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STATEMENT OF DECLARATION

I, the undersigned, hereby declare that this thesis entitled “Assessment of international financial reporting standard implementation in Ethiopia: benefit and challenge” is my own work and effort and that it has not been submitted anywhere for any award. Where other sources of information have been used, they have been acknowledged.

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Statement of Certification

This is to certify that Ato Eyoatam Berhanu has carried out his research work on the topic
entitled

**“Assessment of international financial reporting standard implementation in Ethiopia:
benefit and challenge”**

The work is original in nature and is suitable for submission for the award of Masters Degree of
Business Administration in Accounting and finance.

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Acknowledgments

The generous cooperation of many people has contributed for the success and completion of this Project work. My special gratitude goes to my advisor ASS.PROF Asmamaw Getie for his commitment on this thesis at each stage and for making invaluable comments and suggestions.

I would also like to express my appreciations to the managers of the companies which wear willing to responses for interview and I would also like to thank all employees who help me filling the questionnaires and provide essential information. I would like also to express my appreciate to ECX finance department who give me the data and corporate me in the process of data collection with the right-minded persons i have met during my study and those who gave me appreciable and accurate information during interviews.

Special thanks is extended to my family, especially, my father, Berhanu Belay for his support and guide me from beginning up to this. Finally, a sincere appreciation is extended to my friends, for their continuous support through the course of my education and for their constant encouragement.

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Acronyms

ASC Audit Service Corporation

EAFa Ethiopian Accounting and Finance Association

ECX Ethiopian Commodities Exchange Authority

EU European Union

EPAAA Ethiopian Professional Association of Accountants and Auditors

FASB Financial Accounting Standards Board

GAAP Generally Accepted Accounting Principles

IAS International Accounting Standards

IASB International Accounting Standards Board

IASC International Accounting Standards Committee

AISG Accountants International Study Group

IFA International Federation of Accountants

IFRIC International Financial Reporting Interpretations Committee

IFRS International Financial Reporting Standards

MoFED Ministry of Finance and Economic Development

MOU Memorandum of Understanding

NBE National Bank of Ethiopia

ROSC Report on the Observance of Standards and Codes

SIC Standing Interpretations Committee

Abstract

This study examined the implementation of International Financial Reporting Standards benefits and challenges in Ethiopia selected companies .The objective of study are to assess the implementation of International Financial Reporting Standards benefits and challenges in Ethiopia selected companies which adopt IFRS before five years. To answer the research objective and research questions, the study was used through both qualitative and quantitative research design. The data of the paper collected from questionnaires and interviews was analyzed using descriptive statistics and presented through figures, tables, percentages, mean rating and standard deviation. The results show that implementation of IFRS in Ethiopia in a number of important benefits such as its ability to significantly improve the comparability of entities, giving better access to global capital markets and reduced cost of capital, transparent and understandable financial report and provision of impetus to cross border acquisitions . The other result of finding are implementation IFRS significant challenges such as high cost of adopting, the complex nature implementation guide line, lack of proper instructions from regulatory bodies for implementing IFRS and lack of fair value accounting are the major challenges. The findings also suggest that a the concerned parties should amend the tax nature of the country and other application law according to IFRS principles and procedures and also preparing implement guidelines according understandable way and should prepare practical training to the companies employees.

Keywords: Ethiopia, implementation, International Financial Reporting Standards



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St. Mary's University, Ethiopia

ST MARY'S UNIVERSITY

SCHOOL OF GRADUATE STUDIES

**“ASSESSMENT OF INTERNATIONAL FINANCIAL REPORTING
STANDARD IMPLEMENTATION IN ETHIOPIA**

: BENEFIT AND CHALLENGE

BY

EYOATAM BERHANU

ADVISOR: ASSMAMAW GETIE

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**A THESIS SUBMITTED TO THE SCHOOL OF GRADUATE STUDIES
OF ST MARY'S UNIVERSITY IN PARTIAL FULFILMENT OF THE
REQUIRMENTS FOR THE DEGREE OF MASTERS OF BUSSINESS
ADMINISTRATION IN ACCOUNTING AND FINANCE**

DEC, 2016

ST MARY'S UNIVERSITY
ADDISS ABABA, ETHIOPIA

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CHAPTER ONE

1. Introduction

1.1. Background of the Study

IFRS set out recognition, measurement, presentation and disclosure requirements dealing with transactions and other events and conditions that are important in general purpose financial statements. They may also set out such requirements for transactions, events and conditions that arise mainly in specific industries. IFRS are based on the Framework, which addresses the concepts underlying the

information presented in general purpose financial statements. The objective of the Framework is to facilitate the consistent and logical formulation of IFRS. It also provides a basis for the use of judgment in resolving accounting issues (IASB, 2009).

The adoption of IFRS will lead to: greater transparency and understandability, lower cost of capital to companies and higher share prices (due to greater confidence of investors and transparent information), reduced national standard-setting costs, ease of regulation of securities markets, easier comparability of financial data across borders and increase investment opportunities, increased credibility of domestic markets to foreign capital providers and potentials foreign merger partners, and to potential lenders of financial statements from companies in less-developed countries. It will also facilitate easier international mobility of professional staffs across national boundaries (William Judge, Shaomin Li, and Robert Pinsker 2010 ; Wong, P. 2004 ; Kholeif, A. 2008). According to Wong, P. 2004 ;Masoud, N. 2014 IFRS enhance the investors understanding and helps to compare the financial report of the companies with different countries financial report.

As evidenced by the global experience, convergence with IFRS has significant challenges common to all countries and companies ,increased volatility of earnings, high cost of implementation, Complex nature of IFRS and problems related to the implementation guidance and there are also certain specific challenges that are unique to particular countries and companies, ethical environment, the ability to protect qualified and competent employees from being poached by other companies and from an overall perspective, amendments to regulatory requirements and tax laws; and impact on IT systems and compensation structures are the main challenges of IFRS (Nnadi, M. 2012;Madawaki, A. 2012; Zeghal, D. and Mhedhbi K. 2006) .

Various survey studies have been conducted to assess the adoption of International Financial Reporting Standards in different countries of the world. A set of studies have been conducted on the adoption of IFRS benefit and the challenges to the companies and their finding show that IFRS improve the reporting system of the companies and also there finding also adoption of IFRS make complexity of financial report because of lack of qualified professionals and the countries legal

system (Laga, M. 2012; Iyoha, F.O. and Faboyede, S.O. 2011). The other set of studies have been conducted on the effect IFRS has on companies and countries their finding show that adoption of IFRS has great effect on cross boarder investment and the countries economy at large . Robyn and Graeme (2009) and Jermakowicz Eva K 2004. Most of the above studies have been carried out on IFRS analyzing the data from member countries of EU and other African countries.

This study was makes an attempt to bridge the gap and try to study the implementation of IFRS in Ethiopian's financial reporting system with reference to IFRS and also to assess the implementation of IFRS benefits and challenge in Ethiopian companies and to other stakeholders in the five years.

1.2. Statement of the Problem

International Financial Reporting Standards are designed as a common global language for business affairs so that company accounts are understandable and comparable across international boundaries. They are a consequence of growing international shareholding and trade and are particularly important for companies that have dealings in several countries. They are progressively replacing the many different national accounting standards. They are the rules to be followed by accountants to maintain books of accounts which are comparable, understandable, reliable and relevant as per the users internal or external (Gyasi, A. 2010; Jermakowicz Eva K. 2004; Aljifri K., and Kahsharmeh H. 2006).

In spite of the quite many benefits of IFRS adoption, it is also a difficult task and has many challenges. As evidenced by the global experience, convergence with IFRS has significant challenges common to all countries and companies ,increased volatility of earnings, high cost of implementation, Complex nature of IFRS and problems related to the implementation guidance and there are also certain specific challenges that are unique to particular countries and companies, ethical environment, the ability to protect qualified and competent employees from being poached by other companies and from an overall perspective, amendments to regulatory requirements and tax laws; and impact on IT systems and compensation structures are the main

challenges of IFRS (Ahmad, N., and Gao, S. (2004); Braun, G. and Rodriguez, R. 2014; Zhang, Y. Andrew, J. and Collier, H. 2007).

The National Bank of Ethiopia has already required the banks to prepare their financial statements in accordance with IFRS. In 2011 Ministry of Finance and Economic Development (MoFED) issued a draft proclamation called Financial Reporting Proclamation of Ethiopia to provide for the financial reporting of Ethiopia. The proclamation requires reporting entities in Ethiopia to follow IFRS (Commercial Bank of Ethiopia annual report 2010).

Various survey studies have been conducted to assess the adoption of International Financial Reporting Standards in different countries of the world. A set of studies have been conducted on the adoption of IFRS benefit and the challenges to the companies and their finding show that IFRS improve the reporting system of the companies and also there finding also adoption of IFRS make complexity of financial report because of lack of qualified professionals and the countries legal system (Laga, M. 2012; Iyoha, F.O. and Faboyede, S.O. 2011). The other set of studies have been conducted on the effect IFRS has on companies and countries their finding show that adoption of IFRS has great effect on cross boarder investment and the countries economy at large (Robyn and Graeme 2009 and Jermakowicz Eva K 2004). Most of the above studies have been carried out on IFRS analyzing the data from member countries of EU and other African countries.

The researcher was motivated to study this area IFRS implementation in Ethiopia which benefits and challenges of the companies .It is important to notice that the Ethiopian environment is different from the developed countries environment where the accounting profession and reporting system is more developed and there is a specific set of accounting regulation and an independent standard setting body. Therefore it is better and different because of the research focus on the implementation of IFRS benefits and challenges in Ethiopia in the last five years.

1.3. Basic Research Question

To this end, the researcher tries to answer the following research questions:

RQ 1. What are the challenges faces in the implementation of IFRS for Ethiopian companies and other stakeholders?

RQ 2 What are the benefits of the implementation for Ethiopian companies and other stakeholders?

RQ 3 what are the key inputs of implementations of IFRS in Ethiopian companies?

1.4 General and Specific Objective

1.4.1 General Objective

The general objective of this study is to assess of benefits and challenges of implementation of IFRS in Ethiopia.

1.4.2 Specific Objective

The specific objectives are:

- To assess the challenges of the companies faces in implementation of IFRS for Ethiopian companies and other stakeholders
- To investigate the benefit of implementation IFRS for companies and other stakeholders
- To examine the implementations of IFRS in Ethiopian companies

1.5. Scope of the Study

The study was conducted to assess the challenges and benefits of implementation of IFRS in Ethiopian companies. The scope is limited to companies which adopted this standard for more than five years. Because of the given the time, financial constraint and owing to the broad and the complex nature of IFRS, this study was focused only to the benefits and challenges of implementation of IFRS in Ethiopian companies.

Because of the reason of given time to the research, the research was conducted only in one Region of Ethiopia specifically in Addis Ababa district companies .The data collected for this research was limited to the employees of the companies specially finance department staff .

1.6. Limitation of the study

It is quite known that any study is not absolutely free from limitations. As a result, this study was conducted with some sort of limitations. The researcher was faced with many problems which, in fact, may affect the quality of the study. The following were among others:

- Unwillingness of employees to fill the questionnaire
- The delay by the respondents in returning back the questionnaire
- Unwillingness of to give documents of the companies
- Lack of document on the area of the title

1.7. Significance of the Study

The research will be significance in various respects. Firstly, the study will draw some conclusions and identify for all practitioners and academicians by providing useful information about IFRS and issues related to its adoption. It is useful for organization's management by providing information about the theoretical and actual benefits and challenges of adopting IFRS. Additionally, it is very important for academic purpose by providing information in regard to statement of the problem.

It will help as a source of reference and a stepping stone for those researchers who want to make further study on the area after wards the study could also be use as an initiation for those who are interested to conduct a detailed and comprehensive study regarding the adoption of IFRS in Ethiopia. This study also is significant to the Ethiopia economy as the IFRS will enhance transparency in the conduct of business in the private and public sectors of the economy .And it will be enable the governing body, specifically the higher responsible body, and the managements of companies to be aware of the perceived and actual benefits of IFRS and give insight on how to adopt these international standards most efficiently.

1.8. Organization of the Paper

This final report of the paper has five chapters. The first chapter states the general introduction of the study. Chapter two presents the literature review regarding the research area of International

Financial Reporting Standards and its adoption and therefore will set out the theoretical foundations for the research. The third chapter outlines the research methodology. The research results are presented in chapter four. The last chapter draws conclusion and recommendation are presented.

CHAPTER TWO

2. Literature Review

2.1. Historical Background of Accounting in Ethiopia

The evolution of accounting can be seen from international perspective and from national point of view. While the development of accounting internationally has generally been well documented, studies that examine this process in developing countries appear relatively limited (Mihret, 2009). The development of accounting in Ethiopia could be better understood if examined in a range of decades beginning from pre-1970s to date. Ethiopia has had alternating political orders: from a developing market economy (pre 1974) to a communist economy (1974 through to 1991), and then back to a market oriented economy (1991 onwards) (Mihret, 2009). The development of accounting in Ethiopia seems to exhibit distinct patterns during the three chronological periods: Pre-1974, 1974 to 1991, and post -1991. These patterns are described

below in terms of stakeholders' efforts to promote the development of accounting and the outcomes of such efforts.

According to Kinfu (1990) the establishment of the commercial school in 1943 provided an important only venue for training of would be office clericals in commercial subjects such as banking, secretarial and finance. These graduates in the area of banking, secretarial and finance did try to form some type of association with a view to establish a link among them. Another development in the 1940s was the start of public accounting in Ethiopia. This is traced to events when British accounting firms, like Price Waterhouse and Peat, opened branches in the country (Mihret, 2009).

Two significant developments in the history of accounting in Ethiopia took place in the 1960s. In 1960 the Commercial Code of Ethiopia was proclaimed (Government of Ethiopia 1960) which was followed by the formation of the Office of the Auditor General (OAG) in 1961 by Proclamation 199/1961 (Government of Ethiopia, 1961). The commercial Code contains accounting and external auditing provisions, which serve as the legal basis for financial reporting and external audit of companies (Argaw, 2000; Kinfu, 1990; ROSC, 2007).

The early seventies saw the creation of many professional associations in Ethiopia (Mengistu, 2008). An effort to establish indigenous professional accounting associations in Ethiopia occurred in 1973 when the Ethiopian Professional Association of Accountants and Auditors (EPAAA) was established (Argaw, 2000; Kinfu, 1990; Mihret, n.d). According to Mihret (2009), the EPAAA was aspiring to develop to a level where it would certify and license public accountants to practice in Ethiopia. Composition of members to the association included mainly accounting and auditing practitioners.

In 1974, a military government came into power in Ethiopia and declared a communist ideology. Most people agree that this period (up to 1991) was a time when the development of accounting appears to have been held back (Argaw, 2000; Blake, 1997; Kinfu, 2005). Nonetheless, an important landmark in the history of accounting and auditing in this period was the formation of the Audit Service Corporation (ASC) by Proclamation 126/1977 (Government of Ethiopia,

1977) (Mihret, 2009).

According to Seal, Sucher and Zelenka, (1996 as cited in Mihret, 2009), after 1991, when the country shifted back to a free-market economic order, 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. Change of government and the type of government are important influences on the development of the accounting profession. During this period the establishment of People's Democratic Republic of Ethiopia (PDRE) the power and functions of The Auditor General were reformulated and revised by proclamation 13/1988. In addition to this, the 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), and the Accounting Society in Ethiopia (ASE) have been established (Mihret, 2009).

Thought there are a number of developments in accounting after the coming in to power of PDRE, there is no specific set of accounting regulations in Ethiopia (ROSC, 2007). Problems related to accounting regulations and financial reporting are now being recognized and appreciated in Ethiopia. For instance, 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 (ECEA) 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).

Though IFRS was developed in 1973 by professional accountants in different countries, its transition to Europe came in 2005. It has been evolving over the years. Currently, Ethiopia is in the progress of adopting. Even though IFRS is required for a certain type of institution, Ethiopia lacks resources to implement IFRS properly and it also does not have an authoritative body for accounting which can guide and dictate the implementation of IFRS (Alemayehu, 2009; Minney, 2011). However, National Bank of Ethiopia (NBE) has already developed a guideline for standard financial reporting; it has trained its staff in that regard (Alemayehu, 2009). Ethiopian Commodities Exchange Authority (ECEA) has also issued a draft directive to require members

of the Exchange to use international financial reporting standards in preparing financial statements (Gizaw, n.d).In 2011 Ministry of Finance and Economic Development (MoFED) issued a draft proclamation called Financial Reporting Proclamation of Ethiopia to provide for the financial reporting of Ethiopia. This proclamation requires reporting entities in Ethiopia to follow IFRS.

Proclamation no.592/2008, part six, article 23 of the banking business proclamation states about the Financial Records and External Audit Inspection of banks. According to article 23 sub article 1 of the proclamation, the National Bank of Ethiopia directs banks to prepare financial statements in accordance with the International Financial Statements Standards whether their designation changes or they are replaced, from time to time. Similar to many developing countries, Ethiopia's financial reporting practices are driven by its tax laws and fragmented accounting practices acquired from the country's institutions of higher learning. Adopting IFRS as a national standard will have significant benefits for countries to improve corporate transparency that is required by investors and the public. Many countries are currently migrating to IFRS by abandoning their national accounting standards. This is an opportunity for countries like Ethiopia, which do not have national accounting standards even if transiting to international standards with weak financial reporting practices in the country may pose many challenges that must be overcome through time (Gizaw, n.d).

2.2. The Concept of IFRS

IFRS stands for International Financial Reporting Standards and they are standards for reporting financial results and are applicable to general purpose financial statements and other financial reporting of all profit oriented entities. The term IFRS comprises IFRS issued by IASB; IAS issued by IASC; and interpretations issued by the Standing Interpretations Committee (SIC) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB (Hoyle B., et al., 2009, Baker E. et al., 2009 and Larsen E. 2008).

Alistair (2010 cited in Ojeka and Mukoro, 2011, p.14) defined International Financial Reporting Standards (IFRS) as

“A series of accounting pronouncements published by the International Accounting Standards Board (IASB) to help preparers of financial statements, throughout the world, produce and present high quality, transparent and comparable financial information. “

Since 2001 International Financial Reporting Standards (IFRS) are being developed and approved by the International Accounting Standards Board (IASB). The IASB is a stand-alone, privately funded accounting standard setting body established to develop global standards for financial reporting. It is the successor to the International Accounting Standards Committee (IASC), which was created in 1973 to develop International Accounting Standards (IAS). Based in London the IASB assumed accounting standard setting responsibilities from the IASC in 2001 (Hoyle B., et al., 2009, Baker E. et al., 2009 and Larsen E. 2008).

One of the basic features of IFRS is that it is a principle based standard and seeks to avoid a rule based mentality (Hlacuc et. al., 2009). Instead, the application of IFRS requires exercise of judgment by the preparer and the auditor in applying principles of accounting on the basis of the economic substance of transactions. The IASB framework establishes a general requirement to account for transactions in accordance with their substance, rather than only their legal form. This principle comes through very vividly in many IFRS. The ISAB intends not to permit choices in accounting treatment, as its objective is to require like transactions and events to be accounted for and reported in a like way, and unlike transactions and events to be accounted for differently.

According to IASB (2009), the IASB achieves its objectives primarily by developing and publishing IFRS and promoting the use of those standards in general purpose financial statements and other financial reporting. Other financial reporting comprises information provided outside financial statements that assists in the interpretation of a complete set of financial statements or improves users’ ability to make efficient economic decisions. The term financial reporting’ encompasses general purpose financial statements plus other financial reporting.

IFRS set out recognition, measurement, presentation and disclosure requirements dealing with transactions and other events and conditions that are important in general purpose financial statements. They may also set out such requirements for transactions, events and conditions that arise mainly in specific industries.

IFRS are based on the Framework, which addresses the concepts underlying the information presented in general purpose financial statements. The objective of the Framework is to facilitate the consistent and logical formulation of IFRS. It also provides a basis for the use of judgment in resolving accounting issues (IASB, 2009).

2.3. Factors Affecting the Adoption of IFRS

According to Iyoha and Faboyede, (2011), the adoption of International Financial Reporting Standards is largely driven by a number of factors which include among others professional support with IFRS experience and self- enforcement by companies. Similarly Mir and Rahman, (2005), examined the factors that influence the recent decision of the Bangladeshi government and accounting profession to adopt IASs. The results of their study revealed that institutional legitimization is found to be the main factor that influences the decision of adoption of IASs. They argued that this was due to pressure on the Bangladeshi government exerted by key international institutions and professional accounting bodies.

Chamisa (2000) evaluated the contradiction of the relevance of IASs to developing countries and used the particular case of Zimbabwe. The study reported that there is a significant increase in the number of professional bodies in developing countries. These professional bodies have supported the adoption of IASs which suggests that these standards are relevant and not harmful to developing countries. The results showed that the adoption of IASs and their impact on the reporting practices of the listed Zimbabwe companies appeared to be significant and relevant to the country as well as similar developing countries where shareholder/fair view is important. Baker and Barbu (2007) in their review of international accounting harmonization research state that: Before 1990, two factors were identified as being the primary explanatory factors for differences in accounting practices: the cultural and economic.

After 1989, other factors began to be considered and researchers argued that the diversity of accounting practices was caused by factors beyond the cultural and economic, including: the historical development of a nation's economy and its capital markets; differences in legal systems; differences in the nature of property rights; the size and complexity of companies within a country; the social climate; the degree of currency stability; the existence of accounting laws; and the educational system (P.286).

According to Cooke and Wallace (1990), as cited in Zeghal and Mhedhbi (2006, p. 356), the factors affecting the choice of accounting systems could be internal as well as external. They could include factors such as economic growth and the level of wealth, the level of inflation, the education level, the legal system, the country's history and geography, the financial system, the size and complexity of business enterprises, the notoriety of the accounting profession, the development of financial market, sources of investment and financing and the predominant culture and language.

In this study to answer the question of factors that could affect the implementation of IFRS by Ethiopian companies, factors such as Government Policy, Professional Bodies, Company Size, Capital Market, and Educational Level were considered responsible for a radical, paradigmatic shift in the accounting practice.

2.4. Opportunities of IFRS Adoption

It is advocated that adoption of IFRS will lead to: greater transparency and understandability, lower cost of capital to companies and higher share prices due to greater confidence of investors and transparent information, reduced national standard-setting costs, ease of regulation of securities markets, easier comparability of financial data across borders and increase investment opportunities, increased credibility of domestic markets to foreign capital providers and potentials foreign merger partners, and to potential lenders of financial statements from companies in less-developed countries. It will also facilitate easier international mobility of professional staffs across national boundaries. For the multinational companies, it will help them to fulfill the disclosure requirement for stock exchanges around the world (Aljifri K., and Kahsharmeh H. (2006), Baker, R.C. and Barbu, E.M. (2007).

Other benefits include: the lower susceptibility to political pressures than national standards, continuation of local implementation guidance for local circumstances and the tendency for accounting standards to be raised to the highest possible quality level throughout the world. (William Judge, Shaomin Li, and Wong, P. 2004). The net market effect of convergence is a function of two effects. The first is the direct informational effect - whether convergence increases or decreases accounting quality. The second is the expertise acquisition effect or whether investors become experts in foreign accounting, which depends on how costly it is to develop the expertise. Therefore, ex ante net market effect of convergence is uncertain (Judge, W., Li, S. and Pinsker, R. 2010 and Gyasi, A. 2010).

Management reporting for internal purposes under IFRS, can improve the quality and consistency of information that management needs in order to make effective, efficient and timely decisions for the business. IFRS adoption may be used as a chance to make some strategic improvements to the finance systems and processes as well as to reduce costs in the longer term (Judge, W., Li, S. and Pinsker, R. 2010, Gyasi, A. 2010).

IFRS financial statements that are universally understood and comparable can both improve and initiate new relationships with customers and suppliers across national borders. Because of the positive effect IFRS financial information has on credit ratings, a company's position strengthens in negotiations with credit institutions and cost of borrowings are reduced (Braun, G. and Rodriguez, R. 2014). IFRS can also result in more accurate risk evaluations by lenders and to a lower risk premium. It also helps companies to take advantage of alternative forms of finance. In the case of groups it removes the need for individual companies to prepare two set of financial statements, if all individual companies in the group apply IFRS. It also allows multinational groups to have a common accounting language, thereby improving management reporting and decision making. As IFRS hit the market, analysts and investors will become more sophisticated very quickly and will be less forgiving towards companies which provide the market with the poor disclosures (Masoud, N. 2014 and Nnadi, M. 2012). Madawaki, A. 2012 listed the benefits from Adoption of IFRS over the world to include: better financial information for shareholders and regulators, enhanced comparability, improved transparency of results, increased ability to secure cross-border listing, better management of global operations and decreased cost of capital.

2.5. Challenges of Adopting IFRS

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

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

Jermakowicz et al. (2007) examine the challenges and benefits, including value relevance, of the adoption of IFRS by DAX-30 companies in Germany based on a questionnaire sent to company executives. They find that most companies agree that implementing IFRS should improve the comparability of financial statements while the complex nature, high cost of adopting and lack of guidance for implementing IFRS, as well as increased volatility of earnings after adopting IFRS, are listed among the most important challenges of conversion to IFRS.

2.6. Empirical Evidence

Ojeka and Mukoro, (2011) conducted a research entitled International Financial Reporting Standards (IFRS) and SMEs in Nigeria: Perceptions of Academic. The paper has three objectives. The first objective was to identify whether the academic believe that the proposed

IFRS for SMEs (Statement of GAAP for SMEs) will ease or alleviate the burden of financial reporting and preparation by SMEs in Nigeria. The second objective of the study is to find out if Nigeria government should support the adoption/adaption of IFRS for SMEs. Finally the study aims to find out how outspoken the academic have been towards the adoption/adaption of IFRS for SMEs in Nigeria. The result of the study revealed doubt among the academic about whether this would be so. This was in spite of the good and sincere intentions in establishing IFRS for SMEs. After reviewing the literatures and the empirical result, it was believed that Nigeria government should put all the necessary machinery in place to fast track the adoption of IFRs for SMEs in Nigeria. The result also showed that academics have been relatively quiet in time past in Nigeria since the IFRS for SMEs was proposed.

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

Vrentzou E. (2011), attempted to see the effects of International Financial Reporting Standards on the notes of auditors. The study tries to combine the developments in the accounting area with those in the auditing area. More specifically, it presents the effects of International Accounting Standards (IAS) on the auditor findings and report. International Standards on Auditing (ISA) are revised in order to be accepted by the European Union as the common and formal auditing

standards of the member states. The introduction of IAS has been one of the most significant developments in the history of the financial statements preparation and presentation. The effects of the application of these standards are present both on the valuation of the firm and on the presentation of its “true and fair view”. An extended analysis of the financial statements and the auditor reports is conducted. The effects of International Financial Reporting Standards (IFRS) on the auditor reports and notes, for the first two years of their formal application, are analyzed. According to the findings of the study it is realized that the auditor notes and the equity adjustments they propose are positively related to the notes that accompany financial statements before the application of IFRS, whereas they are negatively related to the explanatory notes imposed by IFRS. The different role of the company’s notes before and after the application of IFRS and the relevant change of the auditor notes are further examined.

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

Apostolos A. Ballas, Despina Skoutela and Christos A. Tzovas (2010) conducted a research on the relevance IFRS to an emerging market by taking evidence from Greece. The paper aims to examine the relevance of International Financial Reporting Standards (IFRS) in emerging markets, with special reference to the case of Greece. The paper also adopts a mixed methodology relying primarily on secondary sources such as the relevant legislation, published annual reports and reports on the effects of the application of IFRS by Greek firms as well as the results of a postal survey addressed to the finance managers of the top 100 Greek firms. For the postal survey, a modified version of the questionnaire used by Tyrall et al. was adopted. Although the Greek environment was not appropriate for IFRS application, participants in the survey believe that their adoption improved the quality of financial reporting. The introduction of IFRS increased the reliability, transparency and comparability of the financial statements. This study provides insights regarding the extent to which the introduction of IFRS influenced the accounting informationsupplied by firms operating within the European Union.

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

Stella Fearnley and Tony Hines (2007) investigated how IFRS has destabilized financial reporting for UK non-listed entities. The paper aims to trace the development of attitudes towards financial reporting solutions for entities not subject to the European Union (EU)

Regulation. This Regulation mandated application of IFRS for the group accounts of listed companies for financial years beginning 1 January 2005. It seeks to evaluate the alternatives in the light of changing attitudes to IFRS, and the accounting model being adopted, particularly focusing on the problems facing smaller companies. The paper employs qualitative analysis of data from two main sources: first, a series of interviews with financially literate individuals before IFRS was implemented in the UK; and second, from responses to ASB's consultations on the future of financial reporting for non-listed entities. According to the findings of the study the increasing perception is that IFRS is overly complex and is complicating the search for appropriate form of financial reporting for entities not covered by the EU Regulation. In particular, there is a difficulty in knowing the correct dividing point between large and small company accounting, and views on this have evolved over time. The needs of small and medium enterprises appear to have been ignored in the debates dominated by the requirements of global players. The research implications are that further, possibly more radical policy options need to be considered for smaller companies to ensure that the costs of financial reporting remain in proportion to the benefits.

Monir Z. Mir and Abu S. Rahaman (2005) conducted a research on the adoption of International Accounting Standards in Bangladesh. The aim of the paper was to evaluate the decision of the Bangladesh Government and accounting profession to adopt international accounting standards (IASs). The paper uses a variety of archival data and interviews with key factors, including preparers and users of annual reports, members of the Securities and Exchange Commission, and members of the professional accounting bodies. Findings of the paper shows that institutional legitimization is a major factor that drives the decision to adopt IASs because of the pressure exerted by key international donor/lending institutions on the Bangladeshi Government and professional accounting bodies.

Such pressure results from not only the need to provide credibility to foreign investors but also the need for strong accountability arrangements with lending/donor agencies. However, the perceived undemocratic nature of the adoption process appears to be creating and enhancing conflict among various constituencies, resulting in very low compliance with these standards.

2.7. Summary and Gap in the Existing Literature

Because of the problems associated with worldwide accounting diversity, attempts to reduce accounting differences across countries have been ongoing for decades (Nobes, 2004).

Because of the advantages it provides for countries and multinational companies, many countries adopt International Financial Reporting Standards. Adoption of IFRS has a number of important benefits for a wide range of stakeholders such as, increased comparability of consolidated accounts, increased levels of transparency, better access to the global capital markets and other stakeholders would benefit from overall better reporting and information (Iyoha and Faboyede, 2011; Apostolos et al., 2010; Jermakowicz et al. 2007; Alicja et al., 2007; Susana et al., 2007; Jermakowicz, 2004).

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

Although various survey studies have been conducted to assess the adoption of IFRS in different countries of the world, most of the studies have been carried out on IFRS analyzing the data from member countries of EU (Apostolos et al., 2010; William et al., 2010; Alessandro et al., 2009; Robyn and Graeme, 2009; Alicja et al., 2007; Jermakowicz et al., 2007; Susana et al., 2007; Jermakowicz, 2004). Comparatively fewer numbers of studies have been carried out on data from other countries (Iyoha and Faboyede, 2011; Ojeka and Mukoro, 2011).

Even though IFRS seems to be equally important for all countries, there is a dearth of empirical study that examines the data from developing countries and in particular Ethiopia. Therefore, this

study makes an attempt to bridge this gap and elaborated the benefits and challenges of implementation of IFRS in Ethiopia.

CHAPTER THREE

3. Methodology

3.1. Research Design

To achieve the aforementioned objectives, the study was presented through descriptive design and the data collected from interview and questionnaires. The data was analyzed through both qualitative and quantitative method. Quantitative research approach focuses primarily on the construction of quantitative data, and quantitative data is a systematic record that consists of numbers constructed by researcher utilizing the process of measurement and imposing structure (Kent, 2007). It was used to achieve the research objectives and to get complete data. The use of qualitative and quantitative data analysis method are better to understand a research problem by combining data from collected through both questioners and interview to neutralize limitations of applying any single information.

Descriptive study is helpful when a researcher wants to look into a phenomenon or a process in its natural contexts in order to get its overall picture instead of taking one or some of its aspects and manipulating it in a simulated or an artificial setting (Kent, 2007). Thus, descriptive study is chosen to investigate the extent of the implementation of IFRS benefit and challenge in its natural settings in Ethiopia. Hence, the descriptive research design considered suitable for this study was presented descriptive case study.

3.2. Selection of Organizations

Survey sampling is the process of choosing, from a much large population, a group about which the researcher wish to make statements so that the selected part will represent the total group (Leedy, 1989). The population considered in this study is the number of companies in Ethiopia which adopt IFRS and randomly draw a sample from the total to get rich evidence. According to the register of National Bank of Ethiopia (NBE) and Ethiopian Commodities Exchange Authority (ECX), as of December, 2011, the total numbers of companies which adopt IFRS in the country are 38, out of which 32 are member companies of ECX. But currently only 24 of those companies are still members of ECX which implement IFRS in last five years. According to Cohen et al., (2005), covering the entire companies in the study makes the study difficult and for a population having this size, more than 30 percent sample size is believed to be representative (See for example Cohen et al., 2005). Therefore, the researcher decided to draw the sample through judgmental sampling, so the researcher took 30 percent of the whole organization for this research. Therefore, out of the total number of companies in Ethiopia which implementation IFRS (8) eight sample companies were selected which implement IFRS before /5/ five years, which helps to the researcher to get the real benefits and challenges of implementing IFRS.

3.3. Population of the study

The population of researcher was used in all the staff of finance department who have knowledge about IFRS and they have good understanding about the benefit and challenge IFRS. The population of the studies used finance department staffs which are CFO, Controllers , finance Directors, auditors and accountants of the companies which implement IFRS. The researcher was used the whole finance staff of the companies which were collected from human resource of each organization and all of them were included in the research.

3.4. Source of Data

This study was used both primary and secondary data to analyse the benefit and challenge of IFRS implementation in Ethiopia. The researcher used primary sources of data included questionnaire and interview in order to get accurate information about the intention of employees and management of the companies regarding with IFRS benefits and challenges, where as secondary sources of data was generated through a review of relevant documents which includes articles, journals, internet sources and books related of the title.

3.5. Data collection instruments and Data Collection Procedures

The data was collected both from the primary data sources (using questionnaires and interviews) and the secondary sources of data was from related literatures. As Creswell (2009) suggested, the use of different instruments for a study provides a powerful research strategy. As part of the primary data, a comprehensive questionnaire was designed and distributed to all finance office of the companies which are CFO, Controllers, Accounting Directors, auditors and accountants of companies which implement IFRS. In addition, interview with the management of the companies without representative method.

The researcher used secondary sources of data was generated through a review of relevant documents which includes articles, journals , books and literatures related to the subject were exploited from the internet.

The researcher was adopted three steps in collection procedure for the study. First, relevant literature was reviewed to get adequate information on the topic. Second, objectives and research questions were formulated to show the direction of the study. Third, data gathering tools were developed and piloted and review of documents organizations. After the questionnaire distributed and collected, interview with the senior manager and the finance manager of those companies.

3.5.1. Questionnaire

Questionnaire is a research instrument consisting of a series of questions and other prompts for the purpose of gathering information from respondents. Questionnaires have advantages over some other types of surveys in that they are cheap, do not require as much effort from the respondent and often have standardized answers that make it simple to compile data (Bryman & Bell, 2007).

Questionnaires were distributed to finance officers and accountants of the selected companies. Finance officers and accountants were selected as respondents because they are deemed to be knowledgeable about IFRS and could provide important perspective on its implementation. The response is expected to help understand the factors that could explain the implementation IFRS by Ethiopian companies, the perceived and actual benefits and challenges of International Financial Reporting Standards both for companies and for the country at large. The research evidence was gathered by using both close-ended and open-ended questionnaires. Mixed questionnaires have many merits; the most important of this advantage is its considerable flexibility (Creswell, 2009).

3.5.1.1. Design of the Questionnaire

Most of the questions in the questionnaire were developed from the review of related literatures. Therefore, the questionnaire was prepared, completed and returned to the researcher. The questionnaire has two parts. The first part deals with the personal information of the respondents. And the second part of the questionnaire was about questions concerning the benefit and opportunity that could explain the implementation of IFRS by Ethiopian companies.

The first part of the questionnaire contained 42 items, which was designed for the purpose of looking in to the extent to which benefit and challenge of IFRS. All of these items were evaluated using a Likert scale. The Likert scales were: 'Strongly disagree', 'Disagree', 'Undecided', 'Agree' and 'Strongly agree'. Accordingly, the respondents were asked to use the scales in order to show their agreement or disagreement with the given statements. The second

part was comprised of 1 item intending to Comments/Suggestions/ recommendation related with IFRS.

3.5.2. Interview

Semi structured interview with the whole eight /8/ managers of the selected companies were conducted. It allowed the investigator some degree of flexibility at the time of interviewing for the pursuit of unexpected line of inquiry which was arising at the study progresses. Questions in the interview checklist were constructed based on the review of literature.

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

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

3.6. Data Analysis

The Data collected through the aforementioned research tools were organized in a way suitable for analysis using computer soft ware. A descriptive method of data analysis was employed using Statistical Package for Social Studies (SPSS). To this end version 16 SPSS software was used to analyze the data collected through different instruments and t-test was also used to test whether the dependent variables have differences on the constraining variable. Besides SPSS the researcher used standard mean distribution for analyses the data collected from questioner .

3.7. Validity of the Study

Validity refers to the degree to which a study accurately reflects the specific concept that the researcher is attempting to measure or describe. In order to keep the validity of the study, researchers should be concerned with both external and internal validity. Internal validity refers

to the extent to which the researcher can demonstrate that he has reliable and adequate evidence for the statement (Grix, 2004). External validity on the other hand stands for the extent to which the conclusion is generalized to the population (Yin, 1994).

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

CHAPTER FOUR

4. Data presentation and analysis

4.1. Introduction

This chapter explains and discusses the results of findings based on the analysis done on the data collected. The results of the study are presented the data collected from different sources results: questionnaire results, interview and document review results. The discussion attempts to accomplish the objectives of the study and answer the research questions and test the hypotheses. A total of 70 questionnaires which dealt with regarding the implementation of International Financial Reporting Standards were distributed to a sample of companies which implement this international standard more than four years. However, only 63 questionnaires were collected out of which 70 questionnaires had usable responses (90 % response rate). Compared to other IFRS adoption studies and considering the difficulty of collecting data in developing countries such as Ethiopia, 90 % response rate was reasonably good.

As indicated in the previous chapter, survey was the main strategy of inquiry adopted to investigate the implementation of IFRS in Ethiopia. To this end, the results obtained from the survey are analyzed through descriptive method.

4.2. General information of the respondents

In this section the researcher tries to analyze age, sex, educational level and work experiences of the respondents in their respective organizations. The following table depicts the age, sex and educational level of the respondents.

Table 4.1. Respondents' Demographic data

Description		No of respondents	Percentage
Age	18-25	23	36.50%
	26-35	27	42.85 %
	36-45	9	14.28%
	Above 45	4	6.32 %
	Total	63	100%
Sex	Male	37	58.73%
	Female	26	41.26%
	Total	63	100%
Educational level	Diploma	11	17.40%
	BA	46	73.21%
	MA	6	9.52%
	Other	0	0%
	Total	63	100%

Source: Survey results of 2016

The above table show that, there are respondent age category between 18-25 years are 23, 36.50 % ,27 or (42.85) are 26-35 years,9 or (14.28%) are 36-45 years, and 4 or 6.32% are above 45 years there no respondent above 45 years.

The gender composition of the respondents 37 or 58.73 % are male and the remaining 26 or 41.26 are female. The other side the educational level of respondents, there are11 or 17.40 respondent have Diploma, 46 or 73.21% have BA degree, 6 or 9.52 % of them are hold MA and their no staff existing above MA.

The four of age groups were constituted different age group of structure that show that the age level of employees didn't make the challenge to involve to this new reporting system and all the age level of employees participated in IFRS implementation.

Table 4.2 Respondents work experience

work experience of employee	No of respondents	percentage
Less than 2 year	11	17.46%
2-5 years	34	53.96%
6-10 years	16	25.39 %
Above 10 years	2	3.17%
Total	63	100%

Source: Survey results of 2016

Regarding their experience, 11 (17.46%) worked in the companies for less than 2 years, 34 or (53.96%) are worked 2-5 years, 16 or 25.39 %, respondents have work experience between 6-10 and the other 2 or 3.17 workers have above 11 years work experience.

From this, the researcher infers that most of the companies' employees are less than six / 6/ years experience in both GAAP and IFRS reporting system so this show that the respondents experience is also the challenge for the companies which implement IFRS.

Table 4.3 Comparison of previous accounting standard to IFRS

	No of respondents	percentage
previous	4	6.34%
IFRS	54	85.71%
Missing	5	8.21%
Total	63	100%

Source: Survey results of 2016

The response of the staff as shown in table 4.3 indicates that out of 63 respondents 54 (85.71%) responded that IFRS is better than GAAP, 4 (6.34%) of them responded that GAAP is better than IFRS the other 5 or 8.21% respondents didn't mark the question.

The above table show that there are many benefits of IFRS to this company to implement the system and also it shows the respondent are free from any bias to this new system. Even if IFRS have so many challenges to implement.

The respondents were also asked to list the reasons for their preferences, and most of them believe that IFRS would enhance the comparability of financial statements and make them more reliable. They believe that the benefits of uniform and complete information provided by IFRS would help different stake holders such as investors, regulators, managers, accounting professionals and others to have confidence on the financial statements and to get the best out of the financial statements. Implementation of IFRS would also provide greater reporting transparency for the financial statements, improves management information for decision making, and provides better information for investors so that they can make informed decisions.

4.3 Benefits of IFRS implementation to companies, investors and management

Table 4.4. Benefits of IFRS implementation to companies

	N	Mean	Std Dev
Implementation of IFRS improves the efficiency and effectiveness greater financial reporting system of the companies	64	4.7321	.44331
IFRS provides transparency, reliable and comparable of financial	64	4.4658	.56154

reporting			
Implementation of IFRS is reduced cost of capital for the companies	64	4.3254	.570124
IFRS is easy to consolidate financial report	64	4.3984	.54876
IFRS is easier to get external financing sources	64	4.6512	.53321
IFRS enhanced competitiveness of the companies	64	4.3874	.57814
Greater effectiveness of the internal audit and Reduce fraud /error	64	3.7598	.74529
IFRS provides improved economic prospects to the company performance	64	4.9854	.56894
IFRS is easy to regulate and consistency of finance health	64	4.1419	.74152

Source: Survey results of 2016

From nine questions were distributed to the respondent about the benefit of IFRS to the companies. The mean response of the nine questions under benefits of implementation of IFRS to companies was more than 3.00 and the standard deviation were also less than 1.00, which indicates that the respondent's attitude of IFRS is similar to each other. The findings of this survey is similar to the results of the survey carried out by Aljifri K., and Kahsharmeh H. (2006), Baker, R.C. and Barbu, E.M. (2007) which revealed that on most of the respondents agreed with the benefit that the adoption of IFRS has many benefits to companies.

The respondent responded of IFRS result in improved efficiency and effectiveness of financial reporting, many respondents (with mean response of 4.73) believe that implementation of IFRS improves the efficiency and effectiveness of financial reporting and the standard deviation of the respondents 0.4 to the question related to efficiency and effectiveness of financial reporting under IFRS indicates that implementation of IFRS improves the efficiency and effectiveness of the companies highly.

The survey respondents agreed with the proposition that financial statements that were prepared based on IFRS are more transparent, reliable and comparable. Almost all of the respondents believe that the financial statements would become more transparent, reliable and comparable because of the implementation of IFRS . The survey result of the respondents about benefits of

implementation IFRS for companies was about cost of capital of a firm, i.e. whether implementation of IFRS brings about a reduction in cost of capital for the companies which implement IFRS. As it is shown in the table above the mean response 4.3 and standard deviation 0.57 indicates that implementation of IFRS would significantly reduce cost of capital of firms and which are the benefit of the companies by implement this new financial reporting system. The respondent responded that the implementation of IFRS would also enable greater effectiveness to consolidation process of financial report of subsidiary companies financial report during preparing seasonal and annual report of financial statement.

Many of the respondents believe that IFRS provide positive effect on external financing sources because of accurate financial information which increase the company's credit position to make negotiations with credit institutions and also time and cost of borrowings process reduced. IFRS can also result in more accurate risk evaluations by lenders and to a lower risk premium. It also helps companies to take advantage of alternative forms of finance. The survey show of the respondents about benefits of implementation IFRS for companies was about IFRS enhances the competitiveness. The respondents believe that the implementation of IFRS enhances the competitiveness of the companies which implement IFRS in Ethiopia and also foreign country because they use similar accounting methods so that help to make competitiveness between them.

The final questions under benefits of implementation IFRS of the companies was about would also the financial healthy and economic prospect of the company performance. Most of the respondent believe IFRS help to make easily regulate and consistency of finance health of the companies almost all respondents agreed that the implementation of IFRS would provide to maximize the economic prospect of the company performance. And also the respondent believe the implementation of IFRS would also enable greater effectiveness of the internal audit and reduce error.

According to the interview response of managers of this companies explain the implementation IFRS to companies give so many benefit which are provide effective, efficient and transparent financial information and also the result of financial report could give reliable and comparable

information of financial statement . the other benefit of IFRS to this companies provided increase internal audit of operation effectiveness by reduces error and fraud and helps to regulate the financial performances of the companies , and make it easy to the consolidation process of subsidiaries companies financial statement . the other point the managers notice IFRS increase the companies comparability with other similar organizations and give to maximize the high economy and financial health of the companies.

Table 4.5. Benefits of IFRS implementation to investors

	N	Mean	Std Devi
IFRS reduced information cost to investors	64	4.6412	.53512
IFRS reduced asymmetric between investors and managers	64	4.6278	.54757
IFRS provides better information for investor which increases confidence decision making capabilities.	64	4.7874	.53441
IFRS provide better understanding of risk and return to investors	64	4.2311	.55734
Implementation of IFRS increase investment opportunity	64	3.7512	.57564
Implementation of IFRS increase share price of investor	64	3.6224	.5887

Source: Survey results of 2016

As shown in table 4.5 above three questions were distributed to assess the benefits of implementation IFRS to investors. The mean response was above 3.00 and the standard deviation was less than 1.00. It indicates that the respondents' perceptions were close to one another. This shows that in the view of respondents the implementation of IFRS make it easier for investors to decision making, better understanding of risk and return to investors, capabilities evaluate the financial performances of organizations with which they might do business or invest, increase share price of investor, and they will have more confidence in the information presented. The finding of the study is correspondent with Owolabi, A. (2012),Nnadi, M. (2012), William Judge,

Shaomin Li, and Robert Pinsker (2010) which revealed that on most of the respondents agreed with the benefit that the adoption of IFRS has many benefits to companies.

The employee's responded that IFRS reduced information cost to investors which payment to translate the financial information of seasonal and annual report of financial statement which is presented. Because IFRS provides transparent information to investors so the investors could understand the report easily for that reason investors reduce the cost of information. The result of transparent information to investors IFRS reduced asymmetric between investors and managers they will have more detail in the information presented by manager and also the investors could understand all information that result solve the dispute between them and the report information clearly stated all the information with understandable type .

The survey result of the respondent indicates that IFRS helps investors by providing better information for investor which increases confidence on decision making capabilities on the meetings and didn't make confusion on the information so that that the investor decide easily. At same time IFRS provides transparent information to investor which helps to investors by providing better understanding of risk and return of the company's financial and operational situation by having this clearly stated information the investors will also have better knowledge of the coming business situation result.

The view of respondents on the implementation of IFRS shows that IFRS make it easier for investors to evaluate the financial performances of organizations with which they might do business or investment if the opportunity is more profitable and also IFRS helps the investors to analyses the new business situation before investing by showing the other similar companies financial report. The benefit implementation of IFRS as the respondent result of survey IFRS increase share price of investor because of the investors could invest by aiming at IFRS and will also help to increase the share price of investors and it will help them to fulfill the disclosure requirement for stock exchanges around the world

The interview result show that the implementation of IFRS give benefit to investors by highly eliminates the translation cost of financial report and also reduces the conflict between managers

and investors because of the previous reporting are too much complicated. On this transparent information of financial report develop the confidences of investor on the financial report which result also investors could easily to understand the company financial reports futurity that means understand the risk and return of the future result. Because of his reason investors easily participate in the new business opportunity and increase market share of the company which result also increase share prices of the investors.

Table 4.6. Benefits of implementation of IFRS to management

	N	Mean	Std
IFRS Easy to manage all operation system	64	4.5467	.40117
IFRS promotes cross border investment	64	4.3785	.44241
IFRS improves management information and timely decision making	64	4.2648	.45154
IFRS enables better risk management	64	4.6874	.53265
IFRS is more realistic planning experiences	64	4.5698	.54375
IFRS is easy to forecast capability about future	64	4.1235	.56712

Source: Survey results of 2016

As shown in table 4.6 above three questions were distributed to assess the benefits of implementation IFRS to managers. The mean response was above 3.00 and the standard deviation was less than 1.00. This indicate that the management could gets better, with increases in information quality and easier information on how to direct the business. The finding of the study is similar to Aljifri K., and Kahsharmeh H. (2006), Baker, R.C. and Barbu, E.M. (2007

The view of respondents on the implementation of IFRS shows that, it promotes better management control systems because of providing the quality information. IFRS statements are

easier to comply with the financial requirements of overseas stock. It also facilitates ease of cross border transactions and trading within the region through common accounting practice. It will help to facilitate compilation of meaningful data on the performance of enterprises within the country and other regions of the world or promotes cross border investment. It will attracting international investors as the implementation of IFRS financials promotes easy monitoring of overseas investments

The other view of respondents on the implementation of IFRS shows that, IFRS, improve the quality and consistency of information that management needs in order to make effective, efficient and timely decisions for the business, as a chance to make some strategic improvements to the finance systems and processes as well as to reduce costs in the longer term., universally understood and comparable can -both improve and help to make managers to enables better risk management by the system of controlling all operation. So IFRS improves management information and timely decision making for the managers to reduce risk and to invest cross boarder investment decisions and also easy to planning according to the data provided from IFRS.

The view of respondents on the implementation of IFRS shows that, IFRS increases high forecasting capability of managers about firm's future earnings that give quality accounting report improved when alternative accounting methods used by managers to manage earnings are eliminated. They compare earnings management for firms that voluntarily switch to IFRS with firms that use domestic accounting standards. In the other word investors easily to forecast the future capability from the providing information of IFRS.

The interview result reveals that management will benefit of implementation IFRS in their companies could make easily to manage all operation because of transparent and increase management information which result helps managers to understand the subsidies company economy situations. So these reasons managers could get easily for planning and forecasting the future economic situation of the companies and decisions making of cross boarder investment purpose

Table 4.7 Benefit of IFRS implementation to other stakeholders

	N	Mean	Std Dev
IFRS provides higher standard of financial disclosure information	64	4.5245	.62452
IFRS provides accurate and transparent information to customers, creditors, suppliers and other stakeholder	64	4.6215	.52687
Implementation of IFRS improves regulation oversight and enforcement to regulatory body	64	4.3654	.63654
IFRS provides transparent information to global market	64	4.1156	.68721

Source: Survey results of 2016

From the above table 4.7 the four questions were distributed and the mean response of greater than 4.00 and standard deviation of less than 1.00. This indicates that in view of the respondents, implementation of IFRS is highly beneficial to other stakeholders.

The finding of this study is supported by the conclusions forwarded by Michas(2010),Ustuntage (2009) and ., Barth et.al 2008; Gassen & Sellhorn, 2006., Hung &Subramanyam,2007 Irvine and Lucas (2006) state in the benefits have been proposed by the adoption.

The survey view of respondents, implementation of IFRS provide higher standard of financial disclosure information improves regulation oversight and enforcement to regulatory body, better reporting and information on new and different aspects of the business by providing accurate information to creditors, suppliers and other stake holders. On this providing transparent and understandable information improve the Investing on collaboration/sharing/ with similar or different organizations.

The survey result show that IFRS provide so many benefits to other stakeholders because of its high standard of financial disclosure, which is helps to government by improving the way it regulate the company from committing report fraud and to make enforcement. This high standard of financial disclosure provides accurate information to creditors and suppliers to give loan to the companies by both financial and material asset. IFRS also helps the organization by providing transparent information to Investing in collaboration.

The respondent view of implementation IFRS will ensure transparency, accountability and integrity in financial reporting necessary for addressing the crisis in the financial sector. IFRS will position the global market place as well as ensure transparency, accountability and integrity in financial reporting which is a prerequisite for the attraction of investment that will promote economic development.

The interview result show that implementation of IFRS helps by increase the ability to make well-informed, useful and meaningful comparison of investment portfolio in local and other countries to other stake holders who have interested to work with this companies like customers, suppliers and creditors because of the financial report transparent and reliable information the other stake holders who have need accurate information about the performance of the companies. On the other side IFRS helps the regulatory and enforcement body because of the provide reliable and transparent information so that reduces the conflict of financial report and audit process.

4.4. Challenge of IFRS implementation

Table 4.8 Challenge of IFRS implementation

	N	Mean	Std Dev
IFRS increases the complexity of financial reporting	64	4.1254	.4634
IFRS brings about increased volatility of earnings	64	4.6952	.4211
IFRS has negative balance of retained earnings	64	4.3564	.4452
lack of comprehensive of training periodically	64	4.6541	.4124
Lack of availability of competent specialists	64	4.8475	.4217
There is a Problem with the IT system in handling the transition to IFRS	64	3.7315	.4852
The previous institutional structure has influence on IFRS	64	4.6514	.4233
Implementation of IFRS is costly	64	4.3845	.45214
complex nature of implement guidelines	64	4.3564	.4452
Problem with IFRS's use of fair value accounting	64	4.5514	.4365
Lacks of an independent oversight body to monitor and enforce accounting and auditing standards and codes.	64	4.3971	.4561

Tax driven nature of previous standards is a challenge for IFRS implementation	64	4.1368	.46541
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Source: Survey results of 2016

From the total twelve questions were distributions under challenges of IFRS implementation. All questions had a mean response of more than 3.00. Standard deviations and the standard deviation of less than 1.00 on the other hand shows that respondents' perceptions were close to each other. The result of the above table revealed that on average the respondents agreed up on the challenges of IFRS implementation. The finding is consistent with the findings of this study, William Judge, Shaomin Li, and Robert Pinsker (2010) Gyasi, A. (2010), Lewis, K. (2001) examined the challenges of the adoption of IFRS in different countries of the world.

which indicate that the implementation of IFRS high challenges which have high cost of Adoption to the companies ,complexity of financial report, the respondents also believe that lack of availability of comprehensive training ,problem with the IT system in handling the transition to IFRS and problem of pervious institutional structure, fair-value financial reporting approach introduce significant volatility in the balance sheet and lack of adequate IFRS implementation guidance, Lack of competent specialist employees and consultant firms, lacks of an independent oversight body to monitor , Tax driven nature of previous standards as challenges of implementation IFRS and lack of proper instructions from regulatory bodies.

The survey result show that the most of the respondent believe the challenge they face in the implementation of IFRS in process of implementation according to respondents it increases the complexity of financial reporting. In particular, IFRS create volatility of earring and show negative balance of retaining earning of the companies because of the accountant didn't understand the IFRS principles and complexity of guidelines to IFRS difficult to understand.

The survey result shows that the most of the respondent believe the challenge they face in the implementation of IFRS is difficulties with regards to lack of the technical aspects of the application of IFRS and is the lack of comprehensive training about implementation of IFRS.

IFRS when preparing listed companies' financial statements, they all confirmed that the companies concerned did not actually apply the IASs/IFRS because of the problems they faced in trying to do that. Essentially, the problems refer to the fact that accountants are unaware of IASs/IFRS applications and incapable of compliance as there are no relevant training programs to educate them regarding this matter. There are lack of training and education for investors, accountants, auditors, preparers and users of financial reports are great impact on implementation of IFRS.

The other challenges of effectively apply IFRSs in this companies are lack of specialist. This new accounting reporting standard requires qualified human resources to be properly trained in order that the standards can be understood and applied. Currently, the absence of qualified personnel in this respect is a big challenge facing the process of transition to IFRS In this context, the lack of executive capacity, shortage of accounting personnel, and absence of suitable accounting infrastructure, can be attributed to accounting education shortcomings, all of which consequently obstruct companies in emerging economies in their efforts to make the transition to the IFRS.

The respondents result also shows that institutional structure has influence on implementation of IFRS. Which implies that the company's previous structure of IT didn't match with IFRS requirements, availability and cost of IT material has great influence on the implementation process and also it make influences on implementation of IFRS. the challenge faces the implementation of IFRS according to respondents result also shows that the previous company structural size influences the implementation of IFRS this are interims human resources of finance staff and availability of infrastructure which need to implement IFRS .The other point of survey result show that the all most all of the respondent believe IFRS is too costly to implementation of IFRS in other words the benefits of IFRS are longer lasting than the costs that occur during the initial phase of its implementation. This indicates that the company has so many cost charge to implement IFRS because of the above reason which describe the above discussions.

The respondents result show those fair value accountings make challenge on the implementation of IFRS process. Most of the survey respondents believe that the use of fair value accounting has great impact on the effective implementation IFRS but the companies still uses historical cost is because of the government body didn't make the market value of asset because of this reason the companies make big challenges in implementation the international standard fully.

The survey result show that the respondents also believe that tax system of Ethiopia are the other challenges faces by of this companies to implement IFRS. The implementation of IFRS creates the need to modify the previous standards and to progressively converge towards IFRS. The financial statements are strongly influenced by the laws and financial regulations of the country, which are adhered to prior to the GAAP. Moreover, the tax-driven nature of Ethiopia which revealed that the existing laws are not in line with the IFRS, and that IFRS implementation requires amendments to these tax system.

The other challenges faces by of this companies to implement IFRS lacks of an independent oversight body to monitor and enforce accounting and auditing standard and codes. It has challenges as it makes necessary reforms to a country's regulatory, legal and economic structures and adaption of its culture to the West. This indicate that independent oversight body didn't monitor and set auditing standard to follow so that this make the companies didn't follow properly apply IFRS.

Similarly, the interview result shows that there is no fair value accounting in Ethiopia that pushes the companies to uses the historical costs in the financial statement. So the fair value accounting is major challenge for developing countries particularly Ethiopia. Since some conditions in developing countries this new reporting system are not favorable for implementing fair value accounting such as achieving observable market prices and accurate estimates of liquid market prices that cannot be materially influenced by managers due to less perfect market liquidity, IFRS's use of this accounting method can be considered .

CHAPTER FIVE

5. Conclusions and Recommendation

5.1. Introduction

This chapter presents conclusions and recommendation to the results. It has three parts; the first part presents conclusions of the study, the second part presents recommendation and the last part of this chapter is further research area.

5.2. Conclusion

Based on the analysis result the researcher concludes the following points:

IFRS provides the efficiency, effectiveness, reliable and comparable of financial reporting, greater reporting transparency and enhanced competitiveness of the companies which apply IFRS in Ethiopia. IFRS improved economic prospects for the companies, effectiveness of the internal audit and reduce fraud on audit reduce the load of consolidate financial report, get external financing sources and consistency of finance health to Ethiopian companies.

The benefit of IFRS provide to investors by Reduced information cost to investors, reduced asymmetric between investors and managers, better understanding of risk and return to investors and provides better information for investors and increases confidence of investors to making decision capabilities and also lead enhance investment opportunity and increase share price of investor.

The benefit of IFRS provide to mangers to easily manage all operation system, improves management information and timely decision making, better to risk management , help to make realistic planning experiences, easy to forecast capability about future and promotes cross border investment.

The benefit of IFRS provide to other stake holders a higher standard of financial disclosure information, provides accurate and transparent information to customers, creditors, suppliers and other stakeholder and also the implementation of IFRS improves regulation oversight and enforcement to regulatory body and transparent information to global market.

The main challenges in the process of implementation IFRS are costly to implement , lack of availability of competent specialists, lack of comprehensive of training periodically, complex nature of implement guidelines, increases the complexity of financial reporting and lacks of an independent oversight body to monitor and enforce accounting and auditing standards and codes.

The other challenges faces this companies are lack of fair value accounting in Ethiopia market , tax driven nature of the country, increasing of volatility of earnings and negative balance of retained earnings on financial report. And also institutional structure, problem with the IT system in handling the transition to IFRS.

5.3. Recommendation

As the conclusions reveal since the benefits of implementing IFRS have so many benefit to the companies, managers and other stake holders. This implies that the government of Ethiopia should appreciate the companies which implement the IFRS by preparing prize like some percent of deduction from annual tax payment, giving priority on bid and make like a criteria or qualification to credit process for bank to encourage adoption of IFRS. This result attract the other companies which dint implement IFRS.

The conclusions also reveal that there are so many challenges faced in the implementation of IFRS in Ethiopia. So the concerned party should solve the problems by preparing implement guidelines according understandable way of the companies because one of the critical elements in the implementation of IFRS is the rigorous enforcement of standards. And also this body should focus on technically qualified personnel, practical training of inspectors/reviewers and administrative support to reduce the high cost of implementation, complexity of preparing financial report and to solve the volatility of earning and negative balance sheet to solve the challenges faced of the companies on financial report in the implementation of IFRS.

In the other point of the challenges of implement IFRS are fare value and tax natures of the country are the serious challenge. This implies that concerned body should amend the tax nature of the country and other application law according to IFRS principles and procedures. This body also should make appropriate fare value accounting by assessing Ethiopian market and by analyze the market environment to apply IFRS fully in Ethiopia. On the other side this body should advise and consult the companies using follow the step of IFRS through preparing annual financial report.

On the other hand to fine tune with the main problems of IFRS implementation, the companies should strength their office structure before implement IFRS by hiring professional on the area,

giving training to their staff by making linking with the training center, and strength the soft ware and IT system of the companies which can handle the transaction of IFRS.

5.4. Future Research Areas

The International Financial Reporting Standards (IFRS) is a broader scope of accounting which cannot be dealt with in its entirety in one study alone. This study focused on the benefits, challenges and Factors that could explain the adoption of these standards in Ethiopia. However, it would be highly appropriate for future research to be conducted on the issue of disclosure and compliance with IFRS in Ethiopia. This would comprise the detailed application of the adopted standards and how well companies in Ethiopia apply these standards. Furthermore little is known about how mandatory IFRS adoption affects financial statements and it is therefore still an open question whether financial statements are more informative following mandatory IFRS adoption. How small and medium scale enterprises adopt and comply with IFRS tailored for them could also be considered as another area for future research. Finally, this study attempted to focus on the factors affecting the adoption of IFRS by Ethiopia. Even though the research found some important factors affecting the adoption of IFRS, the researcher advocates more studies to be conducted in the financial reporting domain.

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Appendices

Appendix (A)

Questionnaire

Eyoatam Berhanu Belay

St Marry University

School of Business and Economics

Department of Accounting and Finance

Dear sir/madam

The aim of this questionnaire is to seek information regarding the implementation of International Financial Reporting Standards (IFRS) in Ethiopia. The questionnaire will be distributed to all Accountants and finance officers of randomly selected companies. 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 Adoption of International Financial Reporting Standards in Ethiopia: Benefits and key Challenges.

I would like to assure 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

Eyoatam Berhanu

Section 1: Demographic Background

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

1. Gender: Female Male

2. Academic level:

Diploma

Bachelor's degree

Master's degree

Other (specify) _____

3. How many years of experience in finance department:

Less than 5 years

6 to 10 years

11 to 15 years

16 to 20 years

Over 20 years

Section 2: Company profile

4. If you compare the previous standard to the IFRS, which one is more preferable?

Please underline your answer (A) previous reporting standard

(B) IFRS

Section 3

In this section the researcher is seeking your specific perceptions toward the adoption of IFRS by Ethiopian companies. Please kindly indicate the appropriate scale for your opinion by ticking (√) on the spaces that indicate your choice from the options that range from ‘**Strongly Disagree (SD), Disagree (D), Neutral (N), Agree (A) to Strongly Agree (SA)**’.

Benefit of IFRS companies

Benefit to companies	SD	D	N	A	SA
5. Implementation of IFRS improves the efficiency and effectiveness greater financial reporting system of the companies					
6. IFRS provides transparency, reliable and comparable of financial reporting					
7. Implementation of IFRS is reduced cost of capital for the companies					
8. IFRS is Easy to consolidate financial report					
9. IFRS is easier to get external financing sources					
10. IFRS enhanced competitiveness of the companies					
11. Greater effectiveness of the internal audit and reduce fraud /error					
12. IFRS provides improved economic prospects to the company performance					
13. IFRS is easy to regulate and consistency of finance health					

Benefit to management

Benefit to management	SD	D	N	A	SA
14. IFRS Easy to manage all operation system					
15. IFRS promotes cross border investment					
16. IFRS improves management information and timely decision making					

17. IFRS enables better risk management					
18. IFRS is more realistic planning experiences					
19. IFRS is easy to forecast capability about future					

Benefit to investors

Benefit to investors	SD	D	N	A	SA
20. IFRS reduced information cost to investors					
21. IFRS reduced asymmetric between investors and managers					
22. IFRS provides better information for investors which increases confidence decision making capabilities					
23. IFRS provide better understanding of risk and return to investors					
24. Implementation of IFRS increase investment opportunity					
25. Implementation of IFRS increase share price of investor					

Benefit to other stakeholders

Benefit to other stakeholders	SD	D	N	A	SA
26. IFRS provides higher standard of financial disclosure information					
27. IFRS provides accurate and transparent information to customers, creditors , suppliers and other stakeholder					
28. IFRS implementation improves regulation oversight and enforcement to regulatory body					
29. IFRS provides transparent information to global market					

Challenges of IFRS Implementation

	SD	D	N	A	SA

30. IFRS increases the complexity of financial reporting					
31. IFRS brings about increased volatility of earnings					
32. IFRS has negative balance of retained earnings					
33. lack of comprehensive of training periodically					
34. Lack of availability of competent specialists					
35. There is a Problem with the IT system in handling the transition to IFRS					
36. The previous institutional structure has influence on IFRS					
37. Implementation of IFRS is costly					
38. complex nature of implement guidelines					
39. Problem with IFRS's use of fair value accounting					
40. Lacks of an independent oversight body to monitor and enforce accounting and auditing standards and codes.					
41. Tax driven nature of previous standards is a challenge for IFRS adoption					

Section: 4

42. Additional Comments/Suggestions/recommendation related with IFRS implementation

Appendix (B)

Interview to companies' manager

1. During the adoption of IFRS1st experience, what was the guideline/model you use?
2. What kind of steps of procedures, accounting systems and transaction recording process of IFRS your company follow?
3. What is the benefit the companies by implement IFRS?
4. What are the main problems /challenges faced in your companies in the process of implementation of IFRS for the first time?
5. What are the ways through which these problems/challenges can be addressed? Please recommend some solutions to overcome the problems.

