item could be disregarded for being unimportant. Similar scales have been used by (Myburgh,2001; Owolabi and Iyoha 2012) and were found suitable. With respect to the open ended questionnaires the respondents were asked to provide open ended responses to the questions that require opinion and if they have opinions they feel the researcher would find useful.

### **3.6.2 Interview**

The researcher has a plan to conduct Semi-structured interviews with the two finance managers and two audit managers. This allows the researcher some degree of flexibility at the time of interviewing for the pursuit of unexpected line of inquiry which was arising at the study progresses. The main reason of using this instrument is to get qualitative information directly related to the objective of the study which was not administered by questionnaires. Questions in the interview checklist were constructed based on the review of literature. In the process of preparing, testing and using the instruments, the following procedures have been followed.

- The questionnaires and the interview guidelines were developed based on literature review relevant to the research objectives.
- Both tools were judged for their validity using professionals in the area.
- In the final study, the questionnaires and interview were administered both by the researcher to get reliable and valid information.

### **3.7 Method of Data Analysis**

In this research paper in order to address the objective of the study data was analyzed by both qualitatively and quantitatively. Data collected through questionnaires was analyzed by descriptive statistics using Statistical Package for the Social Scientists(SPSS) Version 20. It helps to describe what the data look like, where their center (mean) is, how broadly they are spread in terms of one aspect to the other aspect of the same data (Leedy, 1989). According to Susan et al. (2015), the mean result of responses concluded as final results when it exceeds 3.00 and standard deviation of less than 1.00, respondents level of agreement with the benefit and challenges of adopting IFRS close to one another. In addition, the results of demographic section of the questionnaires were presented by tables, figures and percentages. While the benefit and challenges of the results on the questionnaires were presented by descriptive statics which were mean and standard deviation to keep the consistency of the data presentation. Data collected from interview were interpreted qualitatively.

### **3.8 Research Ethical Consideration**

Ethical consideration implies that on the methods by which information is gathered and the way the data is transferred to the interesting participants. Ethical norms promote the roles of research, such as the acquiring of knowledge, the pursuit the participant's idea and compliance with laws and government policies. In this regard the paper was take in to considerations the following ethical related issues: -

- Participants in the study were selected after the objective of the study was informed well and with voluntarily.
- Confidentiality of the participant's response was done and it used for the intended purpose only.
- The researcher findings represent only from observed data which was collected.

## **CHAPTER FOUR**

### **RESULTS AND DISCUSSIONS**

#### **4.1 Introduction**

Data required for this research paper was collected from interview and questionnaires. A total of 86 structured questionnaires which dealt with benefit and challenges of adopting IFRS were distributed and to IFRS Conversion team which includes Finance directors, Audit Managers, Senior accountants, Senior Auditors, Accountants and Junior Accountants of a sample from public Enterprises, Which were Ethiopian Construction works Enterprise, Gihon Hotels Enterprise, National Alcohol and liquor factory and Ethiopian petroleum suppliers enterprise, all are adopt IFRS and on the road to produce their financial statement by the standard as of July 07, 2018 G.C. The survey instrument was attached in the appendix.

The analysis was based on those 70 respondents which was collected out of the 86 questionnaires distributed to the study and who respond to the question properly, and a careful analysis of the response obtained from the respondents through accurate questionnaires administered. Statistical analysis for social sciences (SPSS) version 20 was used. In addition, it was conducted personal interviews with two finance managers and two internal audit managers from the sample public enterprises who had been willing. The response rate was 81 %.

#### **4.2 Descriptive statistics of data Collected through Questionnaire**

##### **4.2.1 Background of Respondents**

Descriptive statistics were used to analyze the demographic background of participants such as gender, academic level and year of experiences.

Table 4 1 Demographic characteristics of respondents

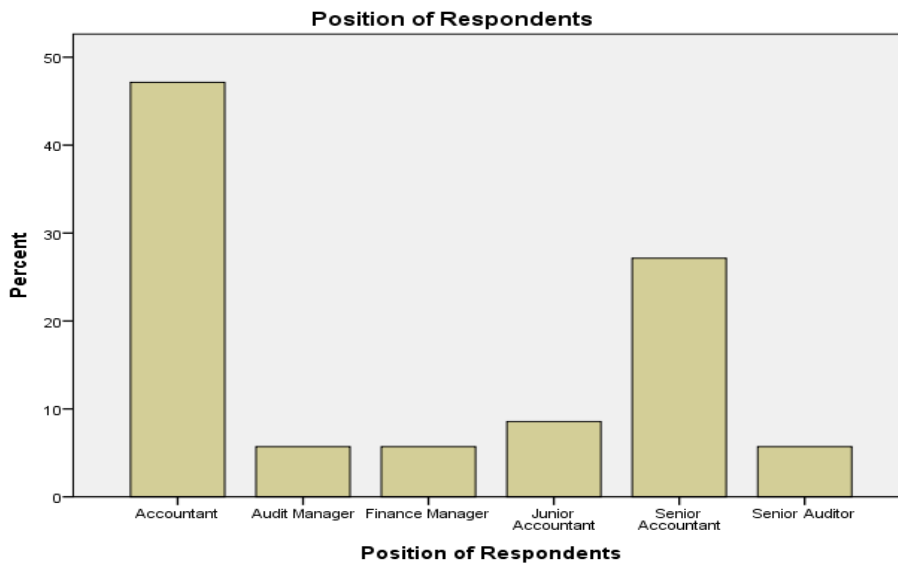
<b>Gender</b>	<b>Frequency</b>	<b>Percent</b>
Female	26	37.1
Male	44	62.9
<b>Total</b>	<b>70</b>	<b>100</b>
<b>Education Level</b>	<b>Frequency</b>	<b>Percent</b>
Level IV/Diploma	3	4.3
Bachelor Degree	63	90.0
Master’s Degree	4	5.7
<b>Total</b>	<b>70</b>	<b>100</b>
<b>Work Experience</b>	<b>Frequency</b>	<b>Percent</b>
Less than 5 Years	9	12.9
6 to 10 Years	27	38.6
11 to 15 years	21	30
16 to 20 Years	6	8.6
Over 20 Years	7	10
<b>Total</b>	<b>70</b>	<b>100</b>

Source: Questionnaires result, 2018

As shown on the above Table No 4.1, Out of total 70 respondents 62.9% (44) of the respondents were Male and Others 37.1% (26) of the respondents were Female. The result implies that there were un biased gender distribution. In addition, the table shows that out of total 90% (63) of the respondents were Bachelor Degree holders and 5.7% (4) of the participants have Master’s Degree. Only 4.3% (3) the respondents are in the lower education level compared to the remaining respondents, which mean they were Diploma holders. This shows that respondents can easily understand the questionnaires of the study and the responses obtained from such groups could be dependable. And finally, as the table describes that 38.6% (27) of respondents have an experience of six to ten years’, while 30%

(21) of the participants have working experience between eleven to fifteen years', the other 12.9% (9) of the respondents have working experience less than five years', the participants who have over twenty years' experience are 10% (7) and the remaining 8.6% (6) of the respondents have working experience between sixteen to twenty years. This implies that service year of respondents were good in achieving good information.

Figure 1 Current Position of respondents



Source: Questionnaires result, 2018

As per the Figure 4.1 of above, 47.1% of the respondents were accountants, the other 27.1% and 8.6% belongs to the senior accountants and junior accountants respectively and this is followed by Finance Managers, Audit Managers and Senior Auditors have equal percentage which is 5.7% only. The result implies that majority of the respondents have fertile work experience and competency to conduct the research study.

When analyzing the demographic information of respondents who were participated in this research paper, majority of the respondents which responding questionnaires of the study were male, and almost all of the respondents except only 3% of the respondents have at least first degree in the enterprises, particularly in accounting & Finance. Majority of respondents who participated in this survey also worked more than five years in the

enterprises. In addition, all the respondents of the study were currently working in either Finance or Audit department of the enterprises. These implies that the respondents of this study have better knowledge & work experience to provide significant and important information for this study, and this was a good to better findings and conclusions.

## **4.2.2 Benefits of IFRS adoption**

In this section, the questionnaire results related to the benefits of IFRS adoption were analyzed. The data related to benefits of IFRS to companies, investors, management, and other stakeholders will be presented and discussed. The mean response of the seven questions under benefits of adoption of IFRS to companies were more than 3.00 and the standard deviation were also less than 1.00, which indicates that the respondent's perception was close to one another.

### **4.2.2.1. Benefits of IFRS Adoption to Companies**

Seven questions were distributed to assess the benefits of IFRS adoption to enterprises. The responses regarding adoption of IFRS benefits to companies in minimizing cost of capital shows that with a mean and standard deviation of 3.53 and 1.03 respectively. This indicates that the adoption of IFRS would reduce cost of capital of the firm though the responses of study unit deviates from average. The finding was consistent with (Owolabi and Iyoha, 2012; Fikru, 2012) concludes that adoption of IFRS enable companies to reduce the cost of capital by lowering cost of information, reduction in bad earnings management, increased value relevance of accounting information, greater marketability of shares, and reduced information asymmetry between managers and shareholders. The aforementioned benefits of IFRS would lead companies to a reduced cost of capital.

Table 4.2 Descriptive statistics on benefits of IFRS adoption to companies

<b>Benefit to Companies</b>	<b>N</b>	<b>Mean</b>	<b>Std. Deviation</b>
Minimizing cost of capital	70	3.5286	1.03169
Financial statement based on IFRS are reliable and comparable	70	4.2857	.59327
Quality Management information and quick decision making	70	4.1714	.53761
Adoption of IFRS facilitates for foreign investment and creates financing sources to countries	70	4.3429	.65686
Improves internal audit system	70	4.0571	.61115
It provides greater transparency and understandability of accounting practices	70	4.4429	.55523
Improved Competitiveness	70	4.2286	.48668
<b>Overall Mean</b>		<b>4.1510</b>	<b>.6389</b>

Source: Questionnaires result, 2018

Respondents were asked their opinion in relation to the statement that IFRS result greater transparency and understandability of accounting practices, and many respondents agreed with mean & standard deviation of 4.44 & 0.555 respectively. This indicates that adoption of IFRS will provide greater transparency and understandability of accounting practices, so this will be one of the benefits that can be realize by adoption of IFRS. Similarly, the interview result reveals that adoption of IFRS would benefit the enterprise by providing the



greater transparency on the data presented and easy of understandability on the accounting practice because substantially reduce the agency problem between management and shareholders through implementation of IFRS as increased transparency causes managers to act more in the interests of the shareholders. It could also cause a similar increase in the efficiency of contracting between firms and lenders. The finding was consistent with the past study Joseph (2018). The possible reason that IFRS would provide greater transparency and understandability of accounting practices was the public disclosure and fair presentation of useful information and financial statements should be easy to interpret.

The respondents also revealed that adoption of IFRS facilitates foreign investment and as financing source with mean and standard deviation of 4.34 & 0.656 respectively. The mean response and standard deviation shows that the adoption of IFRS in relation to foreign investment and as means financing source as one benefit that derived by the adoption of the standard. The interview result showed that companies can benefited by adopting IFRS because it facilitates a way to foreign investment and this lead to a means of financing sources for countries. The finding was supported by the previous studies (Joseph; 2018, Owolabi and Iyoha; 2012). This could enable enterprises to get with high-quality information that enables them to assess investment prospects at a lower cost.

The majority of the respondents with mean and standard deviation 4.28 & 0.593 respectively, also agreed on financial statement based on IFRS are reliable and comparable. As the result implies that most of the respondents agreed on the statement that financial statements based on IFRS are reliable and comparable. Results of interview shows that adoption of IFRS would enable companies to produce quality financial reports and based on this the information presented on the statement will be more reliable and comparable. This finding was consistent with the previous finding of Fikru (2012) that adoption of IFRS leads to improved comparability and reliability of financial statements. So, IFRS standards led to eliminating the global accounting differences and standardizing reporting formats, this facilitates financial information more comparable and reliable.

Respondents agreed with the statement that IFRS adoption will improves competitiveness with a mean and standard deviation of 4.23 & 0.487 respectively. The result showed that

almost all of the respondents were agreed and strongly agree on the statement and this indicates that IFRS adoption to companies enhances competitiveness as one important benefit. The finding of this study was consistent with the previous studies Joseph (2018), while this study found that adoption of IFRS improves competitiveness by the respondents, but this item was found less important by Owolabi and Iyoha (2012). Companies could improve competitiveness because the reports produced by these standards enable them to take advantage on others who did not adopt it in the country wise or at international level because reports prepared through this standard were easily understandable, transparent, reliable and comparable.

The respondents were also asked on their level of agreements on quality management information and quick decision making by adoption of IFRS. The result showed with a mean and Standard deviation of 4.17 & 0.537 respectively. The result showed that most of the respondents on this statement were agreed or strongly agreed and this result implies that adoption of IFRS to the companies will provide quality management information and quick decision making as one essential benefit from adopting the standard. The finding of this study was supported by (Amanamah, 2017; Zoubi, 2017; Fikru, 2012). Statements produced by this standard have full information about the financial and non-financial aspects of the company and this can help the company managers to make quick decision on situations and save time and cost regarding the decision they made.

The final question under benefits of adopting IFRS for companies was about adoption of IFRS will improves internal audit system with a mean and Standard deviation of 4.06 & 0.61 respectively. According to the respondents in this study the result indicates that adoption of IFRS will improve internal audit system as one important benefit. Similarly, response from the interview states that the standard enables external and internal audit system by providing well-structured policies and procedures. This finding was consistent with the previous study done by Fikru (2012). Policies and manuals based on the standards would prepare during the adoption and this enable the company internal control system to follow this policies and procedures in controlling the accounting process of the company.

The overall mean and standard deviation result of benefits of adopting IFRS to companies were 4.15 and 0.64 respectively. This indicates that IFRS adoption would provide many benefits and this could enable to make quality decision, to get foreign investment, source of finance, to have comparable and reliable financial statement, transparency and good understandability and finally enhance competitiveness of the companies.

#### **4.2.2.2. Benefits for Investors**

As shown in table 4.3 below five questions were distributed to assess the benefits of adoption of IFRS to investors. The mean response was above 4.00 and the standard deviation was less than 1.00. It indicates that the respondent's perceptions were close to one another.

The first point that respondents were asked to put their level of agreement on the adoption of IFRS benefit to investors was easy comparisons among companies on the financial statement with a mean & standard Deviation of 4.45 & 0.58 respectively. As the result showed that almost all the respondents agreed and strongly agreed on the statement and this implies that adoption of IFRS will have an importance to investors regarding the easy comparison of financial statement among companies as a benefit. This finding was supported by the previous studies (Owolabi and Iyoha 2012). Because of the uniformity of the standard among industries investors can easily compare the financial statements of companies in each industry.

Participants were also asked their opinion on the second point which was information presented on financial statement through adoption of IFRS would improve the confidence of investors with a mean & Standard deviation of 4.47 & 0.503 respectively. The result implies that adoption of IFRS would improve investors' confidence by the information presented as a benefit to investors. The finding of this study were supported by (Zoubi, 2017; Kenneth, 2013; Fikru, 2012; Owolabi and Iyoha 2012). Financial statements presented by the standard are more reliable and trustful, based on this reason confidence of investors will enhance on the presented items in the statement.

Table 4 3 Descriptive statistics on benefits of IFRS adoption to Investors

Benefit to Investors	N	Mean	Std. Deviation
Ease of comparison among companies	70	4.4571	.58199
Improved confidence of investors by the information presented	70	4.4714	.50279
Increase the quality information for decision making	70	4.5714	.57914
Adoption of IFRS enhances greater transparency and understandability	70	4.3571	.66016
Easier access to financial reporting	70	4.1857	.76694
<b>Overall Mean</b>		<b>4.4085</b>	<b>.4012</b>

Source: Questionnaires result, 2018

The third point respondents were required their level of agreement in concern to adoption of IFRS will increase the quality information for decision making. Almost all of the respondents agree or strongly agree with a mean & standard deviation of 4.57 & 0.579 respectively. This implies that adoption of IFRS will increase the quality of information for better decision making as the benefit to investors indicated by the respondents. The finding of this study were consistent with (Joseph, 2018; Zoubi, 2017; Fikru, 2012). IFRS would deliver quality information because the standard delivers full information to the investor through full disclosure.

As it is shown in table 4.3 above participants were also asked on their level of agreement that adoption of IFRS will improve greater transparency and understandability, Majority of

the respondents agree or strongly agree with a mean & standard deviation of 4.36 & 0.66 respectively. The study result indicates that adoption of IFRS will enhance greater transparency and understandability. It was consistent with the previous findings (Hossain, Hasan, and Safiuddin, 2015; Fikru, 2012). Standards that are high quality, transparent, understandable and comparable information in financial statements and other financial reporting would enable participants in the various markets of the world and other users of the information to make economic decisions. And also adoption of IFRS enhance transparency of companies through better reporting and provides better information for decision making by investors.

Finally, for this section respondents were asked point adoption of IFRS will have easy access to financial reporting and participants agreed with a mean & Standard deviation of 4.19 & 0.766 respectively. The result shows that investors will have easy access to financial report and as another benefits that will derive through IFRS Adoption. Previous studies supported the finding of this research (Joseph 2018; Owolabi and Iyoha 2012). Reports produced by this standard will be publicized in every year so investors can have easy access to get it.

The overall mean and standard deviation result of benefits of adopting IFRS to companies were 4.41 and 0.40 respectively. This indicates that IFRS adoption would provide many benefits and this could enable the investors make comparison among companies, increase confidence of investors on the presented information, easy access to get the financial report and to make quality decision based on the transparency and understandability of the reports deliver to them.

#### 4.2.2.3 Benefits for Management

Table 4 4 Descriptive statistics on benefits of IFRS adoption to management

<b>Benefit to Management</b>	<b>N</b>	<b>Mean</b>	<b>Std. Deviation</b>
IFRS facilitates cross border investment	70	4.3714	.68464
Quality information for control and decision making purposes	70	4.4714	.50279
It Promotes better planning purpose	70	4.2286	.59397
Enables better risk management	70	4.1714	.70137
<b>Overall Mean</b>		<b>4.3107</b>	<b>.6207</b>

Source: Questionnaires result, 2018

Respondents were asked their level of agreement on the adoption of IFRS that facilitates cross border investment with a mean and standard deviation of 4.37 & 0.68 respectively. The result indicates that respondents were agreed and strongly agreed on the statement adoption of IFRS facilitate cross border investment as one important benefit to the management. The interview result stated that the adoption of IFRS helps to the country to make foreign direct investment by attracting investments. The finding of this study were supported by previous studies (Owolabi and Iyoha 2012; Fikru, 2012). Because the adoption of IFRS will improve cross border investment by enhancing comparability of financial statements prepared anywhere in the world. This reduces the costs of doing business across borders by reducing the need for supplementary information.

The next question asked to participants of the study were on the benefit of IFRS on the quality information helps for controlling and better decision making purposes and respondents give their opinion with a mean and standard deviation of 4.47 & 0.502 respectively. The result implies that almost all respondents agree or strongly agree on the quality of information that helps to policy makers for controlling and better decision making purpose. The finding of this study that adoption of IFRS will deliver quality of information that helps to policy makers for controlling and better decision making purpose was supported by previous studies carry out by (Joseph, 2018; Owolabi and Iyoha 2012). Because of the full disclosure on the statement, management can get detail information on each point and this helps managers to make better and easier information on how to direct the business.

Participants also expressed their ideas on adoption of IFRS that promotes better planning for management, with a mean and Standard deviation of 4.23 & 0.594 respectively. The result shows that majority of the respondents agree or strongly agree on the question raised. The finding of this study was also consistent with prior empirical evidences forwarded by (Zoubi, 2017). This enables to enhance financial reporting and tax planning because companies will produce a standardized and consistent set of accounting and financial reports for complying with local statutory and associated requirements. This will help improve the analysis of financial reporting and tax planning processes.

Finally, respondent's opinion with a mean and standard deviation of 4.17 & .070 respectively on the point raised about benefit of IFRS for management were, it enables better risk management through the adoption of IFRS. The result shows that in the view of respondents, adoption of IFRS provides management of a company with better risk management. The finding of this study were consistent with previous study forwarded by (Fikru, 2012). Managers will also be at ease to manage risk and value firms which follow identical accounting measures; the risk assessment can be done more accurately on account of decreasing disparities in the flow of information.

The overall mean and standard deviation result of benefits of adopting IFRS to management were 4.31 and 0.62 respectively. This indicates that IFRS adoption would provide many

benefits to the management and this could enable them to make better planning, quality decision, for better risk management and cross boarder investment.

#### 4.2.2.4. Benefits for Other Stakeholders

The last section of the questionnaire under benefits of IFRS probed the perception of respondents with regard to the importance of the adoption of the standard for other stakeholders. Benefits of IFRS for stakeholders such as regulatory bodies, market participants, accounting and auditing professionals and financial analysts are dealt in this particular section.

Table 4 5 Descriptive statistics on benefits of IFRS adoption to other stakeholders

<b>Benefits to other stakeholders</b>	<b>N</b>	<b>Mean</b>	<b>Std. Deviation</b>
It enhances regulatory oversight and enforcement	70	4.0714	.59761
Excellence information for market participants	70	4.4714	.65323
Facilitating easier international mobility of professional staffs across national boundaries	70	4.4000	.66811
Improved standards of Financial disclosure	70	4.5714	.49844
<b>Overall Mean</b>		<b>4.3786</b>	<b>.6043</b>

Source: Questionnaires result, 2018

Respondents were asked their opinion about adoption of IFRS enhances the regulatory oversight and enforcement is as benefit to other stakeholders, the majority of the respondents stated their level of agreement with mean & standard deviation of 4.07 & 0.597 respectively. This implies that adoption of IFRS to other stakeholders would benefit from



improved regulation oversight and enforcement, overall better reporting and information on new and different aspects of the business. The finding of this study were supported by the previous studies (Zoubi, 2017; Owolabi and Iyoha, 2012). This enables overall better reporting and information on new and different aspects of the business.

The next item presented to the respondents were required their agreement level in concern to IFRS will deliver excellence information for market participants. Almost all of the participants agree and strongly agree with mean and standard deviation of 4.47 & 0.653 respectively. This indicates that adoption of IFRS would benefit for market participants by delivering quality information regarding the market at large or industry (Joseph, 2018; Owolabi and Iyoha, 2012). Disclosure requirements now dictate the quality and quantity of information that must be provided to the market participants and the general public. Because the provision of information is essential to promote the stability of the markets, regulatory authorities also view the quality of information as a high priority.

Respondents were asked to point out their level of agreement on the benefit of IFRS adoption would facilitate easier international mobility of professional staffs across national boundaries. Majority of the participants agreed with mean & standard deviation of 4.4 & 0.668 respectively. This implies that IFRS would provide professional opportunities for accountants and auditors to serve international clients and it would increase their mobility to work in different parts of the world. This finding was consistent with the past study of (Joseph, 2018; Fikru, 2012). In other words, IFRS would provide professional opportunities for accountants and auditors to serve international clients and it would increase their mobility to work in different parts of the world either in industry or practice. It provides greater credibility and improved economic prospects for the accounting profession.

The last question for this section were adoption of IFRS improves standards of financial disclosure. Based on the result shown above respondents were agreed with mean & standard deviation of 4.57 & 0.498 respectively. The result showed that respondent on this statement totally agreed and strongly agreed and this implies that adoption of IFRS would provide improved financial disclosure on financial reports and this as one important benefit to other stake holders by delivering relevant information to them. The interview result

suggest that adoption of the standards improve the financial statement disclosure and this enables stakeholders to obtain detailed information regarding the financial performance of organization and it helps the government and other stakes to make relevant decision. This finding that adoption of IFRS enhances the financial disclosure were consistent with the previous studies of (Joseph, 2018; Zoubi, 2017; Fikru, 2012; Owolabi and Iyoha, 2012). The main reason was that easing comparability among entities and across reporting periods without compromising the usefulness of the information and in an appropriate format using lists, tables, graphs and charts to increase understandability where appropriate. The aforementioned reasons would improve the financial disclosure.

The overall mean and standard deviation result of benefits of adopting IFRS to companies were 4.39 and 0.60 respectively. This indicates that IFRS adoption would provide many benefits the other stakeholders and this could enable them to enhances regulatory oversight and enforcement, excellence information for market participants, facilitating easier international mobility of professional staffs across national boundaries and improve standards of Financial disclosure.

### **4.2.3. Challenges of adopting IFRS**

In this section thirteen question were distributed to the respondents categorized into five variables which are ethical environment, competency, level of Awareness, legal system and economic development in order to obtain information regarding challenges that will face in connection to IFRS adoption in Ethiopia.

#### **4.2.3.1. Ethical environment**

In this section two questions were asked to the respondent's ethical environment as a challenge on the adoption of IFRS.

Table 4 6 Descriptive statistics on challenges of IFRS adoption with ethical environment

<b>Environmental Ethics as a Challenge</b>	<b>N</b>	<b>Mean</b>	<b>Std. Deviation</b>
Absence of good governance and corporate transparency in adopting IFRS	70	3.94	1.062
Trained and competent employees from being poached by other companies	70	3.59	.925
<b>Overall Mean</b>		<b>3.77</b>	<b>.9935</b>

Source: Questionnaires result, 2018

Respondents were asked their agreement level about absence of good governance and corporate transparency as a challenge in adopting of IFRS with mean and standard deviation 3.94 & 1.062 respectively. The result implies that majority of the respondents were agree and strongly agree on the statement that it was a challenge for the adoption of IFRS. Similarly, results from the interview shows that adoption of IFRS could be challenged by the weak corporate governance and corporate transparency. This finding were consistent with that of the previous studies (Joseph, 2018; Zoubi, 2017). This indicates that there could be weak supervision, weak audit control and weak implementation of the policies and procedures. Therefore, this would lead to the enterprise for poor resource utilization.

The second point raised to the respondents as a challenge in the ethical environment were that trained and competent employees from being poached by other companies and respondents their response with a mean and Standard deviation 3.59 & 0.925. The result implies that trained and competent employees from being poached by other companies were as a challenge by the respondents. Results from the interview shows that trained employees were poached by other public enterprise and other private companies due to the high payment delivered to them. This finding were consistent with previous studies of (Zoubi,

2017). Because the adoption of IFRS currently is hot cake in the country at large and employees participated in the implementation of IFRS would poached by the companies who adopt in the near future to smoothen the implementation.

The overall mean result shows that with a mean of 3.77 and standard deviation .9935 respectively. This implies that lack of good governance and corporate transparency and the ability to protect qualified and competent employees from being poached by other companies were a challenge for the adoption of IFRS. This leads to inability of these enterprises to facilitate the efficient allocation of capital in an economy.

#### 4.2.3.2. Level of Awareness

Respondents were asked about the level of awareness as a challenge in the adoption of IFRS. Four questions were asked, which were IFRS is too complicated, understanding IFRS Standards are challenging, IFRS standards complexity of conversion and timely interpretation of standards and continuous amendments of IFRS and its associated effect in the continuous amendments.

Table 4 7 Descriptive statistics on challenges of IFRS adoption with level of awareness

Level of Awareness	N	Mean	Std. Deviation
IFRS is too complicated	70	2.53	1.086
Understanding IFRS Standards are challenging	70	3.74	.943
IFRS standards complexity of conversion and timely interpretation of standards	70	3.53	.847
Continuous amendments of IFRS and its associated effect in the continuous amendments	70	3.60	1.055
<b>Overall Mean</b>		<b>3.35</b>	<b>.9828</b>

Source: Questionnaires result, 2018

The first point raised to the respondents as a challenge were IFRS standards are too complicated. Based on the result too complexity of the standard with mean and standard deviation of 2.53 & 1.086 respectively. The result showed that most of the respondents were perceived that the standard is not too complicated and respondents didn't consider it 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 very less because thinking that standard would internalize with one-time demonstration and training, take the standard as simple as a fiction book.

Respondents were also asked on the understandability of the standard and the result shows that with a mean and standard deviation of 3.74 & 0.943 respectively. The result implies that majority of the respondents were agree and strongly agree on the understandability of the standard as one challenge on the adoption of IFRS. This indicates that the subjectivity judgment of the standard would be a challenge and it need a critical thinking in applying the standard and the language also problem. Therefore, the aforementioned reasons would be a challenge on the understanding of the standards. Previous studies were also consistent with this study (Amanamah, 2017; Rudzani and Charles, 2016).

The next point presents to the respondents were required their level in concern to continuous amendments of IFRS and its associated effect in the continuous amendments, and according to the survey result only few of the respondents disagree and the majority became agree and strongly agree with the mean & standard deviation of 3.60 & 1.055. The result indicates that continuous amendments of IFRS and its associated effect in the continuous amendments as a challenge in the adoption of IFRS. The finding of this study were consistent with Joseph, (2018). The reason for this result was that IASB made continues amendments on some standard issued before, a good example for this was the previous standard IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programs, IFRIC 15 Agreements for the Construction of Real Estate and IFRIC 18 Transfers of Assets from Customers were replaced by IFRS 15 which is revenue from contracts with customers.

Respondents also asked their level of agreement on the IFRS standards complexity of conversion and timely interpretation of standards with a mean and standard deviation of 3.53 and 0.847. This implies that respondents were on majority agreed on the standard complexity of conversion and timely interpretation. Lack of effective coordination and communication, weak understanding of trainers and the quality of professionals to understand the standard and proper interpretation, lack of proper oversight institutions to timely interpretation, unstructured training by training institutions, taking it as business option by private training institutions and interpretation by one's own understanding not what the standard says, the culture of resistance to change by aged peoples may be the challenges to conversion and interpretation of the standards.

The grand mean of this dimension were with a mean 3.35 and standard deviation of 0.9828 respectively. This indicates that level of awareness were a challenge for the adoption of IFRS in the public enterprises of Ethiopia. This leads to the resistance to change by the employee of enterprises as well as enterprises could be late on the implementation of the standards.

#### **4.2.3.3. Potential Knowledge shortfall**

The third dimension that participants were asked their opinion was potential knowledge shortfall as a challenge with a three question included on it.

Respondents were asked to put their level of agreement on the point that absence of technically skilled and inadequate knowledge of professional accountants as a challenge on the adoption of IFRS, and a mean and standard deviation of 3.88 & 1.04 respectively. The result indicates that absence of technically skilled and inadequate knowledge of professional accountants were as the basic challenge derived from the result and this was supported by the previous study Zakari (2014). This was happened due to the reason that a lack of active professional societies, poor quality of education system and current curriculum of higher institutions accounting programs based on US-GAAP.

Table 4 8 Descriptive statistics on challenges of IFRS adoption with potential knowledge shortfall

Potential knowledge shortfall	N	Mean	Std. Deviation
Absence of technically skilled and inadequate knowledge of professional accountants	70	3.8857	1.04317
Training of relevant accounting professionals in the applications of IFRS	70	3.9000	.95021
Lack of training centers and trainers to provide the IFRS adoption.	70	3.2429	1.29027
<b>Overall Mean</b>		<b>3.6762</b>	<b>1.09455</b>

Source: Questionnaires result, 2018

The respondents also believe that in their response with mean and standard deviation of 3.90 & 0.95 respectively. Based on the research result most of the respondents agree or strongly agree by this statement that training of relevant accounting professionals in the application of IFRS as a challenge. This implies that lack of training on relevant accounting professionals in the application of IFRS would be as a basic challenge. This study was consistent with the previous studies of (Zakari, 2014; Joseph, 2018). The reason behind this would be trainee simply take the training without having enough knowledge, one time issue and after training no one revise the standard says, professionals' attitude on the training of the standard not for knowledge but for the currier development. The points addressed above may be the reasons for lack of training on relevant accounting professionals as a challenge.

The last question for this section that respondents also asked were on the training centers and trainers to provide the IFRS adoption, and with a mean and standard deviation of 3.2 & 1.29 respectively. The result indicates that the respondent's idea was dispersed each other but majority of the respondents agreed on the training centers and trainers to provide the

IFRS adoption as a challenge. The finding of this study were consistent with the previous studies (Hossain, Hasan, and Safiuddin, 2015). The reason was that more of the training centers deliver their training on theoretical part and not delivering the demonstration part properly and some trainers give the training without internalizing the standard in a well manner to them. And the training centers was money oriented not focus on the quality of the training they deliver.

The over mean of this dimension were with a mean response of 3.67 and standard deviation of 1.09 respectively. This implies that there was a potential knowledge short fall on the adoption of IFRS. This result would happen due to weak quality of education, lack of capacity building from the governing body, unwillingness to know a new situation, a trend that weak perception on the previous standards and current curriculum of higher institution was dependable on the US GAAP.

#### **4.2.3.4. Legal System**

Respondents were asked their level of agreement for the legal system with in the IFRS adoption as a challenge, and in this section three questions were asked, which were the tax and financial regulation, the tax driven nature of the previous standard and inconsistency of existing laws and regulatory frame works as a challenge for the adoption of IFRS.

Respondents level of agreement on the tax and financial regulation has an effect on the adoption of IFRS, and with a mean and standard deviation of 3.74 & 1.00 respectively. The result implies that majority agree and strongly agree on the statement the tax and financial regulation were a challenge on the adoption of IFRS based on the result given tax and financial regulation were as a challenge. This finding of the study was supported by (Hossain, Hasan, and Safiuddin, 2015). The previous tax driven nature of the accounting system could be a problem because tax system is more rule based and the standard is principled based. Therefore, the tax rule could be reconciled with the new standard.



Table 4 9 Descriptive statistics on challenges of IFRS adoption with legal system

<b>Legal System</b>	<b>N</b>	<b>Mean</b>	<b>Std. Deviation</b>
The tax and Financial regulation has an effect on the adoption of IFRS	70	3.7429	1.00269
Tax driven nature of previous standards is a challenge for IFRS adoption	70	3.6143	.93705
Inconsistency of Existing laws and regulatory frame works	70	3.5286	.88008
<b>Overall Mean</b>		<b>3.6286</b>	<b>.93994</b>

Source: Questionnaires result, 2018

Participants expressed their opinion on the tax-driven nature of previous standards as a challenge with mean response 3.61 and standard deviation 0.94 respectively. The result indicates that majority of the respondents were agreed tax driven nature of previous standards as a challenge. Similarly, result from the interview shows that no national standard in the country and accounting practices were done based on the tax proclamation. This finding was supported by previous study of Fikru (2012), and stated that Ethiopia has no national standard, the few that existed were driven by the countries tax system.

Respondents were asked also on the inconsistency of existing laws and regulatory frame works as a challenge, and the result shows that a mean and standard deviation of 3.53 & 0.88 respectively. This implies that inconsistency of existing laws and regulatory frame works were considered as a challenge by the respondents. This finding was consistent with (Zakari 2014) and conclude that inconsistency of existing laws and regulatory frameworks

of accounting had connection with recent development of accounting profession that arises difficulties of facing IFRS adoption.

The fourth dimension had with a grand mean response of 3.63 and standard deviation of 0.94 respectively. This result indicates that the legal system could be as a one challenge in the adoption process on the enterprises. This may happen due to the previous tax driven nature of the accounting system, weak updates by the enterprises how to handle the inconsistency of existing laws could be also a challenge.

#### 4.2.3.5. Economic Development

Table 4 10 Descriptive statistics on challenges of IFRS adoption with economic development

<b>Economic Development</b>	<b>N</b>	<b>Mean</b>	<b>Std. Deviation</b>
Inadequate number of qualified professionals in the economy as a challenge.	70	2.77	1.36

Source: Questionnaires result, 2018

The last section respondents were asked to answer on the statement inadequate number of qualified professionals in the economy as a challenge and the response for the question with a mean response 2.77 and standard deviation 1.36. This indicate that there is adequate number of professionals in the economy and not considered as a challenge by the respondents of the study. This finding was inconsistent with previous studies of (Joseph, 2018; Zakri, 2014). This attract foreign investment and inadequacy of professionals in the economy was not a challenge.

## **CHAPTER FIVE**

### **SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Summary of findings**

This part summaries the finding of results in the previous chapter. And based on the result adoption of IFRS had a benefit to companies with grand mean of 4.1510 and standard deviation of 0.6389 respectively. Besides, respondents also express their level of agreement for adoption of IFRS had a benefit to investors with grand mean result of 4.4085 and standard deviation of 0.4012 respectively and this indicates that the adoption of the standard had a benefit to investors. The third dimension were that adoption of IFRS had a benefit to managements and this result showed that a grand mean of 4.3107 and standard deviation of 0.6207 respectively and it implies that adoption of IFRS had a benefit to managements. Finally, in the benefit section participants were asked to give their response on the last dimension which was the benefit to other stakeholders and the finding showed that a grand mean and standard deviation of 4.3786 and 0.6043 respectively.

In regard to the challenges the study finding showed that ethical environment was a challenge in the adoption of the standard with grand mean response of 3.77 and standard deviation of 0.9935. In addition, respondents also give their response on the level of awareness and the result of finding showed that a grand mean of 3.35 and a standard deviation of 0.9828. Furthermore, potential knowledge shortfall had also a grand mean of 3.6762 and standard deviation of 1.0945 and it considered as a challenge by the respondents. And finally the respondents give their level of agreement for the legal system with a grand mean response of 3.6286 and a standard deviation of 0.9399 as a challenge.

## 5.2 Conclusions

The main objective of this study was to assess the benefit and challenges of IFRS adoption in public enterprises of Ethiopia.

This study has provided evidence of the potential benefits and challenges of the adoption of IFRS in public enterprises. The results show that the introduction of IFRS in public enterprises will result in a number of important benefits for a wide range of stakeholders. Among the benefits adoption of IFRS will provide benefit to companies; reducing cost of capital, greater transparency and understandability, it facilitates foreign investment and means of source of financing, financial statements prepared by the standard would be reliable and comparable, gives quality information for decision purpose and improves audit system. Those benefit to the companies indicate that to enable reduction of information asymmetry, fair presentation, high quality of information and access of investment at low cost, eliminates the global accounting difference and finally leads to better decision regarding time and cost. The standard also give benefit to investors; increase confidence of investors on the information presented, easy comparison among companies, gives quality information for decision purpose, enhance transparency and understandability and easy of getting the financial reports. this enable investors to have more confidence and easy comparable among companies in the industry due to uniformity of reports, make quick and better decision due to transparency, understandability, reliability and trustfulness. Another benefit derived from the finding were for the management which was facilities cross boarder investment, better planning, better decision making and enables to minimize risk. This also enable the management of the enterprise to have quality information for decision purpose and also participate in a global market. In addition, the adoption of the standard also provides benefit to other stakeholder's others which were enhance oversight and enforcement, excellence information for market participants, easy for movement of staffs across the national boundaries and improves the financial disclosure. Overall the adoption of IFRS would benefit to companies, investors, management and other stakeholders to get more reliable, transparent, comparable and understandable financial reports and this would enable them to make quick and better decision.

On the other hand, the finding of the study was found that adoption of IFRS faced inadequate good governance and corporate transparency, trained employees poached by other organizations, weak understanding the standards in the dimension of ethical environment and this would lead to the enterprise for resource miss utilization. Besides, complexity of conversion and timely interpretation of the standards, continuous amendments of IFRS and its associated effect in the continuous amendments would create more challenge to implementation with in the given time frame. Furthermore, inadequacy of technically skilled and adequate knowledge of professional accountants in the adoption process, training of relevant accounting professionals in the applications of IFRS and inefficient training centers and trainers to provide the IFRS adoption, could lead to challenges to the dimension of potential knowledge shortfall and this would lead to resistance to change, unreliable and weak disclosure, less transparency in the reports produced. The tax proclamation and regulation, tax driven nature of the previous standard and inconsistency of existed laws and regulatory frame work were also a basic challenge in the adoption of IFRS.

### **5.3 Recommendations**

- To strengthen the benefit of investors there should be a continuous awareness campaigns to be organized by the regulatory bodies in order to have an idea about the standards.
- To strengthen the benefit of other stakeholders the regulatory bodies should be adequately made stronger through engagement of qualified professionals to ensure proper compliance and monitoring of the implementation of adopted IFRS for financial reporting and corporate governance practices.
  - Adoption of IFRS would be better supported by all stake holders and rigorous IFRS capacity building program should be embarked upon by all regulatory bodies, firms and training institutions in order to provide the needed manpower for IFRS implementation.
  - In this study the most noticeable challenge identified was lack of awareness in the adoption of IFRS. Therefore, companies, investors, policy makers and national regulators should work together towards the increment of awareness for managing the dynamics of continuous amendments of IFRS, especially to the reporting and

interpretation of existing financial reports within the context of newly approved IFRS amendment.

- To enhance the knowledge-gap the lion share goes to accounting professionals because each professional has to be develop himself/herself and follow up what changes and amendments occurred and familiarizes or update themselves with those standards and amendments. Furthermore, institutions and professional bodies has also a responsibility for this by giving continues training for professionals and other stakeholders. The education, sensitization, and communication to stakeholders of issues associated with IFRS should commence in earnest.
- Training of professionals in enterprises, and competent and independent auditors should be encouraged and improved. In enterprise, training of management and government officials would also be an important long-term objective. Preparing for the increased need for IFRS related skills by encouraging training.
- Since the standard application for different sectors are different, the government should support the enterprises by improving some rules and regulations as well as directives with the common interest based on a research.

## **5.4 Suggestion for Future studies**

The International Financial Reporting Standards (IFRS) is a wide scope of accounting which cannot be dealt with in its entirety in one study alone. This study focused on the benefits and challenges of adoption IFRS in public enterprises of Ethiopia. However, it would be highly appropriate for future research to be conducted on assessing the effects of IFRS adoption on economic growth. Furthermore, the country planned to adopt IFRS for SMEs and a research to be conducted on how the SMEs are prepared to adoption the standard. Finally, this study attempted to focus on the benefit and challenges of IFRS adoption in public enterprises of Ethiopia. Though the research found some important benefit and challenges within the given variable, the researcher promotes more studies to be conducted in the financial reporting disclosure area.

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# APPENDIXES

## Appendix (A)

### Questionnaire

Teklemuz Tesfaye Araya (MBAAF student)

St. Mary University

School of Graduate Studies

Dear sir/madam

The purpose of this questionnaire is to search for information regarding the Benefits and Challenges on adoption of International Financial Reporting Standards (IFRS) in Public Enterprises of Ethiopia. The questionnaire will be distributed to all IFRS Team Members in the Enterprises. The information you provide in response to the items in the questionnaire will be used as part of the data needed for a study on Benefits and key Challenges on Adoption of International Financial Reporting Standards in public Enterprise of Ethiopia.

I would like to assure you that the information you provide will be accessible only to the academic purpose. Your participation is regarded as a great input to the quality of the research results. Hence, I believe 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

*Teklemuz Tesfaye*

Teklemuz Tesfaye

## Section 1: Demographic Background

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

1. Gender:

Female

Male

2. Academic level:

Level IV/Diploma

Bachelor's degree

PhD

Master's degree

Other (specify) \_\_\_\_\_

3. Working Experience:

Less than 5 years

6 to 10 years

11 to 15 years

16 to 20 years

Over 20 years

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

## Section 2: - Benefits and Challenges of adopting IFRS

### A. Challenges of adopting IFRS

Challenges	Scale				
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
<b>Ethical environment</b>					
1.Absence of good governance and corporate transparency in adopting of IFRS.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2.Trained and competent employees from being poached by other companies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Level of Awareness</b>					
3. IFRS is too complicated	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Understanding IFRS standards	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. IFRS Standards complexity of conversion and timely interpretation of standards	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6.Continuous amendment of IFRS and its associated effect in the continuous amendments.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Potential Knowledge shortfall</b>					
7.Technically skilled and adequate knowledge of	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

professional accountants.					
8.Training of relevant accounting professionals in the applications of IFRS.	[ ]	[ ]	[ ]	[ ]	[ ]
9. Training centers and trainers to provide the IFRS Adoption is adequate.	[ ]	[ ]	[ ]	[ ]	[ ]
<b>Legal System</b>					
10. The tax and financial regulation has an effect on the -adoption of IFRS	[ ]	[ ]	[ ]	[ ]	[ ]
11. Tax driven nature of previous standards is a challenge for IFRS adoption	[ ]	[ ]	[ ]	[ ]	[ ]
12. Inconsistency of existing laws and regulatory frame works	[ ]	[ ]	[ ]	[ ]	[ ]
<b>Economic Development</b>					
13. Few number of qualified professionals in the economy as a challenge	[ ]	[ ]	[ ]	[ ]	[ ]

## B. Benefit of Adoption of IFRS

<b>Benefits of adopting IFRS to companies</b>					
14. Minimizing cost of capital	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
15. Financial statements based on IFRS are reliable and comparable	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
16. Quality management information and quick decision making	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
17. Adoption of IFRS facilitates for foreign investment and creates financing sources to countries.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
18. Improves internal audit system	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
19. It provides greater transparency and understandability of accounting practices	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
20. Improved competitiveness	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Benefits for Investors</b>					
21. Ease of comparison among companies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
22. Improved confidence of investors by the information presented	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
23. Increase the quality information for decision making	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
24. Adoption of IFRS enhance greater transparency and understandability	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
25. Easier access to financial reporting	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>



<b>Benefits of IFRS for management</b>					
26. IFRS facilitates cross border investment	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
27. Quality information for control and decision making purposes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
28. It promotes better planning purpose	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
29. Enables better risk management	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Benefits of IFRS for other stakeholder</b>					
30. It enhances regulatory oversight and enforcement	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
31. Excellence information for market participants	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
32. Facilitating easier international mobility of professional staffs across national boundaries	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
33. Improved standards of financial disclosure	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

## Appendix (B)

### Interview Guide

Teklemuz Tesfaye Araya (MBAAF student)

St. Mary University

School of Graduate Studies

Dear sir/madam

The intent of this interview is to explore information regarding the benefit and challenges of Adoption International Financial Reporting Standards in public enterprise of Ethiopia and to have sufficient response to the research problem in addition to questionnaires distributed to IFRS Implementation team which adopt IFRS. The interview will be made with financial managers and audit directors of the randomly selected companies. The information you provide in response to the items in the interview will be used as part of the data needed for a study on the benefit and challenges of Adoption International Financial Reporting Standards in public enterprise of Ethiopia.

I would like to promise you that the information you provide will be accessible only to the academic purpose. Your involvement is regarded as a great input to the quality of the research results. Hence, I believe 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

*Teklemuz Tesfaye*

Teklemuz Tesfaye

1. What accounting standards were employed in your company before the adoption of IFRS?
2. What would you say about the relationship of Government strategic plans and adoption of IFRS?
3. Do you agree with the statement that IFRS might provide resolving Agency problem between management and shareholders?
4. What benefits do you observe in the adoption of IFRS?
5. What are the challenges faced by stakeholders in the process of adoption of IFRS?

## Appendix (C)

Descriptive statistics on benefits of adoption of IFRS to companies

<b>Benefit to Companies</b>	<b>Strongly Disagree</b>	<b>Disagree</b>	<b>Neutral</b>	<b>Agree</b>	<b>Strongly Agree</b>
Minimizing cost of capital	3	11	10	38	8
Financial statement based on IFRs are reliable and comparable			5	40	25
Quality Management information and quick decision making			5	48	17
Adoption of IFRS facilitates for foreign investment and creates financing sources to countries			7	32	31
Improves internal audit system			11	44	15
It provides greater transparency and understandability of accounting practices			2	35	33
Improved Competitiveness			2	50	18

Source: Questionnaires result, 2018

Descriptive statistics on benefits of adoption of IFRS to Investors

<b>Benefit to Investors</b>	<b>Strongly Disagree</b>	<b>Disagree</b>	<b>Neutral</b>	<b>Agree</b>	<b>Strongly Agree</b>
Ease of comparison among companies			3	32	35
Improved confidence of investors by the information presented				37	33
increase the quality information for decision making			3	24	43
Adoption of IFRS enhances greater transparency and understandability			7	31	32
Easier access to financial reporting			5	42	23

Source: Questionnaires result, 2018

Descriptive statistics on benefits of adoption of IFRS to Management

<b>Benefit to Management</b>	<b>Strongly Disagree</b>	<b>Disagree</b>	<b>Neutral</b>	<b>Agree</b>	<b>Strongly Agree</b>
IFRS facilitates cross border investment			8	28	34
Quality information for control and decision making purposes				37	33
It Promotes better planning purpose			6	42	22
Enables better risk management		2	6	40	22

Source: Questionnaires result, 2018

Descriptive statistics on benefits of adoption of IFRS to other stakeholders

<b>Benefits to other stakeholders</b>	<b>Strongly Disagree</b>	<b>Disagree</b>	<b>Neutral</b>	<b>Agree</b>	<b>Strongly Agree</b>
It enhances regulatory oversight and enforcement			10	45	15
Excellence information for market participants	1			33	36
Facilitating easier international mobility of professional staffs across national boundaries			7	28	35
improved standards of Financial disclosure				30	40

Source: Questionnaires result, 2018

Descriptive statistics on Challenges of adoption of IFRS with ethical environment

<b>Environmental Ethics as a Challenge</b>	<b>Strongly Disagree</b>	<b>Disagree</b>	<b>Neutral</b>	<b>Agree</b>	<b>Strongly Agree</b>
Absence of good governance and corporate transparency in adopting IFRS		13	2	31	24
Trained and competent employees from being poached by other companies		13	11	38	8

Source: Questionnaires result, 2018

Descriptive statistics on Challenges of adoption of IFRS with level of awareness

<b>Level of Awareness</b>	<b>Strongly Disagree</b>	<b>Disagree</b>	<b>Neutral</b>	<b>Agree</b>	<b>Strongly Agree</b>
IFRS is too complicated	9	38	23		
Understanding IFRS Standards are challenging	3	5	9	43	10
IFRS standards complexity of conversion and timely interpretation of standards		13	10	44	3
Continuous amendments of IFRS and its associated effect in the continuous amendments	6	4	10	42	8

Source: Questionnaires result, 2018

Descriptive statistics on Challenges of adoption of IFRS with Potential knowledge shortfall

<b>Potential Knowledge Shortfall</b>	<b>Strongly Disagree</b>	<b>Disagree</b>	<b>Neutral</b>	<b>Agree</b>	<b>Strongly Agree</b>
Absence of technically skilled and inadequate knowledge of professional accountants		13	3	33	21
Training of relevant accounting professionals in the applications of IFRS.		10	5	37	18
Training centers and trainers to provide the IFRS adoption as a challenge.	9	16	2	35	8

Source: Questionnaires result, 2018

Descriptive statistics on Challenges of adoption of IFRS with Legal System

<b>Legal System</b>	<b>Strongly Disagree</b>	<b>Disagree</b>	<b>Neutral</b>	<b>Agree</b>	<b>Strongly Agree</b>
The tax and Financial regulation has an effect on the adoption of IFRS		13	7	35	15
Tax driven nature of previous standards is a challenge for IFRS adoption		13	10	38	9
Inconsistency of Existing laws and regulatory frame works		12	15	37	6

Source: Questionnaires result, 2018

Descriptive statistics on Challenges of adoption of IFRS with economic development

<b>Economic Development</b>	<b>Strongly Disagree</b>	<b>Disagree</b>	<b>Neutral</b>	<b>Agree</b>	<b>Strongly Agree</b>
Inadequate number of qualified professionals in the economy as a challenge	16	19	7	21	7

Source: Questionnaires result, 2018