ST. MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES

COMPARATIVE ASSESSMENT OF IFRS AND GAAP AS BASE OF ACCOUNTING IN SELECTED PRIVATE COMMERCIAL BANKS IN ETHIOPIA

BY
FIKIRTE DEJENE GEREMEW
JUNE, 2020
ADDIS ABABA, ETHIOPIA

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A THESIS SUBMITTED TO ST. MARRY UNIVERSITY SCHOOL OF GRADUATE STUDIES IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION IN ACCOUNTING AND FINANCE

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APPROVED BY BOARD OF EXAMINERS

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DECLARATION

I, Fikirte Dejene declare that this thesis "Comparative Assessment of IFRS and GAAP as Base of Accounting in Selected Private Commercial Banks in Ethiopia" is my own work and prepared under the guidance of Mohammed Seid (Ass. Professor) and all sourced materials used for accomplishment of this thesis have been acknowledged. This thesis work has not been submitted in part or in full for any degree or examination at any other institution.

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Date_____________________

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ACRONYMS & ABBREVIATIONS

AABE- Accounting and Auditing Board of Ethiopia

AACCSA- Addis Ababa Chamber of Commerce and Sectorial Association

AECT- Association for Educational Communications and Technology

AICPA- American Institute of Certified Public Accountants

CBE- Commercial Bank of Ethiopia

DBE- Development Bank of Ethiopia

ECSC- Ethiopian Civil Service College

EU- European Union

FASB - Financial Accounting Standards Board

FDRE- Federal Democratic Republic of Ethiopia

FSB- Financial Stability Board

GAAP- Generally Accepted Accounting Standard

IAS- International Accounting Standards

IASB- International Accounting Standards Board

IASC- International Accounting Standards Committee

ICA- International Congress of Accountants

ICAA- Institute for Certifying Accountants and Auditors

IFRS –International Financial Reporting Standard

INTOSAI- International Organization of Supreme Audit Institutions

NAAB- National Accountants and Auditors Board IFAC-

NBE- National Bank of Ethiopia

OFAG- Office of the Federal Auditor General

ROSC- Report on the Observance of Standards and Codes

SPSS- Statistical Package for Social Sciences

UN- United Nations

ABSTRACT

The study aim to examine the existing deference between IFRS and GAAP based financial statements of selected private commercial banks in Ethiopia. In order to accomplish the research purpose the study used mixed research approach. Secondary data were collected from selected banks financial statements and interview also conducted with selected banks finance managers and IFRS team members. The secondary data found in numeric form were analyzed using descriptive statistics analysis and data found from interview and financial statements in the form of notes were analyzed and interpreted qualitatively. The result shows that total assets, total expenses and shareholder's equity figures increase under IFRS based financial statement, whereas total revenue, total liability and profitability figures decrease under IFRS based financial statement. Regarding applicable standards the study find that majority change occurred in the selected banks financial statement are because of applying three standards that are IAS 39, IAS 16 and IAS 19.The study also finds that IFRS has number of benefits and some challenges. Based on such findings the researcher conclude that value variation in IFRS based financial statement variables were result of remeasurement, reclassifications and recording of financial statement variables as per the IFRS requirements, IFRS increase comparability, transparency and accountability and can appreciate investments and create source of finance than the previous GAAP.IFRS has challenges concerning its contradiction from NBE & ERCA rule and intellectuality and active market problems exists in the country and system compatibility problem within the selected companies. Finally the researcher gives recommendation for the selected banks under study, central bank, tax authority and learning authority in order to make the appropriate amendment and inclusion.

Keywords- Financial Statements, IFRS, GAAP, Deference

CHAPTER ONE

INTRODUCTION

1.1. Background of the Study

Accounting standards can have a significant impact on the financial system, in particular via their potential influence on the behavior of economic agents. First, published financial statements provide signals on which financial and economic decisions are based. Second, financial analysts and shareholders assess the quality of management largely on the basis of accounting figures; management decisions, in turn, are influenced by accounting. Hence, accounting standards can cause financial institutions to behave in a certain way that may, in turn, have an impact on financial stability (European Central Bank, 2006).

In connection with the development of transforming the economy, the need for forecasting and analyzing the consequences of managerial decisions becomes more pressing. To substantiate and evaluate such decisions, a tool for prospective analysis of financial statements of companies is used. In recent years, the content and structure of a company's financial statements have undergone significant changes. With the development of economic relations, the principles of organization and methodology of accounting and reporting are also dynamically changing. The issues of reforming financial statements of a company are constantly discussed at international congresses of accountants and other professional forums (Osadchy et.al, 2018).

The existence of a global benchmark enables direct comparison of corporate financial reports between jurisdictions. Such high-quality standards enhance investor’s confidence by allowing economic transactions of a similar nature to be treated and reflected in the same manner around the globe (UN, 2008)

According to FASB (n.d) International convergence of accounting standards is not a new idea. The concept of convergence first arose in the late 1950s in response to post World War II economic integration and related increases in cross-border capital flows. After different movements, process and institutional changes IASB established in 2001 which independent standard setting body of IFRS foundation. The objective of IASB is to develop a single set of high quality, understandable, enforceable and globally accepted financial reporting standards based upon clearly articulated principles. As per the same report, IFRS adoption act began when the European Union (EU) adopted legislation requiring all listed companies to prepare their consolidated financial statements using IFRS starting in 2005, becoming the first major capital market to require IFRS. According to IFRS foundation (2018) currently about 166 countries are adopt IFRS standards.

The FDRE Peoples House of Representative under proclamation No. 847/2014 declare to change the existing financial reporting standards to IFRS and establish regulatory body responsible to undertake regulatory responsibilities of financial reporting named Accounting and Auditing Board of Ethiopia. Even if the FDRE Peoples House of Representative declare IFRS as one of eligible criteria for engagement in Banking business under proclamation No. 592/2008 eight years back, the exertion of enforcement to adopt IFRS as financial reporting standard takes time. AABE had prepared a five years road map for implementing IFRS in Ethiopia. As per the road map high public interest entities such as banks shall produce IFRS based report and the opening balance as of July 01, 2016 shall be according to IFRS and they shall prepare their financial reports as per IFRS requirements by taking July 01, 2016 as the transition date. Accordingly, all private commercial banks in Ethiopia adopt IFRS as account reporting base and have prepare their financial statements based on IFRS as of June 2018 which was comparative financial statement prepared together with year ended 2017 performance, that is 2017 was the transition year.

IFRS adoption in private commercial banks of Ethiopia was a complex process and had many challenges. The study conducted by Aytenew, (2018) shows that weak corporate governance, poor quality of education and training, lack of supports from accountancy professional bodies, weak enforcements of regulatory body, inadequacy of transition period, improper planning, non-availability of transparent market information, high cost of implementation and weak management support are the major challenges of private banks to implement IFRS successfully. Yetneberk (2018) added that the main challenges in the process of adopting IFRS on the quality of financial reporting include significant gap in minimum reporting requirements between NBEs and IFRS standards, lack of readiness to implement within the time frame set by the board, lack of adequate guidance from concerning bodies, lack of active market and independent valuators to know fair value of the asset, and lack of skillful IFRS professionals

Even if, adoption of IFRS had many challenges and still it may not be implemented effectively, all commercial banks in Ethiopia except DBE already adopts the standard and began reporting their yearend financial statements on the bases of IFRS since June 2018. Since it was convincing advantage of IFRS than GAAP and makes a change with significant scarification needs to know the practical difference, importance and drawbacks of the existing IFRS against the previous GAAP. Based on that, the researcher tries to assess the practical difference of GAAP and IFRS on financial results.

Regardless of changing financial reporting standards different changes happen on measurement variables within different performance period, trying to measure the effects of IFRS through data from different financial year may not give a clear picture of IFRS. So, the researcher believes that it is better to measure the difference between the two standards based on transition year financial statements which are prepared by GAAP and IFRS for the same period.

1.2. Statement of the Problem

Although there are many people agreed with benefits of IFRS, enormous people initiate question about its advantage. They argue that IFRS may has disadvantages and claim that for the sake of keeping their economic as well as political position and advantage developed countries may set IFRS as a tool to intervene in developing countries economy and control them indirectly. On the other side, people argue that there are entities they do not want change as they are beneficial with the existing system gap which created by using different reporting standards and wants to escape from accountability initiated through using similar standards.

Even if most public interested companies already adopt IFRS, there are many reporting entities and professional accountants they do not implement IFRS yet. As implementing IFRS is costly, time taking, requires skillful manpower, active market and well developed system, peoples mined about the proposed change also has great impact on the implementation. Therefore, assessing the practical difference through taking companies those already adopts IFRS as example makes such arguments clear.

As reviewed by the researcher fewer related empirical researches are available. As a first initiator and adopter of IFRS European countries take first place in conducting IFRS related researches. For example From Romania research conducted on Implementation of IFRS as Base of Accounting by Anamaria and Buculescu (2016) and found that IFRS has a relative small difference for total assets, total liabilities shareholder’s equity and net operating cash flows, significantly higher results under national system for revenues and expenses and an inconsistent behavior for net profit or loss. Other research conducted by Michela (2014) on transition to IFRS in Germany and Italy and results show that IFRS adoption has changed the magnitude of the key financial ratios. According to Michela these changes are the result of different accounting treatments under local GAAP and IFRS.

In Africa most of IFRS related researches including related researches with this researcher topic found in Nigeria one of the first IFRS adopter in Africa. According to Yahaya, et.al, (2015) there is a significant effect of the adoption of IFRS on the financial statement of banks in Nigeria. Other study made in same country by Onipe, et.al, (2015) state that IFRS adoption has positively impacted some variables in the financial statement of banks, for example, profitability and growth potential. The paper also reveals that given the fair value perspective of IFRS, the transition to IFRS brings instability in income statement figures.

IFRS has changed financial figures in different way of the previous GAAP does. IFRS and GAAP have different accounting treatments and each treatment has different implication it may good or not, which needs study. However, as to the knowledge of the researcher there is no related empirical research in Ethiopia, to fill this literature gap the researcher has been conduct the study.

1.3. Objective of the Study

1.3.1. The General Objective

The main objective of the research is to compare International Financial Reporting Standard with Generally Accepted Accounting Standard as base of accounting in selected private commercial banks.

1.3.2. The Specific Objectives

Specific objectives of the study are:

- ✓ To examine the practical difference between GAAP and IFRS on the selected commercial banks
- ✓ To assess the benefit of implementing IFRS instead of GAAP within the selected commercial Banks
- ✓ To assess the weakness of implementing IFRS instead of GAAP within the selected commercial Banks

1.4. Significance of the Study

IFRS is more principle based and has work in progress application guidance, so it requires professional judgments and continuous assessment due to this preparers and users of financial reports on the base of IFRS needs to be capable and understand the standards conceptually and rationally. Therefore, this research may help the preparer and users of financial reports to understand the differences between GAAP and IFRS and implication of those differences,

From the official site of ABBE the researcher understand that, there are reporting entities and professional accountants who do not implement IFRS until now, so the research may help them to look the worth and failing of implementing IFRS, The research may help investors and or any other interested organ who made trend analysis for the years including the transition one through giving explanation about cause and implication of the changes in financial results.

Finally, as to the knowledge of the researcher there is no related empirical literature in Ethiopia, thus the study may help interested researchers for further research.

1.5. Scope/Delimitation of the Study

The research conducted within eleven selected private commercial banks in Ethiopia. Abay Bank, Addis International Bank, Awash Bank, Bank of Abyssinia, Berhan International Bank, Buna International Bank, Cooperative Bank of Oromiya, Dashen Bank, Debub Global Bank, Nib International Bank and Oromiya International Bank were selected for the study. Regarding timeframe the research delimited in 2017 financial year.

1.6. Limitation of the Study

Lack of enough time to conduct the research work was one of the limitations faced by the researcher. In addition, due to the outbreak of COVID-19 and employee turnover the researcher unable to get the concerned interview respondents at three banks. Therefore, the result of the study is based on the available data.

1.7. Organization of the Study

The paper is organized through five chapters. The first chapter is introduction part which presents background of the study, statement of the problem, objectives of the study, significant of the study, scope and limitation of the study. Chapter two consists of review of related theoretical and empirical literatures. Chapter three about the research methodology used to undertake the study. Chapter four deals with presentation and discussion of the results of the study findings. Finally, chapter five presents summary of findings, conclusion and recommendations.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.1. INTRODUCTION

In this chapter the researcher tries to review related theoretical and empirical literatures which are focused on comparison of the international standards with national standards or previously implemented standards. The topic under theoretical review part are International Accounting Standards, Concept of IFRS, Theoretical difference between IFRS and GAAP, IFRS for financial instruments and Historical Background of banking in Ethiopia. In the second part of this chapter presents related empirical literatures conducted in different countries around the world. Finally the researcher tries to summarize and shows that there is a literature gap.

2.1.1. THEORETICAL REVIEW

2.1.1.1. International Accounting Standards

According to FASB (n.d) interest in international accounting began to grow in the late 1950s and early 1960s due to post World War II economic integration and the related increase in cross-border capital flows.

In 1962 the American Institute of Certified Public Accountants (AICPA) hosted the 8th International Congress of Accountants. The discussion focused on the world economy in relation to accounting. Many participants urged that steps be undertaken to foster development of auditing, accounting, and reporting standards on an international basis. Likely in reaction to the 8th International Congress of Accountants, the AICPA reactivated its Committee on International Relations. The goal of that Committee was to establish programs to improve the international cooperation among accountants and the exchange of information and ideas, with the idea those efforts might perhaps lead to eventual agreement on common standards. In 1964, the Committee completed a review of accounting standards internationally, published as Professional Accounting in 25 Countries. Then after in 1966, the AICPA and its counterparts in the United Kingdom and Canada formed a group to study the differences among their standards. The group was active for about 10 years, producing studies of differences in 20 areas of accounting that also included conclusions on best practices. Later, in 1973, the IASC (the predecessor body to the IASB) was established by the AICPA and its counterparts in 8 other countries. Its mission was to formulate and publish, in the public interest, basic standards to be observed in the presentation of audited accounts and financial statements and to promote their worldwide acceptance (FASB, n.d).

The 1970s saw the creation of the first international accounting standard-setting body and a gradual increase in voluntary cooperation among the FASB, the IASC, and other national standard setters (FASB, n.d).

By 1987, the IASC had issued 25 standards covering various issues. Because those standards were essentially distillations of existing accounting practices used around the world, they often allowed alternative treatments for the same transactions. The IASB decided to undertake comparability and improvements project to reduce the number of allowable alternatives and make the standards more prescriptive rather than descriptive (FASB, n.d).

By the late 1980s, the need for a common body of international standards to facilitate cross-border capital flows had generated a high level of worldwide interest. The FASB decided that the need for international standards was strong enough to warrant more focused activity on its part. During the 1990s, the FASB developed its first strategic plan for international activities and significantly expanded the scope of its collaboration with other standard setters. The Board's first formal plan for international activities described the ultimate goal of internationalization as a body of superior international accounting standards that all countries accepted as GAAP for external financial reports. Since the Board had concluded that the ultimate goal was beyond immediate reach, it established a near-term strategic goal of making financial statements more useful by increasing the international comparability of accounting standards while improving their quality. In 1995, the FASB updated its strategic plan for international activities, essentially affirming the strategic goals and action plans set forth in 1991.Consistent with that plan, the FASB staff undertook a broad project to compare U.S. GAAP and existing IASC standards. That effort resulted in the FASB's publication of The IASC-U.S. Comparison Project: A report on the Similarities and Differences between IASC Standards and U.S. GAAP (1996) (FASB, n.d).

In 1999, the FASB published International Accounting Standard Setting: A Vision for the Future, describing its vision of the ideal international financial reporting system. The report said that such a system would be characterized by a single set of high-quality accounting standards established by a single, independent, international standard setter. The report also identified the characteristics of high-quality standards and of a high- quality global standard setter (FASB, n.d).

According to FASB (n.d) following the Asian financial crisis, the World Bank, International Monetary Fund, G7 finance ministers, and others called for rapid completion and global adoption of high-quality international accounting standards. In response to calls for improvements in the governance, funding, and independence of the IASC, it was reconstituted into the IASB. The IASB's structure and operations resulted from the efforts of a strategy working party formed in 1998. The governance, oversight, and standard-setting processes of the IASB are similar to those of the FASB

In 2001, the IASC was restructured into the IASB. International Accounting Standards Board (the Board) is the independent standard-setting body of the IFRS Foundation, an independent, private sector, not-for-profit organization working in the public interest. Its principal objectives are to develop, in the public interest, a single set of high quality, understandable, enforceable and globally accepted international financial reporting standards (IFRS Standards) based upon clearly articulated principles (FSB, 2002; FASB, n.d).

The European Union (EU) adopted legislation requiring all listed companies to prepare their consolidated financial statements using IFRS starting in 2005, becoming the first major capital market to require IFRS. By 2009, the European Union and over 100 other countries had adopted international standards or a local variant of them). Recently about 166 countries are adopt IFRS standards (FASB, n.d.; IFRS foundation 2018)

2.1.1.2. Concept of IFRS

IFRS Standards are a set of high quality, understandable, enforceable and globally accepted Standards based up on clearly articulated accounting principles. IFRS Standards generally contain principles and accompanying application guidance, both of which are mandatory and carry equal weight (FSB, 2002).

Chair of the International Accounting Standards Board (Board) Hans in IFRS Foundation Conference (2019) speech that, IFRS is a capital market standard, and in that market it is the bottom line that ultimately counts. Because of the comparability and discipline of our Standards, the income statement according to IFRS Standards will always remain the main anchor for investors in predicting future cash flows.

Over the years, most countries have developed a set of accounting principles accounting rules that serve as a common basis for reporting the financial status of businesses to the public operating within their borders. These common accounting principles are formally referred to as Generally Accepted Accounting Principles (GAAP). GAAP system different from one country to another country. This type of different GAAP systems create big gap in between different country's accounting system and it create confusion in the minds of foreign investors who ability to invest their money on different profitable investment sectors across the world. How can investors deal with multiple standards, which ones are accurate, and how can corporations be compared based upon their financial statement, The answer to these questions lies within the adoption of the International Financial Reporting Standards, or IFRS, which is being developed and supported by the International Accounting Standards Board (IASB) for the objective to implement the uniform accounting standard in all the countries across the world (Shekhar and Prasad, 2013).

The globalization has promoted great interdependence between countries and capital markets in the world and, consequently, has increased the demand for global regulatory coordination. With companies following the globalization process and investors showing increasing interest in cross-border investment opportunities, it has become necessary to create a ‘common accounting language’, i.e., a set of accounting standards that are acknowledged internationally Matthias & Obiamaka (2016). As mentioned by Michela (2014), the creation of a unique set of accounting standards worldwide seems the best thing to do in order to ease both the reporting burden for companies and the burden of collecting financial information for investors.

Business can present its financial statements on the same basis as its foreign competitors, making comparisons easier. Furthermore, companies with subsidiaries in countries that require or permit IFRS may be able to use one accounting language company-wide, hence it will helpful to foreign investors for analyzing the accounting statements and get knowledge about company performance. IFRS removing the confusion from the minds of investor because it gives accurate, transparent single accounting statements (Shekhar and Prasad, 2013).

2.1.1.3. Theoretical Difference between IFRS and GAAP

When comparing United States GAAP to IFRS one is rules based and the other one is principles based. Moreover, as it relates to the accounting treatment transition under IFRS, the principle based provides less information and by far is less detail oriented than rules based. (Warren, Reeve, & Duchac, 2014)(as cited by Edel 2014).According to Belverd, Needles, Marian, 2011(cited in Elena et. al, 2014) the rule-based standards, the dominant approach of FASB, try to anticipate all or most of the problems and find solutions, while the principle-based standards, the dominant approach of IASB, are less prescriptive and are based on the objectives and the principles which need to be followed. For instance, as mentioned by PWC or Price Waterhouse Coopers (2014) (cited in Hanna & Artem, 2017) the current revenue recognition guidelines for U.S. GAAP are very detailed, elaborate and industry-specific. On the other hand, for IFRS, there are two primary revenue standards and four revenue-focused interpretations, most of which can be broadly interpreted and applied without industry-specifications.

Variations in the application are possible due to the principle-based approach underlying both IFRS and NGAAP, as professional judgment plays a major role in the process of interpreting and applying principles (Yahaya, et.al, 2015). IFRS allow for a certain amount of flexibility, enabling accountants and managers to apply professional judgment in the formation of individual financial reporting indicators, thereby reflecting the actual state of the company's affairs. In other words, when applying IFRS, managers can use their knowledge of the business to choose the ways of presenting information and offer their own professional assessments that best describe the specifics of business processes and increase the value of accounting as a form of communication (Malofeeva, 2018)

The technical differences that are established between United States GAAP and IFRS are the way financial statements are presented under each accounting standard, evaluation of the financial position of the Balance Sheet, and recording of the accounting differences in the accounting books. (Warren, Reeve, & Duchac, 2014) (as cited by Edel 2014).

According to Federica, et. al, (2016) IFRS does not contain any strict requirements for the presentation format in the income statement, while US GAAP offers two different alternatives: the single-step (that is 'not inclusion of a line') and multiple-step formats (that is 'inclusion of a line'). IAS 1 does not require a specific format for the balance sheet but does require the presentation of specific accounting items. The required basis of presentation is current and non-current classification, but the financial and mixed methods are permitted as well, when cash-based presentation is more reliable and meaningful. On the other hand, US GAAP financial statements generally adopt a format with separate, comparative sections in which assets are compared with liabilities. The items are similar to those provided for by IAS 1 but certain aspects arise, regarding, in particular the balance sheet presentation: in US GAAP financial statements, the preparer may choose between a classified and unclassified balance sheet, and may apply the increasing or declining liquidity method. Both IFRS and US GAAP permit the application of the direct and indirect methods in the presentation of the Statement of Cash Flows. The difference between the two sets of standards is that, under IFRS, only the indirect method entails the reconciliation of net profit and cash flows from operating activities, while US GAAP requires this reconciliation for both methods.

As a research conducted by Yahaya, et.al, (2015) in Nigeria, the theoretical rational for impairment write-down (i.e. conservatism) is similar in IFRS and NGAAP, however the criteria used for identifying situations that require such a write-down differ. Since the amount of impairment losses may be material in practice, the recognition versus non-recognition of impairment losses has the potential to significantly affect profit/loss reported in the income statement.

As per U.S. GAAP, when assets are impaired, the treatment is considered permanent, while as per IFRS, impaired assets may be revalued. Moreover, under U.S. GAAP, Property, plant and equipment are depreciated as a whole unit for its useful life, while under IFRS, "asset componentization" is allowed (where the total cost of an item can be depreciated separately over different useful lives (Hanna & Artem, 2017)

Another key difference lies in the conceptual framework underlying consolidation: in IFRS, non-controlling interests are considered as owners and presented inside equity, whereas in NGAAP they are reported outside of equity (Yahaya, et.al, 2015).The measurement and test of ownership shall also be change in the IFRS. It has covered the potential voting rights other than the actual stakeholders. The potential voting rights includes all those whose debts or shares are required to be converted in to equity capital of the company (Mohammad, et.al, 2011).

The other difference that exists between US GAAP and IFRS is the inventory valuation method. As per the research conducted by Federica, et.al, (2016), IFRS do not permit the use of the LIFO method. If inventories are written down and there is an increase in value, a revaluation must be performed. In this respect, US GAAP is substantially in line with IFRS, as they propose the use of the lower of cost and market value. Market value is identified as current replacement cost, which must not exceed net realizable value or fall below it, net of normal profit margins. Unlike the IFRSs, goods may not be written back after being written down. As per the same research, the other difference is US GAAP requires the classification of expenses by function, while IFRS offers two different alternatives: by nature or function, clarifying that in the event of the latter the preparer must provide additional information on the nature of expenses.

For income taxes, fundamental differences exist in methodologies used under U.S. GAAP and IFRS. For instance, U.S. GAAP specifically addresses certain Uncertain Tax Positions (UTPs), while IFRS uses the general contingency model, which not only creates differences in the amounts of taxes, but also requires different disclosure requirements for UTPs (Hanna & Artem, 2017). According to Mohammad, et. al, (2011) the tax considerations associated with a conversion to IFRS, like the other aspects of a conversion, are complex. For banks tax accounting differences are of great significance.

IAS 19 analyses all employee benefits, these benefits are recognized through a specific provision under balance sheet liabilities, while each year, an amount determined by three separate components is taken to profit or loss. The first component is the increase in the provision, while the second is interest expense due to increase in the present value of the provision to reflect the passage of time, and the third, which constitutes one of the issues under analysis, is due to changes in the financial and demographic assumptions used for actuarial purposes,(Federica, et. al, 2016). According to Konstantinos & Eleftherios (2013), in Greece before the implementation of IFRS, most entities in order to avoid the burdens of their financial statements were making provisions for compensation of personnel due to retirement, based on the opinion of the Government Legal Management Consulting Council. This opinion essentially allows entities to make provisions for termination and retirement from employment only for those employees who had anticipated that they would leave job (termination or lay off) in the next financial year. In the same study mention that, the International Accounting Standards are forcing entities to comprehensively address issues related to “employee benefits”. Since they are involved only in the technical accounting treatment proposed but with scientific precision how the obligations of the entity to its employees for all benefits are being calculated correctly requiring an immediate recognition of employees’ obligations on their financial statements by correcting their results.

Most of proponent authors of IFRS state that the use and necessity of IFRS is not doubtful especially with regarding the advantage of comparability of financial statements between countries for cross border transactions Karim is one of them, according to Karim (2017), the differences between IFRS and GAAP may be subtle, but distinctions between the two accounting methods can have weighty implications in evaluating the financial health of a company. This can impact internal matters such as a company’s tax base as well as external substantive issues, including cross border investment activity, investor misinformation, and cross-border transactions. Because of the potential impact of the differences between GAAP and IFRS, it could behoove the international business community to converge on a single set of accounting standards. As mentioned by Yahaya, et.al, (2015), Matthias & Obiamaka (2016) and Malofeeva (2018) the globalization of the economy necessitates international standardization of accounting systems to ensure comparability of reporting between companies of different countries. Because there is considerable variation in accounting quality and economic efficiency across countries, international accounting systems provide an interesting setting to examine the economic consequences of financial reporting and which in turn could increase the confidence of foreign investors.

On the other side, some authors even the proponent author like Malofeeva argue that IFRS has its own limitations like misusing the freedom for professional judgment, as per Malofeeva (2018) due to the imperfection of the existing controls over the issued financial statements, in particular, from the auditors, there is a risk that managers will apply their freedom to misstate the company's financial performance.

Other general problems within the IFRS community of users, the principles-based approach of IFRS standards often creates inconsistency in the interpretation and application of the principles. Some of the other general problems within the IFRS community of users include – picking and choosing (for instance, several countries have accepted portions of the IFRS and not all the standards), potential of undue influence by the individuals and firms that are funding the IASB (International Accounting Standards Board), unenforceability aspect of principles-based IFRSs (when compared to the rules-based US GAAP), unequal application and enforcement of the IFRS amongst the users, and finally the inconsistent auditing approaches amongst the IFRS users (Hanna & Artem, 2017).

2.1.1.4. IFRS for Financial Instruments

Financial Instruments: Recognition and Measurement is one of the typical standards for those organizations which use financial instruments in their financial statements especially banking industry. (Mohammad, et.al, 2011)

IAS 39 – issued in early 1999, with an implementation date of 1 January 2001 (Basel, 2000). According to IFRS Foundation (2018) the objective of IAS 39 is to establish principles for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

According to IFRS Foundation (2014) IAS 39 contained many different classification categories and associated impairment models. Many of the application issues that arose with IAS 39 were related to the classification and measurement of financial assets. Classification determines how financial assets are accounted for in financial statements and, in particular, how they are measured on an ongoing basis. Requirements for classification and measurement are the foundation of the accounting for financial instruments. The requirements for impairment and hedge accounting are based on that classification. As per the same report, many preparers of financial statements, their auditors and users of financial statements find the requirements for reporting financial instruments complex.

IFRS 9 replaces IAS 39, one of the Standards inherited by the IASB when it began its work in 2001 (IFRS Foundation, 2014). As per UN (2018) IFRS 9 is the response to the financial crisis and to the need to replace IAS 39 with a more operationally workable standard.

The incurred loss approach of IAS 39 requires banks to make provision only for incurred losses as of the balance sheet date. More so, losses expected as a result of future events (IAS 39.59) may not be recognized (Eneje, et.al, 2016). AS mention in IFRS Foundation (2014) during the financial crisis, the delayed recognition of credit losses on loans (and other financial instruments) was identified as a weakness in existing accounting standards. Specifically, the existing model in IAS 39 (an 'incurred loss' model) delays the recognition of credit losses until there is evidence of a trigger event. This was designed to limit an entity's ability to create hidden reserves that can be used to flatter earnings during bad times. As the financial crisis unfolded, it became clear that the incurred loss model gave room to a different kind of earnings management, namely to postpone losses. Even though IAS 39 did not require waiting for actual default before impairment is recognised, in practice this was often the case.

According to IFRS Foundation (2014) the difference between IAS 39 and IFRS 9 is depicted as follows

Table 2.1. The difference between IAS 39 and IFRS 9

IAS 39 Classification	**IFRS 9 Classification**
Rule- based	Principle – based
Complex and difficult to apply	Classification based on business model and nature of cash flows
Multiple impairment models	One impairment model
Own credit gains and losses recognised in profit or loss for fair value option (FVO) liabilities	Own credit gains and losses presented in OCI for FVO liabilities
Complicated reclassification rules	Business model-driven reclassification

The IASB published the final version of IFRS 9 Financial Instruments in July 2014. The final version of IFRS 9 brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace (IFRS Foundation, 2014). IFRS 9 is built on a logical, single classification and measurement approach for financial assets that reflects the business model in which they are managed and their cash flow characteristics. IFRS 9 addresses the so-called 'own credit' issue, whereby banks and others book gains through profit or loss as a result of the value of their own debt falling due to a decrease in credit worthiness when they have elected to measure that debt at fair value. The Standard also includes an improved hedge accounting model to better link the economics of risk management with its accounting treatment (IFRS Foundation, 2014).

According to IFRS Foundation (2014) IFRS 9 applies one classification approach for all types of financial assets, including those that contain embedded derivative features. Financial assets are therefore classified in their entirety rather than being subject to complex bifurcation requirements.

The standard addresses an application issue in relation to changes in own credit risk. IAS 39 required companies to adjust the carrying value of their own debt following market changes in its credit risk when companies elect the fair value option to measure their own debt. This has a counter-intuitive effect in that, if a company's credit worthiness deteriorates, it registers a gain in profit or loss caused by reducing the carrying value of its debit. IFRS 9 recognize this problem by requiring that the gain or loss be recognized in other comprehensive income (UN, 2018).

The complexity of IAS 39, which used multiple impairment models for financial instruments, was also identified as a concern. The main objective of the new impairment requirements is to provide users of financial statements with more useful information about an entity's expected credit losses on financial instruments. The model requires an entity to recognise expected credit losses at all times and to update the amount of expected credit losses recognised at each reporting date to reflect changes in the credit risk of financial instruments (IFRS Foundation, 2014).

As per IFRS Foundation (2014) the hedge accounting requirements in IAS 39 were developed when hedging activities were relatively new and not as widely understood as they are today. As a result of the increased use and sophistication of hedging activities the IASB decided to undertake a fundamental overhaul of all aspects of hedge accounting. IFRS 9 incorporates new hedge accounting requirements that represent a major overhaul of hedge accounting and introduce significant improvements, principally by aligning the accounting more closely with risk management

2.1.1.5. Financial Reporting Standards and Regulatory Bodies in Ethiopia

According to Kinfu,(1990) (cited in Mihret, et.al, 2012) the keeping of formal records of government activities started in the 1900s when Emperor Menelik established Finance and Gauda (meaning treasury) Ministry which was to keep records of the King's treasury. Kinfu also indicates that modern financial accounting in the private sector started in Ethiopia in 1905 when the Bank of Abyssinia was established. The bank was established as a branch of the Bank of Egypt, which was in turn administered under the British financial system. Kinfu points out that, despite Italian and French involvement in the affairs of the Bank of Abyssinia, the British citizens controlled its administration. As a result, usage of British accounting terminology, financial reporting requirements and personnel training left their footprints.

Other significant developments in the history of accounting in Ethiopia took place in the 1960, the Commercial Code of Ethiopia was proclaimed in 1960 (Government of Ethiopia 1960). This Code contains accounting and external auditing provisions, which still serve as the legal basis for financial reporting and external audit of companies (Argaw 2000a; Kinfu 1970; Kinfu, Negash & Merissa 1981; World Bank 2007), (cited in Mihret, et.al, 2012).

According to ROSC (2007) the Commercial Code of 1960 makes directors of companies responsible for preparation of financial statements, including consolidated financial statements for group companies, and for ensuring that an audit of the financial statements is conducted. In provisions for preparing financial statements, there is no requirement to comply with accounting standards, and the financial statements required to be produced are only balance sheet and profit and loss account. In provisions for audit, there is no requirement to comply with auditing standards, no specified qualification of auditors, and no audit requirement for private limited companies with 20 or less shareholders; and companies are required to appoint more than one auditor at a time

Public Enterprises Proclamation 25/1992 requires state-owned enterprises to keep books of accounts following generally accepted accounting principles (GAAP). However, within the Public Enterprises Proclamation, there is no requirement for state-owned enterprises to prepare financial statements in compliance with any defined accounting standards or for their auditors to comply with any defined auditing standards (ROSC, 2007).

Banks and insurance companies are subject to regulatory laws and directives issued by the National Bank of Ethiopia, but there are no extra requirements in these laws or directives for preparation of annual financial statements. The applicable requirements for preparation of annual financial statements for banks and insurance companies are those provided in the Commercial Code. The Commercial Code has no requirement for compliance with any defined accounting standards. Banks and insurance companies are public interest entities which should be subjected to high standards of financial reporting. Moreover, on annual basis, banks are required to send selected auditor's name to the National Bank of Ethiopia for the approval of the appointment of bank auditor. This is a legal requirement under Proclamation for Licensing and Supervision of Banking Business No. 84/1994. When approving auditors, the National Bank of Ethiopia ensures that only those auditors licensed by The Office of the Federal Auditor General (OFAG) are approved (ROSC, 2007).

According to ROSC, (2007) the Income Tax Proclamation No. 286/2002 states that taxable business income shall be determined per tax period on the basis of the profit and loss account, or income statement, which shall be drawn in compliance with generally accepted accounting standards. The problem in this case is that 'generally accepted accounting standards' is not defined, and there are no accounting standards set or adopted in the country.

The Office of the Federal Auditor General and the Ethiopian Civil Service College have been given some legislative authority for regulating the accountancy profession. OFAG was established by Proclamation No.68/1997 by which it was set up "to make efforts, in co-operation with concerned organs, to promote and strengthen accounting and auditing professions." The ECSC was initially established in 1995. In the first 10 years of its operations ECSC designed and offered diploma and degree programs in accounting, economics, management, law, and urban development. The ECSC was re-established through Council of Ministers Regulations No.121/2006. One of its objectives, as set out in these regulations, is "to formulate standards and certify professionals." The ECSC is also given powers and duties, "to formulate standards and based on such standards confer professional certification in auditing and accountancy." For these purposes, the ECSC has established a Institute for Certifying Accountants and Auditors (ICAA), (ROSC, 2007).

As mentioned in ROSC, (2007) in the absence of a strong professional body and specifically dedicated institutions, OFAG regulates the accounting profession. The activities of OFAG in regulating the profession include licensing of all auditors in the country, issuing a Code of Ethics for Professional Accountants, and taking disciplinary measures on proven acts of misconduct by professional accountants. On its part, OFAG, institutionally, is facing effectiveness challenges partly caused by the broad nature of its statutory obligations. OFAG had earlier carried out a study on ways and measures of developing the accounting and auditing profession and had recommended the establishment of National Accountants and Auditors Board (NAAB). OFAG issued a Code of Ethics for Professional Accountants in the country in January 2004. While the Code is tailor made for practice in Ethiopia, it is modeled on the Code of Ethics for Professional Accountants issued by IFAC and the International Organization of Supreme Audit Institutions (INTOSAI). In addition in 2005, a study on establishing accounting and auditing standards for the private sector was commissioned under the Ministry of Trade and Industry. The study was called The Road Map. Arising from the study's recommendations, OFAG in cooperation with, EPAAA and the Addis Ababa Chamber of Commerce and Sectoral Association (AACCSA) is in the process of setting up a National Accountants and Auditors Board that would set accounting and auditing standards for the private sector.

According to ROSC, (2007), Ethiopia does not have a quality assurance program for auditors. A quality assurance program checks the auditors' work at both partner and firm level, and ensures that auditors conduct their duties with outmost professional diligence. ROSC, point that the big-four international audit firm networks are not present in the country. Most of the major international audit firm networks had presence in Ethiopia prior to 1974. When in 1974 the Government changed to a Socialist system, all the international audit firms closed their offices in Ethiopia. Those audit firms have not yet returned to the country although there is no law or regulation which hinders them to operate in Ethiopia. With this situation, the auditing profession in the country may be losing exposure to international expertise.

As mentioned in ROSC, (2007) there were no records of litigation dealing with financial reporting in the country. In the ROSC, (2007) noted that there were no accounting and auditing standards set in Ethiopia. For accounting standards, there was no law or regulation that has set or requires accounting standards in preparation of financial statements. Some laws require GAAP to be applied. However, in all cases, GAAP is not defined. For auditing standards, in the year 2003, OFAG directed all auditors to conduct audits in compliance with ISA. However, the directive met resistance from auditors. One of the arguments for resistance by the auditors was that it is impossible to apply ISA in the absence of accounting standards. The directive was subsequently withdrawn.

Every auditor determines accounting standards for their clients. Most institutions follow advice of their auditors on how to prepare financial statements. Most auditors also tell their clients how to prepare financial statements. It appears therefore that auditors determine accounting standards for their clients. Every auditor determines their own standards. In the absence of practical authoritative guidelines, auditors use their knowledge and best endeavors in conducting audits. Some apply ISA, while others apply generally accepted auditing standards (ROSC, 2007).

Finally, in 2014 the FDRE peoples house of representative under proclamation No 847/2014 declare that the financial reporting standards to be used when preparing financial statements shall be international financial reporting standards issued by the International Accounting Standards Board or its successor and in order to undertake regulatory responsibilities of financial reporting standards and activities established regulatory organ named Accounting and Auditing Board of Ethiopia.

2.1.2. Empirical Evidence

Anamaria and Buculescu (2016) conduct a research on Implementation of IFRS as Base of Accounting on Romanian Banking System. The aim of the paper is to assess what are the existing differences between national referential and international one by comparing the results reported for year ending on 31st of December 2011from the financial statements prepared according to Romanian accounting standards and International Financial Reporting Standards., for the same economic activities. The results of the research revealed a relative small differences for total assets, total liabilities, shareholder's equity and net operating cash flows, significantly higher results under national system for revenues and expenses and an inconsistent behavior for net profit or loss. The study also suggests that there should be made an improvement in the manner of how IFRS standards are communicated and the application guidance provided.

Michela, (2014) investigate the Transition to IFRS impact on companies' reporting performance in Germany and Italy. The analysis is conducted on the changes of magnitude of some key financial ratios, in order to highlight the most important differences and similarities between German and Italian companies due to the transition to IFRS and to assess the impact on companies' reporting performance of IFRS transition by calculating some key financial ratios before and after the transition. The key financial ratios are based on companies' reporting performance explaining how the transition from local GAAP to IFRS affects its profitability, leverage and liquidity. The profitability ratios are return on assets and return on equity. Leverage is measured by equity ratio and solvency ratio. Liquidity ratios are current ratio, acid test and cash ratio. The study results show that IFRS adoption has changed the magnitude of those key financial ratios. These changes are the result of different accounting treatments under local GAAP and IFRS.

Arina, (2014) investigate the International Financial Reporting Standards Implementation in Canada Public Banking Enterprises. The focus of the research is the analysis of reported financial ratios of Canadian Banking companies for the year ended December 31, 2010, which will be tested for the statistically-significant differences between Canadian GAAP and IFRS. The research is designed to examine what impact on liquidity, leverage, profitability, and cash flows the change from Canadian GAAP to IFRS has. The results indicated that there are no statistically significant differences between IFRS and CGAAP means and medians of financial ratios. However, the IFRS conversion did cause significant differences of the leverage ratios under IFRS and CGAAP. The statistical differences were found between medians of IFRS and CGAAP of equity ratios and means of equity's and debt ratios.

Federica, et.al, (2016) try to investigate the Comparability of Company Accounts Using IFRS and US GAAP based on Empirical Evidence of European and US Financial Statements. The main objective of the study is to provide a judgment on the comparability of financial statements prepared under IFRS and US-GAAP. The T index framework was used to summarize the level of comparability for 13 accounting items using data from 250 companies. Empirical results are mixed. Of 13 accounting items considered, international comparability is significantly lower for 7 items and significantly higher for 4 items when the US companies are included. Furthermore, comparability amongst companies using IFRS is not consistently higher or lower than comparability amongst companies using US GAAP.

Rahayu & Razan, (2019) try to assess the impact of mandatory conversion to IFRS on net income in Saudi Arabia. The objective of the study is to examine the impact of the mandatory conversion to IFRS on net income. The data for this research is secondary in nature. The level of discrepancy between Saudi GAAP and IFRS is measured by the total comparability index (TCI) for evaluating the impact of IFRS on net income. The results of the study show that there is a negative relationship between the depth of transitional disclosure provided in the reconciliation statements and the impact on earnings; however, the relationship is not significant. Moreover, the results indicate that the conversion to IFRS leads to a statistically significant decrease in 2016 net income for nearly 45.97% of sample firms at a 5% or more materiality level. Further, there is a statistically significant difference in the index values across the various sectors. The study reveals that 5 standards appear to cause significantly different impacts across sectors, which are: IFRS 9, IAS 37, IAS 39, IAS 40 and IAS 41.

Another study conducted in Saudi Arabia by Mohammed, (2019) tries to analyze the Effects of IFRS Adoption on the Comparability of Financial Reporting with evidence from Saudi Listed Companies. The objective of the study was to analyze the effects of the adoption of IFRS on the income statement and statement of financial position. The study data for 173 companies listed in 20 sectors. The study excluded the financial sectors. The data includes 12 variables measured, five of the study variables taken from the income statement and the other seven variables taken from the financial position statement. The results of the study indicate that there are statistically significant differences between the variables resulting from the application of two sets of IFRS adopted in Saudi Arabia and Saudi (GAAPs).

Yahaya, et.al, (2015) try to study Effect of International Financial Reporting Standards on the Financial Statements of Nigerian Banks. The purpose of the study is to identify the sources of differences in financial reporting experienced by Banks due to the changes in the regime. Secondary sources of data were used and Least Squares Regression analysis was used to test the hypotheses formulated. The study finding revealed that there is a significant effect of the adoption of IFRS on the financial statement of banks in Nigeria. Based on these findings the researchers recommended that those involved in the analysis of financial statements are advised to accord attention to the trend analysis when comparing pre-adoption data under NGAAP (Nigerian GAAP) with post-adoption data in IFRS.

Study conducted by Onipe, et.al, (2015) on the International Financial Reporting Standards' Adoption and Financial Statement Effects through evidence from Listed Deposit Money Banks in Nigeria tries to examine the effects of the adoption of the International Financial Reporting Standards on the financial statements of banks. A regression model is estimated using pooled data and fitted with dependent variables. The results show that IFRS adoption has positively impacted some variables in the financial statement of banks, for example, profitability and growth potential. The paper also reveals that given the fair value perspective of IFRS, the transition to IFRS brings instability in income statement figures.

2.1.3. Summery and Literature Gap

As learnt from the above mentioned empirical evidences, weather it significant or not IFRS implementation has change on the financial statement variables. According to Michela, (2014) these changes are the result of different accounting treatments under local GAAP and IFRS and as mentioned by Onipe, et.al, (2015) due to the fair value perspective of IFRS, the transition to IFRS brings instability in income statement figures.

The implementation of IFRS in Ethiopia imposed mandatorily, which was through considering the advantage of IFRS than the previous one based on comparison of the theoretical difference and early adopting countries experience. Since different countries have different economic, cultural and environmental situation, taking other countries experience entirely may has disadvantage. Due to this empirical evidence has needed. However, as to the knowledge of the researcher there are no empirical studies conducted in this country so far. So, to fill this gap the researcher has been conduct this study in order to examine what are the practical differences between IFRS and GAAP.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1. INTRODUCTION

This chapter contains the research methodology, which shows the research plan or framework, purpose of the research and different methods and techniques the researcher used in order to collect, analyze and interpret data that are necessary to answer the research problem.

The chapter includes the research design, sampling techniques, type and source of data, instrument of data collection and method of data analysis and interpretation. Moreover, describe the reason why the researcher chooses one design or method or technique than the other one.

3.2. Research Design

A research design is a grand plan of approach to a research topic. What business research can and cannot achieve and how all this will affect what you actually do to answer a research question (Sue and Joe, 2015). According to Jonathan, (2014) types of research design include case study, experimental, archival, comparative and time-based (namely cross-sectional and longitudinal) designs. Jonathan also states that choice of design(s) is dependent on the purpose of the research, the timeframe, the research approach and the availability of data.

This research has specific timeframe it limited in 2017 the transition year and tries to examine both GAAP and IFRS based financial statements with the purpose of comparing the difference between GAAP and IFRS. Therefore, the appropriate research designs in such type of study are both comparative and cross sectional types of research designs. According to Jonathan, (2014) a cross-sectional design involves the collection of data from a number of cases. It is also referred to as a survey design. Important feature of a cross-sectional design is that data is collected at a single point in time. As a result, research can be completed over a relatively short period. On the other side, comparative design can produce an interesting set of findings. It is particularly useful if your intention is to compare like for like and draw conclusions from your group findings. Also Jonathan states that a number of possibilities exist when it comes to combining research designs.

The type of question asked by the researcher will ultimately determine the type of approach necessary to complete an accurate assessment of the topic at hand (AECT, 2001). Sue and Joe, (2015) mention that descriptive research answers research questions which are largely “factual” in nature. These questions include those which start with “how”, “what”, “where”, “when”, “how much” and “how often”. Accordingly, the research tries to describe and answer what is the existing difference between GAAP and IFRS on the selected commercial banks.

3.3. Sample and Sampling Techniques

A population is a clearly defined group of research subjects that is being sampled (Jonathan, 2014). To find out things about people we need to ask (research) them. We usually can’t ask all of them because the numbers make this impossible. So we ask some of them. We sample the population (Sue and Joe, 2015).

The target population in the study was all commercial banks in Ethiopia, As per National Bank of Ethiopia 2019/2020 first quarter report there are 2 public banks and 16 private commercial banks in Ethiopia, of them the research has been conducted within 11 selected banks which is 61% of the population.

Table 3.1. Name of Commercial Banks in Ethiopia (target population)

No.	**Name of Commercial Banks in Ethiopia (target population)**	**Applied Accounting Standard in 2017**
Public Banks		
1.	Commercial Bank of Ethiopia	IFRS
2.	Development Bank of Ethiopia	GAAP
Private Banks		
3.	Abay Bank S.C.	GAAP
4.	Addis International Bank S.C	GAAP
5.	Awash International Bank S.C.	GAAP
6.	Bank of Abyssinia S.C.	GAAP
7.	Berhan International Bank	GAAP
8.	Buna International Bank S.C	GAAP
9	Cooperative Bank of Oromiya S.C.	GAAP
10.	Dashen Bank S.C.	GAAP
11.	Debub Global Bank S.C.	GAAP
12.	Enat Bank S.C.	In accordance with its accounting polices applied on a consistent basis.
13.	Lion International Bank S.C.	Accounting policies and applicable laws
14.	Nib International Bank S.C.	GAAP
15.	Oromiya International Bank S.C.	GAAP
16.	United Bank S.C.	Accounting framework applied by the bank
17.	Wegagen Bank S.C.	In accordance with its accounting polices applied on a consistent basis

18.	Zemen Bank S.C.	In accordance with the Accounting Policies of the Bank

The researcher has exclude those banks used accounting framework applied by the bank for the year ended 2017 rather than GAAP. Since, the research objective is to assess the difference between GAAP & IFRS, the researcher selects 11 private commercial banks those used GAAP as accounting standard for the year ended 2017. Moreover, the researcher excludes the commercial bank of Ethiopia (state bank) as it has adopted IFRS before years ago and has different transition period and the other state owned bank Development Bank of Ethiopia is under audit to adopt IFRS yet. Therefore, the sample method in this research is non- probable purposive sampling. As revealed by Sue and Joe, (2015) purposive sampling is using your own judgment to select a sample. The question is here, what are you trying to find out and what sample size would give me confidence that my results had validity.

3.4. Type and Source of Data

The researcher used both primary and secondary data type. As a primary data interview was conducted within the selected banks finance managers and IFRS team members and secondary data obtained from the year ended audited financial statements of the selected banks.

According to Jonathan (2014) there are three different types of interview method: structured, unstructured and semi-structured. Each type of interview has advantages and disadvantages for the student researcher. Of these methods, the semi-structured interview tends to be the favored choice of researchers. A semi-structured interview is a hybrid of the structured and unstructured approach. The interview is based on a set of structured questions, but at the same time provides scope for the respondent to elaborate on certain points and raise particular questions or themes. The interviewer has greater flexibility and may introduce certain questions depending on the respondent's answer. The combination of set questions and flexibility is appealing to researchers and respondents alike. For this reason, it is no surprise that semi-structured tends to be the favored choice for focus group interviews. Therefore, as it gives freedom to get additional information from selected banks respondents in addition to answers generate for the structured questions, the researcher choose semi structured interview.

3.5. Data Analysis and Interpretation

The data collected were both quantitative and qualitative in nature. Quantitative data was found from the audited financial statement in numerical form and qualitative data was found from the interview conducted within the selected banks finance managers and IFRS team members and from explanatory notes obtained from audited financial statement. Those data has been analyzed and interpreted quantitatively and qualitatively. As stated by John, (2007) mixed methods research is a methodology for conducting research that involves collecting, analyzing, and integrating quantitative and qualitative research in a single study or a longitudinal program of inquiry. The purpose of this form of research is that both qualitative and quantitative research in combination provides a better understanding of a research problem or issue than either research approach alone.

Quantitative data which collected from the audited financial statements has been analyzed trough descriptive statistics analysis by using measurement of central tendency that is mean and measurement of variation like minimum, maximum and standard deviation. On the other hand, data found from interview and financial statements in the form of notes were analyzed and interpreted qualitatively.

CHAPTER FOUR

RESULTS AND DISCUSSION

4.1. INTRODUCTION

This chapter deals with presentation and discussion of the result of the study findings based on the analysis made on primary and secondary data collected. In this chapter also the researcher tries to accomplish the general and specific objectives of the research and set a base for conclusion and recommendation.

As it already mentioned in chapter three research methodology, secondary data collected from the audited financial statements of the selected commercial banks and primary data collected through conducting interview with selected banks finance manager and IFRS team member. However, because of the outbreak of COVID-19 and employee turnover the researcher unable to get the concerned person at three banks. Therefore, interview was conducted in eight banks only.

The secondary data obtained from the selected banks financial statements are analysed quantitatively through descriptive statistics, mean, maximum, minimum and standard deviation and qualitatively by using explanatory notes depicted in the financial statements. On the other hand, primary data found with interview discussion analysed through qualitative analysis.

4.2. Descriptive Statistics

The researcher measures the existing difference between the two reporting standards through taking some selected financial statement variables such as Total asset, Total liability and Owners equity from Statement of financial position or Balance sheet and Total income, Expense and Profit after tax from Income statement or Statement of Profit or loss and other comprehensive income.

Table 4.1. Descriptive Statistics of Financial Statement results under GAAP

	N	Minimum	Maximum	Mean	Std. Deviation
Total Asset	11	2062905410	41974865174	17397430868	12613082397
Total Liabilities	11	1639944435	37165526890	15252823737	11290651467
Owners' equity	11	422960975	4809338284	2144607131	1364627915
Total revenue	11	240952709	3763759244	1645718615	1149779940
Expense	11	190112754	2658989928	1181607917	743522369
Profit after tax	11	50839955	1002939134	381002974	294959139
Valid N (list wise)	11				

Source: SPSS result, 2020

Table 4.2. Descriptive Statistics of Financial Statement results under IFRS

	N	Minimum	Maximum	Mean	Std. Deviation
Total Asset	11	2065703000	40026791000	17418022090	12470855294
Total Liabilities	11	1680280000	34602754000	15081748909	10820087866
Owners' equity	11	385423000	5424037000	2336273000	1707365986
Total revenue	11	220049000	3758019000	1638775545	1159091036
Expense	11	189876000	2806433000	1227035272	892387562
Profit after tax	11	30173000	951586000	388778272	285882616
Valid N (list wise)	11				

Source: SPSS result, 2020

Descriptive statistics results of financial statement figures under the two reporting standards are discussed here. Variation in the size and capacity of the selected banks requires consideration, especially for result deviation.

As shown from the above two tables the total asset of the banks under consideration varies from Birr 2 billion to Birr 41.9 billion (with a mean of 17.3 billion) and from Birr 2 billion to Birr 40 billion (with a mean of 17.4 billion) in GAAP and IFRS based financial statements respectively. Thus, the total asset figure of the selected banks increase under IFRS based financial statement. As learned from the explanatory notes and interview discussion the different impairment and measurement method used for financial and non-financial assets under IFRS increase the total assets figure of the selected banks. This finding is same with research conducted by Michela, (2014). According to Michela, the increase in net assets is due to the capitalisation of internally developed intangibles and development cost which could not be capitalised under German and Italian GAAP, In addition, according to Anamaria and Buculescu, (2016) the differences between total assets under IFRS and under RAS is generated by different evaluation method used for assessing the value of accounts receivables, their value being greater in the international referential, than in the national one.

Total liability figures spread from Birr 1.6 billion to Birr 37 billion (with a mean of 15.2 billion) and from Birr 1.6 billion to Birr 34.6 billion (with a mean of 15 billion) under GAAP and IFRS respectively, high figure registered in the previous GAAP. In this regard, considering employee benefit measurement requirement and conservative and considerate loan provision measurement requirements under IFRS, expected that IFRS increase the companies liability trough holding high provision for future employee benefits and loans and receivables. However, in the selected banks financial figure the result was different. According to Anamaria and Buculescu, (2016) the differences at liabilities level are generated by variations between the level of provisions, securities and debts towards other credit institutions.

Regarding Owners equity varies from Birr 422 million to Birr 4.8 billion (with a mean of 2.1 billion) and from Birr 385 million to Birr 5.4 billion (with a mean of 2.3 billion) in GAAP and IFRS respectively. In this regard, high figure registered under the new framework. Anamaria and Buculescu, (2016) mention that regarding equity, the difference is generated by different ways to record the reevaluation reserves (higher in RAS than in IFRS) and the reported result (positive in IFRS, negative in RAS).

Michela, (2014) found that In Germany, most of balance sheet items display significant differences depending on the application of the two sets of accounting standards. Balance sheet items showing significant differences are total assets, current assets, fixed assets, debtors, equity, total liabilities and short-term liabilities. Income statements items are not significantly different under the two sets of accounting standards.

Total revenue varies from Birr 240 million to Birr 3.7 billion (with a mean of 1.6 billion) and from Birr 220 million to Birr 3.7 billion (with a mean of 1.6 billion) in GAAP and IFRS based financial statements respectively. As per the descriptive statistics result the reported total revenue figure increase under the previous regime. This is due that previously under GAAP all commissions and fees from loans, advances and letter of credit were recognised initially but under IFRS such gains spread over the span of the facility or contract. Empirical findings by Yahaya, et.al, (2015) underlined that Sales or operating revenues are clearly reduced under IFRS compared to NGAAP.

Total expense differs from Birr 190 million to Birr 2.6 billion (with a mean of 1.1 billion) and from Birr 189 million to Birr 2.8 billion (with a mean of 1.2 billion) under GAAP and IFRS respectively. The general expense figure is high in the IFRS based report. Even if, under IFRS depreciation expense decreases due to the depreciation rate decreased in a way that reflect the consumption pattern of assets, under GAAP leasehold land was carried at cost and no amortisation charged against it and on transition to IFRS, all non-current assets in stock that were ready for use were reclassified from other assets to property plant and equipment, those facts increase depreciation expense as well general expense. As per the study conducted in Saudi Arabia by Mohammed, (2019) found that there are differences between Saudi (GAAPs) and IFRS in asset registration, classification and age of production (spare parts, repairs, maintenance costs, etc.). The application of IFRS leads to the capitalization of certain expenses and the increase in depreciation expenses due to reclassification of certain assets from inventory to plant. These changes resulted in a difference in Total income, net income and total assets.

Profit after tax extent from Birr 50 million to Birr 1 billion (with a mean of 381 million) and from Birr 30 million to Birr 951 million (with a mean of 388 million) in GAAP and IFRS respectively based financial statements. Therefore, reported net profit of the selected banks decrease under IFRS based financial report. This is a result of the already stated facts under total revenue and expense. Similarly Michela, (2014) found that German companies are less profitable after the transition to IFRS. Rahayu & Razan, (2019) also found that 57 companies (45.97%) experience a decrease in net income (loss) when converting to IFRS, while 35 companies (28.22%) the net income (loss) under SOCPA is lower than that reported under IFRS. On contrary, research conducted in Nigeria by Onipe et.al, (2015) found that Under IFRS, important financial performance figures, such as profitability and growth, appear to be higher.

4.2.1. Financial Instrument Recognition and Measurement

As per the information from the selected banks financial statement explanatory note the majority difference occurred due to different remeasurement and reclassification of financial instruments as per IFRS requirements.

Different disclosures made by the auditors of financial statements as follows

> *Under the previous framework, interest income relating to non- performing loans were suspended i.e. these balances were kept off balance sheet. Under IFRS, the suspended interest have been recognized to correctly state the outstanding amount from customers loans and advances*
>
> *IAS 39 requires interest income on impaired loan to be calculated on the carrying amount net of impairment. An adjustment has been passed to recognize interest income in line with IFRS*
>
> *Under previous GAAP, fees relating to loans and advances are recognized upfront. Under IFRS, fees integral to each loan should be amortised over the life of the loan. Fees have been amortised and interest income was adjusted to recognize the effect of the transaction costs relating to loans and advances to customers.*
>
> *Under previous GAAP, fees and commission on issue of letters of credit and guarantees were recognized upfront. Under IFRS, fees that are yet to be earned as the letters of credit and guarantees span over a period of time have been deferred and will be recognized over the life of the contract.*
>
> *Under the previous framework, loans and advances to customers were subjected to an impairment provision based on the aging of such balances. The impairment loss was determined by applying a percentage provision to the different age buckets in which the outstanding amounts had been segmented. The rates and age buckets were determined based on the National Bank of Ethiopia Supervision of Banking Business directive. Under IFRS, the bank is required to assess whether an objective evidence of impairment exists for financial assets that are individually and collectively significant, For financial assets where no evidence of impairment existed, these assets were*

collectively assessed for impairment. Specific impairment was calculated on individually significant loans for which objective evidence of impairment existed.

Under previous framework, staff loans and advances were issued at below market interest rates ranging from 0% to 8%. Under IFRS, such loans must be recognized at fair value by discounting all future cash flows at the market rate of interest for similar loan facilities. The difference between the disbursed amounts and the fair value of the loan was capitalised as prepaid employee expenses and recognised as part of other assets.

The interest on staff loans and advances was calculated using the nominal rate under the previous framework. Under IFRS, the interest income should be recognised at the effective interest rate. The increase in interest income recognised as a result of the effective interest rate was recognised in retained earnings.

Under previous GAAP, commission on letter of guarantee issued was recognised in fully in the period the commission was received. Under IFRS, the commission should be amortised over the guarantee period. As a result, the portion of the commission that relates to future periods was recognised separately in deferred revenue with the corresponding adjustment in retained earnings or profit or loss as the case may be.

Under the previous framework, interest receivable due on deposits with local banks was recognized as a separate line item. Under IFRS, loans and receivable financial assets are subsequently measured at amortised cost using the effective interest rate method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

Deposits with local banks are loans and receivables and financial assets which should be measured at amortised cost taking into account the related interest receivable on these deposits. Therefore, interest receivable was reclassified to be included in the carrying amount of the deposits.

Under the previous framework, emergency loans advanced to staff at zero interest rate were classified as other assets. This amount has being reclassified to the staff loan balances under loans and advances to customers.

Under the previous framework, equity investments were presented as investments on the balance sheet. Under IFRS, these unquoted equity securities were reclassified to investment securities as available for sale financial assets.

The auditors of the bank state that, the most remarkable IFRS impact for the bank resulted from the implementation of IAS 39 Financial Instruments: Recognition and Measurement. This idea also supported by Mohammad, et.al, (2011) Financial Instruments Recognition and Measurement is one of the typical standards for those organizations which use financial instruments in their financial statements especially banking industry.

4.2.2. Property, Plant and Equipment (PPE), Revaluation and Impairment

The other notable IFRS impact shows in Property, Plant and Equipment Revaluation and Impairment

The following notes given by the auditors of selected banks

> *Under previous framework, operating leasehold land was carried at cost and no amortisation charged against it. Under IFRS, operating leasehold land has been amortised by the number of years that the lease has expired.*
> *Under previous framework, the bank recognised accumulated depreciation of buildings, motor vehicles, furniture and fittings and computer installations using 5%, 5%, 10% and 10% respectively. Residual values was also not considered for the depreciation charge on these assets. Under IFRS, the useful lives and residual values of items of buildings, motor vehicles, furniture and fittings medium, furniture and* fittings long lived, office equipment short lived, office equipment long *lived and computer and accessories were revised to 2%, 10%. 10%, 5%, 20%, 10% and 14.29% respectively to better reflect the consumption pattern of those assets. This led to a decrease in the accumulated depreciation of these assets with a corresponding increase in retained earnings and vise-versa.*
> *Under the previous framework, the bank does not capitalise computers and accessories on purchase and ready for use until it is issued from stock. On transition to IFRS, all non-current assets in stock that were ready for use were reclassified from other assets to property plant and equipment.*
> *Under the previous framework, acquired computer software was classified under PPE, under IFRS, this asset qualified as an intangible asset.*
> *Operating leasehold land under previous framework was recognised as freehold land and carried at cost. Under IFRS, operating leasehold land does not meet the criteria to be recognised as a finance lease. Therefore, this has been reclassified and amortised as appropriate*

4.2.3. Employee Benefit

As per the selected banks audited financial statements the left over variation occurred because of different treatment used for recognition and measurement of employee benefit.

> *Remeasurement on prepaid staff expense as a result of recognizing below market loans at fair value. This represents the prepaid staff expense for the period.*

Under previous GAAP, the banks retirement benefit obligations were not recognised in the financial statements. On transition to IFRS, the defined benefit obligations have been determined by actuarial techniques using the projected unit credit method.
Under IFRS, temporary differences arise from the remeasurement of retirement benefit obligation. This temporary difference has led to the recognition of deferred tax assets in the financial statements.

4.3. Interview Analysis

Besides, examining the audited financial statement of the selected banks, the researcher has been conduct interview with selected banks finance manager and IFRS team member and the detail discussion depicted here under.

- ✓ What are the main differences between GAAP and IFRS, especially for financial institutions?

Most of the respondents mention that IFRS gives extensive disclosure. It shows every detail and gives sufficient information for user; even it includes information which are not included or secured information under GAAP. Thus it creates accountability for managements and other employees and transparency for the entire stakeholders.

The other difference mentioned by the respondents, GAAP doesn't consider future uncertainty, it concern only on the current situation or just concern on the happened and work done within that financial year, whereas IFRS consider and examine future uncertain situations faced by the companies. In IFRS, companies calculate future commitments and obligations which are affects the company future cash flows and they do projections by using Macro and Micro economic factors like GDP index, the borrowers cash flow and transaction and others. Based on the projection the banks identify loans which may have a probability to default in the future and try to hold sufficient provision for loans and advances granted to different individuals and sectors. However, in GAAP, large provision held just for badly performing loans at that specific time and held provision with fixed rate based on their aging. Even the provision will change immediately, if the non-performed loan came to pass status, without considering borrowers cash flow, transaction and future risks particularly and in general within the sector. Companies which held large provision have better probability to sustain in business with bad situation than companies with little provision.

According to the interview respondent, regarding employee benefit under the previous GAAP recognised liabilities related with retirement and severance payment at the occurrence, but IFRS recognize future employee benefit payables. Future employee benefit payables determine by using dies rate, inflation rate and other factors

All respondent state that, there is different measurement and revaluation method required by the two standards. More off GAAP use historical cost model for revaluation of fixed asset, but IFRS use both fair value and historical cost. In the real business world using historical cost model doesn’t show the right position and real performance of the company. Fair value means using real current price or market value. So, under IFRS it adjust figures based on market value and it measure fixed assets at their current stand.

As per the respondent, regarding foreign currency translation IFRS demand to use mid-rate, whereas in GAAP the company has decide which rate to use. In this scenario companies may use different rate and can exaggerate their income by using the selling rate or the opposite happen for companies which use buying rate. So it gives false figure for user.

- ✓ What are the benefits of implementing IFRS?

As per the respondents, IFRS is more users friendly and understandable even for foreign investors, because it is comparable from peer banks and other countries as well as other sectors. Moreover, since investors are risk averse and future is uncertain they prefer financial statements under IFRS, because it considers future Macro and Micro economic factors, it gives more confidence for investors. In doing so it appreciates foreign investment and the companies might get source of finance for the future. However, all respondents has question regarding importance of IFRS at this time, even one respondent says it is worthless at this moment.

- ✓ What are the weaknesses of IFRS? Do you think the weaknesses are manageable? If the answer is yes, what can the stakeholders do to manage the weak part of IFRS?

One of the weakness IFRS has, it is contradict from National Bank of Ethiopia and Ethiopian Revenue and Customs Authority tax rule. Due to this, even they prepare two kinds of financial statements and it consume more time than before. Moreover, IFRS require detail disclosure and take large time compared to GAAP.

The other weakness mentioned is intellectuality problem. Even theoretically there are few knowledgeable man powers and it is more difficult to get man power that has exposure in practical scenario. Some standards are complicated, they may require consultant engagement and it is expensive to hire consultants from abroad.

Since there is no capital market in the country, all respondent has question on applicability of some standards. For instance, for fixed assets required to measure at fair value but there is estimators problem and for valuing financial asset there is no active seconder market and there is difficulty in availability of sufficient and accurate data. So, the consultants do it through developing their own model.

But all respondents agree with manageability of the above mentioned weaknesses and give different suggestions regarding the action and correction taken by the stakeholders. They suggest that it need government intervention with concern to Ethiopian tax rule and NBE asset classification and the country has to build institutions and active markets and Encompassing IFRS in the education curriculum.

In addition one respondent says it gives option for management write up for inapplicable standards which are contradict from the company policy, by using available information management can prepare their own policies and regulations.

- ✓ From your point of view which one is the best for Ethiopia and banking industry? Why? Why not?

From the respondents point of view, other things remains constant IFRS is a best financial reporting standard.

- ✓ Do you think your company understand the concept of IFRS well? If the answer is no, why?

All respondents say yes for this question

- ✓ Do you think your company implement IFRS effectively? If the answer is no, why?

Six respondents out of eight say yes, but two respondents didn't think their companies implement IFRS effectively. They also mention that, not only for the transition year still they use in GAAP throughout the year and change it to IFRS at the end of the year for the report purpose.

- ✓ Dose the company system compatible with the concepts of IFRS? If the answer is no, why?

Regarding this all agreed that, there is gap. As per the respondent, the core banking system can accommodate most of the standards, but some standards require different system and the existing system cannot capture some information.

4.4. Main Differences, Importance and Drawbacks of IFRS

As per the information from primary data, interview respondents the main difference of IFRS with the previous one, it considers and examine future risks as individual level particularly and in general within the sector. As per information from the secondary date also shows that, under IFRS the bank is required to assess whether an objective evidence of impairment exists for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. For financial assets where no evidence of impairment existed individually, these assets were collectively assessed for impairment. However, even if it has advantage as it requires assessing financial assets collectively or in the sectors regardless of focusing on individual performances only, IAS 39 is not considering future risks, it is incurred loss model. The contradiction with information from primary and secondary data occurred due to the research conducted on the transition period that is June, 2017 and at that time financial instrument standard applied by the selected banks under study was IAS 39. However, most of the respondents give explanation with concerning at a moment instead of the transition year where IAS 39 implemented not IFRS 9.

On the other side, in addition to its limitation regarding incurred loss approach, it was complex and difficult to apply, accordingly IAS 39 replaced by IFRS 9 and implementation was effective from January, 2018. As a result, all banks under consideration have been adopting IFRS 9 as of June 30, 2019. So, all other weaknesses and limitations under IAS 39 may compensate with this.
The other big difference between IFRS and GAAP is employee benefit. As per information from interviewee and financial statements revealed that, IFRS recognize future employee benefit payables.

The last but not the least difference is IFRS allow fair value measurement for PPE. As per interview discussion, under IFRS PPE figures adjust based on market value and it measure fixed assets at their current stand. Secondary data also support this information, under IFRS, the useful lives and residual values of items were revised to better reflect the consumption pattern of those assets.

Regarding importance of IFRS, information from interview respondents and secondary data shows that, IFRS is more future oriented and risk averse than the previous one and IFRS based financial statements gives extensive disclosure and create more transparency and accountability compared to GAAP based financial statements.

On the other side, IFRS has challenges concerning with its contradiction with NBE and tax rule, intellectuality problem and absent of active market in the country. As disclosed in the financial statements the auditors of selected banks mentioned that, when there are contradictions between the IFRS and NBE directives, it is not clear which one to follow. Not only this the auditors also note that retroactive tax adjustments due to applying the IFRS are also points that need explanation by the Ethiopian Revenue and Customs Authority.

CHAPTER FIVE

SUMMERY, CONCLUSION and RECOMMENDATION

5.1. Introduction

This last chapter contains three parts. The first part deals with summery of findings, the second and third part deals with conclusions and recommendations made based on the findings.

5.2. Summary of Findings

This research is conducted with the aim of examining and comparing the existing practical difference of IFRS and GAAP based financial statements within the selected private commercial banks in Ethiopia. In order to accomplish this, the researcher has been used the audited financial statements of those banks under study and interview also conducted to finance managers and IFRS team members of the selected banks. From the collected data different findings were obtained.

Based on secondary data inspection the researcher has fined that total assets, total expenses and shareholder's equity increase under IFRS based financial statements whereas total revenue, total liability and profitability decrease under IFRS based financial statements.

The majority difference occurred in the selected banks financial statement are because of applying three standards that are IAS 39 Financial Instrument Recognition and Measurement, IAS 16 Property, Plant and Equipment Revaluation and Impairment and IAS 19 Employee Benefit.

Concerning the interview, the selected banks respondent told IFRS has different advantage like it gives extensive disclosure, it consider and examine future commitments, obligations and uncertain situations and it require to use fair value measurement and using midrate for foreign currency translation.

The respondent also told IFRS is comparable and understandable than GAAP. On the other hand they mention IFRS contradict from NBE asset classification and ERCA tax rule and there is intellectuality and active market problem.

Finally, the respondent told their bank understand the concept of IFRS and choose IFRS as a better financial reporting standard and majority of the respondent think their bank implement IFRS effectively. However, all respondent agreed that, there is system gap.

Based on these findings and related theoretical and empirical evidences the following conclusions and recommendations are made

5.3. Conclusions

Based on the forgoing analysis the researcher can conclude that, value variation in IFRS based financial statement variables were result of remeasurement made on different financial and non-financial assets of the companies and reclassifications and recording of financial statement variables as per the IFRS requirements.

IFRS based financial statements increase comparability between financial statements, transparency for the entire stake holders and accountability of managements and employees of the company. Even similarity in those selected banks way of reporting and explanatory notes provided for every detail under IFRS based financial statements confirm these facts.

IFRS is advantageous as it appreciates investments and create source of finance than the previous GAAP. Since IFRS considers future Macro and Micro economic factors and gives extensive disclosure, it gives more confidence for investors and helps them for decision making.

The selected commercial banks have get challenges in implementing IFRS concerning its contradiction from NBE asset classification, ERCA tax rule and intellectuality and active market problems exists in the country and system compatibility problem within the company.

5.4. Recommendations

Based on the research findings the following recommendations and suggestions drawn for the selected private commercial banks under study and other stakeholders.

- ✓ Since the country accept IFRS as better reporting system and there is contradiction with the country tax rule and NBE asset classification, the concerned tax authority and National Bank of Ethiopia shall modify the tax rule and asset classification in order to do all rules compatible in to one,
- ✓ To get more educated manpower and to eliminate succession problem the researcher suggest that, IFRS shall be included under the education curriculum,
- ✓ To enhance implementation of all standards effective and efficient the government shall try to build capital market in the country. Unless otherwise, it is difficult to open the sector for foreign investors and borrowers,
- ✓ Since, the existing core banking system of the selected private banks cannot accommodate some standards, it is necessary to update, upgrade or developing new system within the selected banks under study,

- ✓ There is related empirical literature gap in Ethiopia and the area need further study. IFRS-9 financial instrument was implemented after the transition year as of June, 2019 and all banks are under progress to adopt IFRS 15 and IFRS 16 in this financial year. As a financial institution IFRS 9 may have different implication. So, another researcher may conduct a research on the implication of implementing IFRS 9 specifically or in the entire implication of IFRS as a whole. In addition, many other sectors are under progress of implementing IFRS for the first time. So the area recommended for further study.

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APPENDIX:

ST. MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES
MBA PROGRAM

INTERVIEW QUESTIONS

The purpose of this interview is to collect sufficient information that are needed for comparing GAAP and IFRS as base of accounting in private commercial banks in Ethiopia.

I would like to assure that the all information collected from the respondent will be used for academic purpose only.

- ✓ What are the main differences between GAAP &IFRS, especially for financial institutions?
- ✓ What are the benefits of implementing IFRS?
- ✓ What are the weaknesses of IFRS? & do you think the weaknesses are manageable? if the answer is yes, what can the stakeholders do to manage the weak part of IFRS?
- ✓ From your point of view which one is the best for Ethiopia and banking industry? why? Why not?
- ✓ Do you think you/your company understand the concept of IFRS well? If the answer is no, why?
- ✓ Do you think you/your company implement IFRS effectively? If the answer is no, why?
- ✓ Dose the company system compatible with the concepts of IFRS? If the answer is no, why?
- ✓ Additional comments (if any)

Thank you for your cooperation