ST. MARY'S UNIVERSITY

SCHOOL OF GRADUATE STUDIES

THE EFFECT OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) ADOPTION ON FINANCIAL PERFORMANCE IN ETHIOPIA: EMPIRICAL EVIDENCE FROM SELECTED COMMERCIAL BANKS.

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ADVISOR:-ABEBAW KASSIE (PhD)

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External Examiner	Signature	Date

DECLARATION

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of Abebaw Kassie(PhD). All sources of materials used for the thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any degree

Candidate Name	Signature	Date

St. Mary's University, Addis Ababa **May, 2021**

ENDORSEMENT

This thesis has been submitted to St. Mary's University College, School of Graduate Studies for examination with my approval as a university advisor.

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Advisor Signature Date

St. Mary's University, Addis Ababa **May, 2021**

Abstract

The primary objective of this study was to investigate the effect of International Financial Reporting Standards (IFRS) on financial performance of the selected commercial banks in Ethiopia. To achieve this purpose, descriptive Gray' comparability index and one sample t-test method has been employed to test whether there is a significant effect of IFRS implementation on Financial performance indicators of ROA and ROE as well as on earning per share of the commercial banks. The study used secondary data over the period 2015 to 2020. The research design use descriptive and explanatory or An Ex-Post Facto Design has been adopted in order to achieve the objectives of the study. A purposive sampling technique is used to select sample of the study. The study found a significant positive effect of IFRS adoption on financial performance measured by return on asset (ROA) and earning per share. The study also found a significant negative effect of IFRS adoption on financial performance measured by return on equity of the commercial banks.

Key Words: *International Financial Reporting Standards, Financial performance, ROA, ROE, and EPS*

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ACCRONYMS

- CBE - Commercial bank of Ethiopia
- AB - Awash Bank
- DB - Dashen Bank
- BOA- Bank of Abyssinia
- CBO - Cooperative Bank of Oromia
- UB - United Bank
- WB - Wegagen Bank
- NIB -- Nib International Bank
- OIB-- Oromia International Bank
- ZB -- Zemen Bank
- ROA   - Return on Asset
- ROE- Return on equity
- BS- Bank Size Trained appraiser
- EPS- Earning per share
- IM – Interest margin
- RR – IFRS - International Financial Reporting Standards
- SPSS -- Statistical package for social sciences

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CHAPTER ONE
INTRODUCTION

1 .1 Background of the study

Accounting is generally known as the "language of business" since it assumes the medium in which the performance and position of corporate entities are communicated to the outside world. Business enterprises all over the world cannot continue speaking in different languages to each other while exchanging financial numbers from their international business activities. Thus, a single set of worldwide accounting standards simplify accounting procedures by allowing the use of a common reporting language across the globe. There are many accounting standards in the world, with each country using a version of their own Generally Accepted Accounting Principles, also known as GAAP. These allow firms to report their financial statements in accordance to the GAAP that applies to them. The complication lies within when the firm does business in multiple countries. Under such circumstances, various questions arise, like, how can investors deal with multiple standards, which ones are accurate, and how can corporations be compared based upon their financials, and the like. Answers to these questions lie within the adoption of the International Financial Reporting Standards (IFRS), developed and supported by the International Accounting Standards Board (IASB).

IFRS was formerly known as international counting standard (IAS), issued by international accounting standard committee (IASC), this was between 1973 and 2001.During its existence IASCissued 41standards.following the replacement of IASC by IASB in April 2001, the board adopted all outstanding IASC as its own standards. Those IASs are to remain in force to the extent that they were not amended or withdrawn by IASB. Thus, when referring to IFRS, the term includes IAS, IFRS and their corresponding interpretations (Nwofia, 2010). According to the IFRS Adoption Roadmap Committee (2010), Public Listed Entities and Significant Public Interest Entities are expected to adopt the IFRS by January 2012. All Other Public Interest Entities are expected to mandatorily adopt the IFRS for statutory purposes by January 2013, and Small and Medium-sized Entities (SMEs) shall mandatorily adopt IFRS by January 2014.

The financial wellbeing of any business entity plays a vital role in the wellbeing of stakeholders and the country at large (Sofia, 2015). In this era of global economic meltdown, there is an urgent need for business entities to improve their business performance to be and remain relevant in the global market (Ironkwe & Oglekwu, 2016). Full compliance to International Financial Reporting Standards (IFRS) plays a vital role in increasing and improving the acceptability and reliability and comparability of the instrument used in measuring corporate performance of a given business entity (Ofurum, Egbe & Micah, 2014). The corporate performance is of paramount concern to shareholders, management, employees, investors, creditors, tax authority, etc. which have different interests in the organization. Their various performance interests focus range from profitability, solvency, and efficiency to capital structure performance (Frank & Alan, 2008). Corporate performance can be measured through the analysis and interpretation of the components that make up the financial statements.

Controversies always existed over the suitability of applying IFRS in developing countries with Singh and Newberry (2008) and Chen, Jiang and Lin (2010) arguing that there exist two schools of thought in this area. The first supports a single set of global standards as being suitable for application. Barth (2008), for instance, argues that by adopting a common body of international standards, countries can expect to lower the cost of information processing and auditors of financial reports can be expected to become familiar with one common set of international accounting standards than with various local accounting standards. The second opposes the use of IFRS. Barth, Landsman and Lang (2007) and Bartov, Goldberg and Kim (2005) argue that there is no conclusive evidence that IFRS have contributed to improvements in accounting quality. Furthermore, it has been argued that one single set of accounting standards cannot reflect the differences in national business practices arising from differences in institutions and cultures (Armstrong et al., 2007; Access Bank, 2010).

Approximately 110 nations and reporting jurisdictions permit or require IFRS for domestic listed companies, although about 95 countries have fully conformed to IFRS as promulgated by the IASB and include a statement acknowledging such conformity in audit reports (Zakari, 2010). Most recent converts to the adoption of IFRS include Canada and Korea that transited to IFRS by 2011. Mexico will require IFRS for all listed companies starting in 2012. Japan has introduced a roadmap for the adoption of the implementation with proposed adoption date of 2015 or 2016. Still other countries have plans to converge their national standards with IFRS.

In recognizing of the benefits of IFRS adoption, Ethiopia has enacted financial reporting proclamation no.847/2014 in the year 2014 which can be applicable by all reporting entities operating in Ethiopia and announced the official adoption of IFRS as established by IASB. Accordingly, the Accounting and Auditing Board of Ethiopia has established as per council of ministers regulation no.332/2014 as an autonomous governing organ to Promote high quality reporting of financial and related information by reporting entities and to regulate the accounting Auditing profession of Ethiopia.

Ethiopian banks were accounted and presented their financial transaction based on requirements provided under commercial code 1960 and NBE proclamation 592/2008 for the last many years. However, both the commercial code and NBE proclamation has no requirements for compliance with any defined accounting standards (ROSC,2007).Consequently, inconsistency of reporting method from period to period and usage of different reporting methods among Ethiopian private banks were observed until the closing of the year, 2016.As stated on their annual financial report ,Some private banks were reported based on IFRS, some were based on GAAP and others based on internally developed accounting policies and procedures. Though, some companies including banks says reported their financial statement under IFRS, it was revealed that there were significant differences between the actual accounting practices and IFRS requirements and concluded that the actual accounting practice in Ethiopia differ from IFRS (ROCS, 2007, Tesfu, 2012, Mihiret, 2016).

Accordingly, AABE has warned reporting entities in Ethiopia not to refer IFRS on their financial statement unless they fully comply with all the requirements of the IFRSs applicable to their circumstances (AABE, 2016). To smooth the process of the adoption, AABE has established a three phase IFRS implementation road map under its four year strategic plan running from the year 2016-2020. Based on these Ethiopian banks are the one and the first which are required to adopt IFRS from July, 2016 and issue of IFRS based financial statements was ended June 30, 2018.

This study exhibit significantly higher effect of the financial performance prepared under IFRS compared to those prepared under GAAP.

1.2 Statement of the problem

Scholars have argued that the characteristics of local business environments and institutional frameworks determine the form and contents of accounting standards in developing countries. Developing countries, including Ethiopia, are characterized by delicate institutions and unstable economic and political environments, which are not beneficial to assimilation of IFRS (Muhammad, 2015). Regardless of the arguments several countries and companies have adopted IFRS and there is irresistible need to review the outcome. There are mixed results as to whether the adoption of the IFRS improves the performance of business institutions or not (Muhammad, 2015). Lantto and Sahlström (2009), for instance, present such results as the adoption of IFRS affects financial ratios of firms in Finland. They found that liquidity ratios decrease under IFRS, while leverage and profitability ratios increase.

A number of research works have been carried out on IFRS and their adoption, but none of them have covered what this research work intends to cover. Ironkwe and Oglekwu (2016) carried out research on the effect of International Financial Reporting Standards (IFRSs) on corporate performance. Muhammad (2012) examined the effect of International Financial Reporting Standards (IFRS) adoption on the performance of firms in Nigeria. Eneje, Obidike & Chukwujekwu (2016) examined the effect of IFRS adoption on the mechanics of loan loss provisioning for Nigerian Banks. Ugbede, Mohd and Ahmad (2014) have investigated the International Financial Reporting Standards and the quality of banks' financial statement information: evidence from an emerging market – Nigeria. Akiwi's study (2010) aims at understanding the development of accounting in Ghana and how accounting has evolved over the years. Okoye, Okoye and Ezejiofor (2014) assess the impact of International Financial Reporting Standards on stock market movement and the extent at which it can improve the position of corporate organizations in the Nigerian capital market.

International Financial Reporting Standards (IFRS) and corporate performance in emerging economies have become a major concern receiving critical attention in academic research due to the interests of shareholders investment into such companies. Among these studies, none have studied the IFRS and the bank performance; this study, therefore, fill the gap by studying the effect of IFRS on financial performance of the selected commercial banks in Ethiopia using a more robust analysis like combination time and cross sectional approach. Analysis of financial performance variables and values from financial statements prepared based on IFRS and GAAP are made.

1.3 Research Questions

1. What is the effect of IFRS adoption on return of equity of the commercial banks?
2. What is the effect of IFRS adoption on return on asset of the commercial banks?
3. What is the effect of IFRS adoption on earning per share of the commercial banks?

1.4 Objective of the study

The main objective of the study is to investigate the effect of International Financial Reporting Standards (IFRS) on financial performance of the selected commercial banks in Ethiopia.

1.4.1 Specific objective of the study

1. To determine effect of IFRS adoption on net income and equity of the commercial banks.
2. To investigate the effect of IFRS adoption on return on asset of the commercial banks.
3. To examine the effect of IFRS adoption on Earning per share of the commercial banks.

1.4.2 Research hypothesis

The null hypothesis of this study

H_{01} : There is no statistically significant difference in return of equity reported under IFRS and GAAP.

H_{02} : There is no statistically significant difference in return of asset reported under IFRS and GAAP.

H_{03} : There is no statistically significant difference in earning per share reported under IFRS and GAAP.

1.5 Scope of the study

It is a vital conducting a study in the case of all significant public interest entities which implemented IFRS in Ethiopia. However, due to time and finance constraints and seeking the flexibility of the data collection this study focused on the effect of IFRS adoption on financial performance the case of selected commercial banks. The reasons for the selection of private banks are, they are operating under the same regulatory environment and their IFRS adoption is handled at the same time with the formation of similar adoption strategies. It helped the researcher to avoid the biasness of the data that may create in connection with the difference of above mentioned cases. The study mainly examined the effect of IFRS adoption on financial performance of the selected commercial banks. Out of 17 commercial banks this study delimited to ten commercial banks which are preparing financial report based on IFRS. The selection bank is based on the time of establishment and the data availability.

1.6 Limitation of the study

This research is subject to several limitations. Some of are, the sample size of only 10 banks approaches the lower limit for what can be considered statistically valid And limited research that exists on International Financial Reporting Standards and its effect of financial performance within the Ethiopian context.

1.7 Significance of the Study

The findings and recommendations of this study will benefit countries and entities by providing direction on real effect of IFRS on financial performance and enhancing their understanding of stakeholders about the benefits of IFRS adoption for internal and external stakeholders of financial sector as well as the whole nation. This study will have knowledge contribution, provides important information to the areas of IFRS adoption and its impact on financial performance in Ethiopia and will add valuable contributions to the existing body of literature and assist the future researchers in obtaining new ideas and perspectives for their study.

1.8 Organization of the Study

The study has been organized into five chapters. In chapter one, background of the study, statement of the problem, objectives the study, research questions, research hypothesis, significance of the study and scopes of the study are outlined. Chapter two consist literature reviews which are deemed to be relevant with the research project. The data and methodology that are used to achieve the objectives of the study are outlined and discussed in chapter three. Chapter four presents the results obtained by applying the methods described. In chapter five conclusions and recommendations have been made based on the results obtained.

CHAPTER TWO
LITERATURE REVIEW

2.1 Theoretical Review

International Financial Reporting Standards (IFRS) set common rules so that financial statements can be consistent, transparent, and comparable around the world. IFRS are issued by the International Accounting Standards Board (IASB) formerly known as International Accounting Standards Committee (IASC). IFRS specify how companies must maintain and report their accounts, defining types of transactions, and other events with financial impact. IFRS were established to create a common accounting language so that businesses and their financial statements can be consistent and reliable from company to company and country to country. IFRS are sometimes confused with International Accounting Standards (IAS), which are the older standards that IFRS replaced (Barclay palmer 2021).

Obviously, there are major differences in financial reporting of companies in different countries. These differences result in complications for preparing, consolidating, auditing and interpreting published financial statements. There has been a greater need to bridge the gap between the differences in financial reporting standards among countries. To make this a reality, several organizations have been involved in trying to harmonize the financial reporting standards worldwide. The terms harmonization and standardization are used in most instances to describe the solution to solving the differences that pertain in national financial reporting standards. Harmonization is the process of increasing the compatibility of accounting practices by setting bounds to their degree of variation.

More than 144 countries around the world have adopted IFRS, which aims to establish a common global language for company accounting affairs. But all countries are not adopting IFRS and use the old one GAAP (general accepted accounting principle). A major difference between GAAP and IFRS is that GAAP is rule-based, whereas IFRS is principle-based. This disconnects manifests itself in specific details and interpretations. Basically, IFRS guidelines provide much less overall detail than GAAP. Consequently, the theoretical framework and principles of the IFRS leave more room for interpretation and may often require lengthy disclosures on financial statements. On the other hand, the consistent and intuitive principles of

IFRS are more logically sound and may possibly better represent the economics of business transactions.

2.1.1Approaches to IFRS implementations

Adoption of IFRS is more than just an accounting exercise. This is because accounting and reporting represent only a small part of the conversion efforts (AABE 2015). A country can change its existing accounting system to a globally recognized accounting standard called IFRS either by totaling replacing or customizing it with IFRS over time. The first approach is known as adoption or ‘big bang’ approach while the latter is called a convergence approach. ‘Big bang’ approach is a strategic decision to adopt IFRS on a single date or, perhaps, a series of dates applied to companies of different sizes. Under this approach, once IFRS are adopted, all IFRS standards should be complied while preparing financial statements and the existing accounting standard should be replaced with IFRS; while in Convergence approach, gradual movement is made towards IFRS through customizing with the existing accounting standards and IFRS are applied gradually. Converging a few local standards to IFRSs each year can allow local preparers and auditors to learn a few topics at a time rather than immersing themselves in the full set of IFRSs and convergence approach can also allow time for necessary changes in local legal frameworks (IFRS, 2013). (Source: http//www.ifrs.org)

2.1.2 Challenges of Adopting IFRS

The problem of differences in accounting standards will continue to exist for some time. From a regulatory perspective, convergence to IFRS would require amendments to the Companies Act and the Income Tax Act, to mention the major ones. Currently industries such as banking and insurance companies are also regulated by specific acts that prescribe accounting norms. IFRS does not provide industry specific standards so there would be additional transition challenges as and when progress is made. IFRS requires valuations and future forecasts, which will involve use of estimates, assumptions and management's judgments (Kumar, 2014).

The various problems for the adoption and convergence of IFRS identified include funding for IASB, tax implications, preparedness for the transition to IFRS, compliance issues and enforcement mechanisms, and cultural and structural barriers.

The various problems for the adoption and convergence of IFRS identified include

I. Funding for IASB:

Funding of the IASB is one of the biggest obstacles to the adoption of IFRS.

II. Tax implications:

The adoption of IFRS would require companies to track a significantly larger number of book–tax differences, particularly if the state and federal tax laws in use are not amended to reflect IFRS. Additionally, the adoption would force some companies to pay higher taxes because it prohibits the use of the LIFO method of valuing inventories (ifrsusa,2016).

III. Preparedness for the transition to IFRS

Different businesses and countries have varying levels of readiness for IFRS transition. For instance, large and international companies may have experts or IFRS training programs to help in the transition. Others have sufficient financial resources to hire IFRS experts on a permanent basis or as part-time consultants during the transition process. On the contrary, many medium and small companies do not have enough resources to support the transition process (ifrsusa,2016).

IV. compliance issues and enforcement mechanisms

Many companies, their accountants, and auditors are yet to fully comply with IFRS, even in countries that are listed as having fully adopted the new accounting standards. Additionally, many countries, particularly those with weak institutions, lack sufficient enforcement mechanisms of IFRS. Ideological differences between different countries are yet another challenge facing the adoption of the standards (ifrsusa,2016).

V. Cultural and structural barriers.

The adoption and convergence of IFRS are also faced with many cultural and structural differences. The cultural barriers include religious and language barriers (ifrsusa,2016).

2.1.3 Benefits of IFRS Adoption

Various studies have been conducted in different countries to identify benefit realized and challenges faced in adopting IFRS for the first time. IFRS might provide the following benefits:

1. Organization problem between management and shareholders can be substantially reduced through implementation of IFRS as increased transparency.

2. by increasing the growth of its international business.
3. By encouraging the international investors to invest, it leads to more foreign capital flows to the country.
4. Financial statements prepared using a common set of accounting standards help investors better understand investment opportunities as opposed to financial statements prepared using a different set of national accounting standards.
5. A consistent financial reporting basis would allow a multinational company to apply common accounting standards with its subsidiaries worldwide, which would improve internal communications, quality of reporting and group decision-making
6. The industry is able to raise capital from foreign markets at a lower cost if it can create confidence in the minds of foreign investors that their financial statements comply with globally accepted accounting standards.
7. It offers accounting professionals more opportunities in any part of the world where the same accounting practices (deepak kumar adhana,2020).

2.1.4 Factors Affecting the Implementation of IFRS

the factors chosen are education level, the availability of a national set of financial accounting standards for SMEs, familiarity with IFRS, the legal system, foreign aid, the quality of national financial accounting standards and the relationship between accounting standards and tax rules, economic growth education level, economic openness, culture and the relative capital market size.

2.1.5 The relationship of IFRS and GAAP

The similarities and differences that exist under United States GAAP and IFRS are quite distinctive. In addition, 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. Furthermore, United States GAAP is supported by three aspects and these are: (1) Legal, (2) Economic, and (3) a Social Accounting System. On the contrary, IFRS is a principle based accounting standard and as such meets the social economic needs of a country. As a result, the main differences and objectives that exist between United States GAAP and IFRS are found under the economic, legal, political and social aspect. For example, when Germany decided to adopt IFRS, the central bank suggested that IFRS was a great accounting standard to follow. Another example that can be illustrated is the Netherlands because the Netherlands had to clearly identify the equity outside their financial system by following the predicated guidance under IFRS. The technical differences that are established between United States GAAP and IFRS are indicated as follows: (1) The way financial statements are presented under each accounting standard, (2) Evaluation of the financial position of the Balance Sheet, and (3) Recording of the accounting differences in the accounting books. Therefore, IFRS offers more latitude judgment than United States GAAP and as well provides an extensive reporting disclosure requirement (Warren, Reeve, & Duchac, 2014).

2.1.6 Financial performance indicator

The number and exact type of financial indicators used to assess the creditworthiness of the firm differs from one bank to another, but a representative set of indicators includes:

1. Gross Profit Margin

Gross profit margin is a profitability ratio that measures what percentage of revenue is left after subtracting the cost of goods sold. The cost of goods sold refers to the direct cost of production and does not include operating expenses, interest, or taxes. In other words, gross profit margin is a measure of profitability, specifically for a product or item line, without accounting for overheads. Gross Profit Margin = (Revenue - Cost of Sales) / Revenue * 100

2.Net Profit Margin

Net profit margin is a profitability ratio that measures what percentage of revenue and other income is left after subtracting all costs for the business, including costs of goods sold, operating expenses, interest, and taxes. Net profit margin differs from gross profit margin as a measure of profitability for the business in general, taking into account not only the cost of goods sold, but all other related expenses.Net Profit Margin = Net Profit / Revenue * 100

3. Working Capital

Working capital is a measure of the business's available operating liquidity, which can be used to fund day-to-day operations.Working Capital = Current Assets - Current Liabilities

4. Current Ratio

Current ratio is a liquidity ratio that helps you understand whether the business can pay its short-term obligations—that is, obligations due within one year— with its current assets and liabilities.Current Ratio = Current Assets / Current Liabilities

5. Quick Ratio

The quick ratio, also known as an acid test ratio, is another type of liquidity ratio that measures a business's ability to handle short-term obligations. The quick ratio uses only highly liquid current assets, such as cash, marketable securities, and accounts receivables, in its numerator. The assumption is that certain current assets, like inventory, are not necessarily easy to turn into cash.Quick Ratio = (Current Assets - Inventory) / Current Liabilities

6. Leverage

Financial leverage, also known as the equity multiplier, refers to the use of debt to buy assets. If all the assets are financed by equity, the multiplier is one. As debt increases, the multiplier increases from one, demonstrating the leverage impact of the debt and, ultimately, increasing the risk of the business. Leverage = Total Assets / Total Equity

7. Debt-to-Equity Ratio

The debt-to-equity ratio is a solvency ratio that measures how much a company finances itself using equity versus debt. This ratio provides insight into the solvency of the business by reflecting the ability of shareholder equity to cover all debt in the event of a business downturn.Debt to Equity Ratio = Total Debt / Total Equity

8. Inventory Turnover

Inventory turnover is an efficiency ratio that measures how many times per accounting period the company sold its entire inventory. It gives insight into whether a company has excessive inventory relative to its sales levels.Inventory Turnover = Cost of Sales / (Beginning Inventory + Ending Inventory / 2)   (Source: https://online.hbs.edu).

2.1.7 IFRS Adoption in Developing Countries

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

It is expected that the move towards IFRS convergence will enhance capital market performance and ginger global business expansion in Nigeria. In the view of this development all corporate organization are expected to adopt and comply with IFRS in preparation and presentation of their financial statement Iyoha and Jimoh (2011), "Compliance with accounting standards by quoted insurance companies in Nigeria: An empirical investigation. There is wide spread adoption and compliance by other country of the world. In a survey Conducted by H. Manuel, How to hedge disclosure on Spanish stock market, on how to hedge disclosures, today firms face several financial risks in their daily business activities due to global, international trading and transactions.

Ojeka and Mukoro, (2011) conducted a research entitled International Financial Reporting Standards (IFRS) and SMEs in Nigeria: Perceptions of Academic. The paper has three objectives. The first objective was to identify whether the academic believe that the proposed IFRS for SMEs (Statement of GAAP for SMEs) will ease or alleviate the burden of financial reporting and preparation by SMEs in Nigeria. The second objective of the study is to find out if Nigeria government should support the adoption/adoption of IFRS for SMEs. Finally the study aims to find out how outspoken the academic have been towards the adoption/adoption of IFRS for SMEs in Nigeria. The result of the study revealed doubt among the academic about whether this would be so. This was in spite of the good and sincere intentions in establishing IFRS for SMEs. After reviewing the literatures and the empirical result, it was believed that Nigeria government should put all the necessary machinery in place to fast track the adoption of IFRS for SMEs in Nigeria. The result also showed that academics have been relatively quiet in time past in Nigeria since the IFRS for SMEs was proposed.

Various researches made on the adoption of International Financial Standards indicate that huge amount of Direct Finance Inflow to countries that adopt IFRS; therefore the adoption of IFRS for emerging economies like Ethiopia which has limited resources for development is more advantages than that of the developed countries, regarding the advantages of adopting IFRS globally several researches were made among them the following are listed here (Iyoha and Faboyede, 2011).

Beside the benefits obtained from the harmonization of international financial reporting standards as identified by various researchers the adoption of international reporting standards and the harmonization process encounters many challenges as identified by various researchers such as (Iyoha and Faboyede, 2011; Apostolos et al., 2010; Jermakowicz et al., 2007; Jermakowicz, 2004; Wong, 2004; Alexander, 2003), the challenges faced on transiting to IFRS for the first time varies from one country to another but the major issues and challenges may be common for most countries whether developed or country with emerging economy, however, some issues are peculiar to those countries whose economies are under development. In these countries their financial management system is very weak, they lack adequate IT system to process financial information, they lack appropriate accounting software that produced in the local language, they lack adequate number of qualified accounting professional and lack adequate training centers and professional institutions which regulate the profession in some countries. (Iyoha and Faboyede, 2011).

2.2 Empirical Literature Review

Several papers attempted to determine the level of compliance between various accounting practices and the impact of adopting international standards on accounting harmonization. Intensified research of the relationship between the national accounting standards and IFRS was carried out, specifically since 2002, when the European Union's directive of the mandatory adoption of IFRS was disclosed to its member- states**.**

Ironkwe and Oglekwu (2016) carried out a study on International Financial Reporting Standards (IFRSs) and Corporate Performance of Listed Companies in Nigeria. The study adopted personal interview and questionnaire methods as the major techniques for primary data collection. Data collected were analyzed using both descriptive methods such as tables, frequencies and percentages and inferential statistics of Chi-square and ANOVA respectively. The study concluded that there is a strong positive relationship between the adoption of IFRS and the financial performance due to cost reduction of an organization. IFRS adoption improves business efficiency and productivity for effective business performance. The adoption of IFRS saves multinational corporations the expense of preparing more than one set of accounts for different national jurisdictions.

Hung and Subramanyam (2007), using a sample of German companies, researched the impact of the adoption of IFRS during 1998 through 2002. They concluded that the value of total assets, value of equity and variability of net earnings are significantly higher under IFRS compared to the German Accounting Standards. However, they could not support a respective change on financial ratios, which were examined.

Agca and Aktas (2007) examined the adoption impacts on financial ratios of 147 listed firms in Istanbul stock exchange during 2004-2005, considering one year as pre-adoption, and the other as post-adoption periods. They observed the results with F-Test tool, and found out that CR and net asset turnover are significantly affected. The authors based this variation to the fixed assets adjustments.

Abata (2015b) carried out an investigative study on the impact of IFRS on Financial Reporting Practices in Nigeria. Data were collected from 50 employees of KPMG (a leading professional financial services provider) using structured questionnaire and analysed using mean scores, standard deviation and Pearson Chi-square analysis. The findings revealed that IFRS provides better information for regulators than GAAP (mean = 4.72). The results of the study showed that changes in business processes and operations, financial position of companies and reduction in cost of finance were the least contributions of IFRS to financial reporting practices of KPMG. The results of Pearson Chi-square analysis showed that financial reports prepared under IFRSs enhanced best practices in a corporate organization (Pearson Chi-Square = 37.857); financial statements prepared in line with IFRS provides greater.

Lantto and Sahlström (2009) conducted a survey using a sample of 125 companies seated in Finland by analyzing years 2004 as pre-adoption year, and 2005 as after adoption year. They concluded that the adoption of IFRS changed the magnitude of the basic financial ratios because of the change in book value and because of the imposition of more stringent requirements on some issues. The study indicated that the adoption of IFRS changes the magnitudes of the key accounting ratios by considerably increasing the profitability ratios and gearing ratio moderately, and considerably decreasing the P/E ratio and equity and quick ratios slightly.

Shehu (2015) researched on adoption of international financial reporting standards and earnings quality in listed deposit money banks in Nigeria. He inves-tigates firm's attributes from the perspective of structure, monitoring, performance elements and the quality of earnings of listed deposit money banks in Nigeria. The study adopted correlational research design with balanced panel data of 14 banks as sample of the study, using multiple regression as a tool of analysis. The result reveals that firm's attributes (leverage, profitability, liquidity, bank size and bank growth) have a significant influence on earnings quality of listed deposit money banks in Nigeria after the adoption of IFRS, while the pre-period shows that the selected firm's attributes have no significant impact on earnings quality. It is therefore concluded that the adoption of IFRS is right and timely.

Blanchette, Racicot and Girard (2011) in their research examined the impact of the adoption of IFRS on liquidity, leverage, coverage and profitability ratios in a sample of companies seated in Canada. Survey results showed differences in means, medians and volatility in most financial ratios of companies, but these differences were not statistically significant in most of the cases. Also, by specifically analyzing their results by groups of companies who adopted IFRS at different dates, they found no significant variation on their results.

A more comprehensive research was pursued by Terzi, Otkem and Sen (2013) with sample size of 140 listed firms during the period 2003-2005 categorized into 7 industrial sectors. They calculated various ratios and examined them through tools such as Wilcoxon's signed ranks test, Mann-Whitney U test and logistic regression analysis. They also examined the differences between local GAAP and IFRS in terms of book to market ratio. They observed an increase in liquidity and profitability, but no significant changes in stock turnover, current assets, and current liabilities.

Muhammad (2012) examined the effect of International Financial Reporting Standards (IFRS) adoption on the performance of firms in Nigeria. The study utilizes secondary data to tests the effects of the adoption of IFRS on the performance of the selected firms in Nigeria. Logit regression and t-test were used in the analysis. The study finds that variability of earnings has decreased from an average of 32624.4 to 14432.2, which suggests that there was low variability in earnings in the post adoption period. Timely loss recognition is the measure for prevalence of large negative earnings, where large negative results suggest that the loss recognition is not timely in the post-adoption period. He found LNEG to be positive, which signifies that IFRS firms recognize losses more frequently in the post-adoption period than they do in the pre-adoption period. The study therefore concludes that accounting quality improves after the adoption of IFRS. Furthermore, under IFRS firms tend to exhibit higher values on a number of profitability measures, such as earnings per share (EPS).

2.2.1 IFRS Adoption and Implementation in Ethiopia

There were some studies made in regard to the benefits and challenges of IFRS adoption faced by many countries but the case of Ethiopia is very different from those studies so fare made because Ethiopia is one of few countries who have not have its own accounting standards or who has not adopted other courtiers standards as some countries did adopt USA or UK GAAPs, in fact few studies were made with regard to IFRS adoption in Ethiopia to site Fikru Fantahun (2012), Teferi Deyuu (2016), Yitayew Mihert (2016), Almgena and Eyob all of them were studied the need, benefits and challenges of IFRS adoption. The researcher was presented their study area and finding as follow.

According to the study conducted by Fikru (2012) entitled the benefits and challenges IFRS adoption in the Ethiopia case identified the most important factors that could influence the adoption of IFRS. The findings of the study identified that the need for the requirement of capacity building program for both government regulatory bodies and training making institutions in order to provide the required man power to facilitate the adoption IFRS in Ethiopia . His research was mainly focused specifically on the voluntary adoption of IFRS in Ethiopia specifically on the financial institutions and ECX member organizations that were required by proclamation to adopt IFRS.

The other study conducted on IFRS adoption progress in Ethiopia was made by Teferi and Passich (Professor) (2016) .Their study was mainly focused to assess the IFRS adoption progress in Ethiopia and identified determinant factors that motivate adoption of IFRS and stated advantages and challenges of IFRS adoption in Ethiopia. The authors were provided an input for stakeholders and serve as stepping stone for future researches on the issue of IFRS adoption in Ethiopia. Similarly, Teferi and J.S Pasricha indicated that on their research that Commercial Bank of Ethiopia, Construction and Development Bank and Ethiopian Instance Corporation were used the term IFRS in their annual report for the first time. However, the authors were not investigated whether those reports were done in compliance with the requirement of IFRS 1 the first time and whether they were fully disclose the adoption of IFRS as required by IASB.

Yitayew (2016) was also studied entitled IFRS adoption in Ethiopia with a view to explain how different factors such as government regulatory bodies and other national actors and international forces interact in establishing the Ethiopian regulatory landscape as antecedent to IFRS adoption and subsequent implementation. Moreover, Melese (2016) studied about adoption, challenges and perception s of IFRS on the quality of Financial Reporting of Financial institution s in Addis Ababa, this research was focused on voluntary adoption and tried to explain the use of IFRS by financial institution in Ethiopia since 2002/2003 voluntarily.

Based on the theoretical analysis since Ethiopia was not adopt IFRS during those studies, this research is intended to identify the gap in the studies made previously in international bases and locally by focusing on the study of actual implementation issues during the transition period as set out by the regulatory body AABE for the 78 which encompass 41 Government Owned Public Entities which includes (industries, transport sectors, construction industries, tourism, agricultural sectors, retail business etc), 19 banks and 18 Insurance company which adopt IFRS for the first time mandatorily in Ethiopia and this study intended to contribute body of knowledge to remaining entities which will adopt IFRS in the country and for countries that will be adopting IFRS in the future periods.

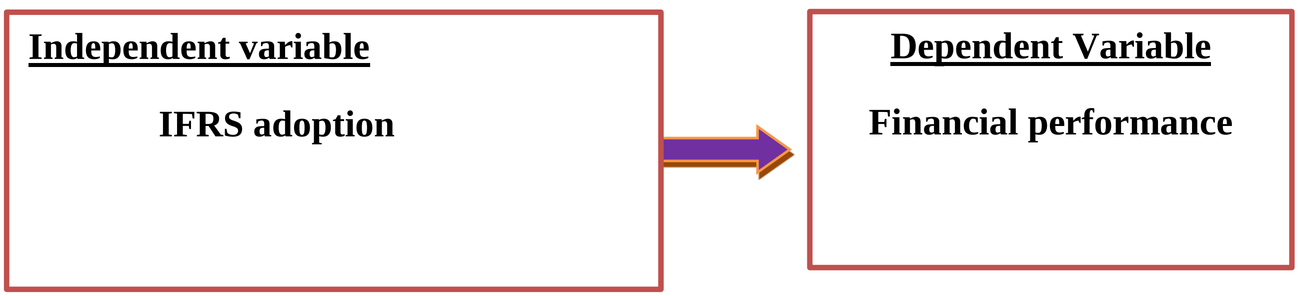
In addition to the papers written in Ethiopia had reviewed recent literatures which related to my research paper such as Alemgena (2016) and Eyob (2017)) research carried out in Heineken brewery factory and Commercial Bank of Ethiopia respectively. Therefore the study categorized them in three parts that is articles related relevance of IFRS adoption, articles related to problems of adopting IFRS and finally I categorized them as perceived challenges of IFRS adoption.

2.2.2 Factor affecting IFRS implementation in bank industry

Compared with the previous local accounting standards, IFRS adoption brought several changes. The two most important changes for this study include an increase in fair value measurement and an increase in accounting choices. As the fair value measure increases, the statement of financial position (balance sheet in US Generally Accepted Accounting Principles terminology) increases in relevance for equity valuation. However, the market volatility included in fair value increases the noise in measuring banks' future cash flows. Even though fair value measures do not directly rely on level 1 inputs, which are market values, level 2 or level 3 inputs of fair value measures do not alleviate the information risk because they discretionary. In sum, extended use of fair value measures increases information risks, which are unfavorable for both investors and bank regulators. In addition, although the increase in accounting choices enhances the relevance of the statement of financial position to equity valuation, this increase could influence the banking industry negatively. The increase in accounting choices complicates verification of compliance with the debt covenants. This provides opportunities for moral hazard for both parties of the debt contract. The reduction of contractibility of accounting information could have a significant impact on capital markets, which necessitates intervention by banking regulators (The Influence of IFRS Adoption on Banks' Cost of Equity: Evidence from European Banks)

2.3 Conceptual Framework of the Study

The following theoretical framework has been formulated to depict a relationship between IFRS adoption and financial performance. In the literature review, it has been observed that IFRS adoption has an impact on financial performance indicators such as profitability, liquidity, loan grant indicators, and market value indicators and so on.



CHAPTER THREE
DATA AND METHODOLOGY

3.1 Introduction

This chapter sets out various stages and phases that are followed in completing the study. It involves a blueprint for the collection, measurement and analysis of data. In this stage, most decisions about how research executed and how respondents are approached, as well as when, where and how the research is completed. Therefore, in this section the research identify the procedures and techniques that used in the collection, processing and analysis of data.

3.2 Research Approach

In this study, the researcher used a quantitative research approach to quantify defined variables – and generalize results from a larger sample population. Numbers, data hypotheses, experiments, deductive use of this method is helpful to ensure that; the data collected is effectively interpreted and analyzed using the statistical analysis and descriptive statements. Quantitative research most often uses deductive logic, in which researchers start with hypotheses and then collect data which can be used to determine whether empirical evidence to support that hypothesis exists or not. Using quantitative approach, the researcher tries to examine the direction and strength of the relation between the independent variable (IFRS adoption) and its dependent variable (financial performance measured by return on asset, return on equity and earning per share)

3.3 Research Design

Research design is the blue print on how one goes about answering the objectives of the study (Bryman and Bell, 2007). It refers to the way in which the study was designed and the method that were used in carrying out the research. In this study descriptive and explanatory or An Ex-Post Facto Design has been adopted in order to achieve the objectives of the study. The finding of this research would explain the relationship between IFRS adoption and financial performance. However, it would also have some features of descriptive research. It describes and critically examines the effect of IFRS adoption on financial performance. Descriptive research design has been designed to obtain information, which concerns the present status of phenomenon. It is also useful in identifying variables and hypothetical constructs and it may be used to test theories and hypothesis.

3.4 Target population and Sampling technique

The population for the study was all commercial banks operating in Ethiopia. From the total population size of 17 commercial banks 10 commercial banks were selected (9 private commercial banks and 1 government commercial bank) that operate in Ethiopia. A purposive sampling technique is used to select 10 banks that are listed on commercial banks. The use of 10 banks is a suitable and fair sample since a sample of 0.05 proportion of the population is believed to be satisfactory in making inferences (Amadi, 2005). The study employed a sample of 50% of the total population of 17 banks. It is therefore a representative sample.

3.5 Data and Coverage

In this study the researcher used only secondary source of data collection over the period 2015 to 2020. The data sourced and employed from annual Audited Financial statements of 10 selected commercial banks (more specifically from National bank of Ethiopia annual banking survey reports). The selected banks are commercial bank of Ethiopia (CBE), Awash Bank (AB), Dashen Bank (DB), Bank of Abyssinia (BOA), Wegagen Bank (WB), Nib Bank (NIB), United Bank (UB), Zemen Bank(ZB),Oromia international Bank(OIB) and Cooperative Bank of Oromia(CBO). The selection of the 10 banks informed by i) the availability data and their consistency to stand the test of time prior and within the period of IFRS adoption ii) the size of their Balance sheet size, net profit, gross income. The data set consists of the following variables: Financial performance indicators such as Return on Assets (ROA), Return on Equity (ROE) and Earnings per share and independent variables such as IFRS adoption, bank size and interest margin. The earning per share for commercial bank of Ethiopia used estimated share.

3.6 Method of Data Analysis

To achieve the objectives of the study, Statistical Package for Social Science (SPSS) software version 20 is employed to analyze and present the data through the statistical tools used for this study, descriptive analysis, and ANOVA (T- test). For analyzing the samples, financial ratios (ROA, ROE, BS, and EPS) are considered. Ratios are calculated based on the figures obtained from financial statements constituted according to the two sets of accounting standards (pre and post IFRS) for each year and for each bank. The 6 years values (three for post IFRS and three for pre IFRS) of each ratio have to be averaged to obtain the ratio value of the particular bank, thus resulting in 2 values per bank for each ratio to represent post IFRS and pre IFRS values.

3.6.1 Descriptive Analysis

Initially, measures of descriptive statistics are presented to describe the main features of each of the ratio calculated. It includes mean standard deviation, minimum value, and maximum values. Next, Gray's comparability index has been used for measuring the relative impact of IFRS adoption on financial performance through financial ratios of the selected commercial banks under study. This statistical tool is good for use in this regard because it is set to compare financial ratios under two separate regimes. The index is expressed by the formula below

$$1-\left(\frac{R_{IFRS}-R_{GAAP}}{R_{IFRS}}\right)$$

Where

R_{GAAP} = Financial ratio under (GAAP)

R_{IFRS} = Financial ratio under IFRS

The index value larger than +1 suggests that the financial ratio under GAAP or before IFRS is higher than the financial ratio under IFRS, a value lower than +1 suggests that the financial ratio under IFRS is higher than the financial ratio under GAAP or before IFRS and an index value +1 suggests no change between the financial ratio. But, this index does not show whether the difference significant or not. Therefore, to test whether the difference obtained is significant or not ANOVA or T-Test has been employed (Gray et al, 2009, Haller et al, 2009).

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

This chapter presents data analysis, findings and discussion of the study in line with the research objective. The research objective was to find out the effects of effects of international financial reporting standards on financial performance of selected commercial banks. Descriptive analysis, Gray comparability index, T-test to test the hypothesis formulated and panel regression analysis is presented. Descriptive statistics was used to analyze the data and results presented in form of tables for easy, simple and clear interpretation of data in pre IFRS and post IFRS period.

4.1 Descriptive Analysis for the Overall Study Variables

Measures of descriptive statistics are calculated to describe the main features of the collected data, which includes mean, standard deviation, minimum value and maximum value. Descriptive statistics are presented for each variable in Table 4.1.

Table 4.1: Summary of descriptive statistic (%)

Financial ratio		N	Mean	Std. Deviation	Minimum	Maximum
ROA	GAAP	30	2.503	0.5480	.01	3.48
	IFRS	30	2.513*	0.6043	1.01	4.46
	Total	60	2.508	.69249	.01	4.46
ROE	GAAP	31	23.749	15.4079	3.00	71.85
	IFRS	29	22.328	5.4388	11.70	41.10
	Total	60	23.038	11.70698	3.00	71.85
EPS	GAAP	31	9.891	1.6506	5.71	13.00
	IFRS	29	10.855*	1.5702	7.32	13.00
	Total	60	10.373	1.72260	5.71	13.00

*Mean values is increased in IFRS

Table 4.1 presents summary of descriptive statistic for study variables. From the result the mean value of ROA and EPS showed increased value in IFRS-based financial statements while the financial performance indicator “ROE” showed a decreased value in case of IFRS-based financial statements. The variability measured by standard deviation in ROE is significantly lower in IFRS than in GAAP signifying the consistency of the ROE of the banks under IFRS than GAAP. Overall the variability measured by standard deviation relatively lowers in all study variables in case of IFRS- based financial statements signifying the more consistency of the data under the study period.

4.2: Analysis of Gray's Comparability Index for the Study Variable

Gray's comparability index was used to measure the relative impact of IFRS adoption on financial ratios of the Ethiopian commercial banks under study. While calculating the comparability indices, a value of greater than 1 implies that financial ratio reported under GAAP is higher than that calculated under IFRS and would be regarded as less conservative than that reported under IFRS. Similarly, an index value of less than 1 implies that financial ratio reported under GAAP is less than the ratio reported under IFRS and is regarded as more conservative than that reported under IFRS. Furthermore, an index value equal to 1 implies neutrality and indicates that the transition to IFRS has no impact on profit and equity (Weetman and Gray, 1991; Hellman, 1993). The results are presented in Table 4.2, table 4.3, table 4.4 and table 4.5

Table 4.2: Banks' Computed Comparability Index for ROA (%)

Banks	**GAP**	**IFRS**	**Difference**	**Comparability index**
CBE	2.91	1.66	1.25	**1.752**
AB	2.83	3.37	-0.53	**0.842**
DB	2.75	2.26	0.48	**1.214**
BOA	2.47	1.97	0.50	**1.252**
CBO	1.33	2.33	-1.00	**0.571**
UB	2.00	2.00	0.00	**1.000**
WB	2.72	2.63	0.09	**1.034**
NIB	2.63	2.43	0.20	**1.084**
OIB	2.14	2.98	-0.84	**0.717**
ZB	3.24	3.49	-0.25	**0.929**

Table 4.2 shows the average of Comparability Index of ROA for all the commercial banks under study. It also shows the number of firms that experience increase, decrease and no change by the transition to IFRS. It is observed from the results that of the index values of ROA for commercial bank of Ethiopia (CBE), Dashen Bank (DB), Bank of Abyssinia (BOA) Wegagen Bank (WB) and Nib Bank (NIB) are greater than 1.0 indicating that upon transition to IFRS by these banks negatively affects the ROA. On the other hand, the index values of ROA for Awash Bank (AB), Nib Bank(NIB), Zemen Bank(ZB),Oromia international Bank(OIB) and Cooperative Bank of Oromia(CBO) are less than 1.0 signifying a positive effect of IFRS on ROA of these banks while the index value of ROA for United Bank(UB) is 1.00 indicating transition to IFRS has no impact on ROA.

Table 4.3: Banks' Computed Comparability Index for ROE (%)

Banks	**GAP**	**IFRS**	**Difference**	**Comparability index**
CBE	66.72	22.61	44.11	**2.951**
AB	22.73	34.93	-12.20	**0.651**
DB	23.38	18.37	5.00	**1.272**
BOA	19.49	16.23	3.26	**1.201**
CBO	14.33	24.67	-10.33	**0.581**
UB	17.33	20.67	-3.33	**0.839**
WB	15.71	18.36	-2.65	**0.855**
NIB	16.36	18.41	-2.05	**0.889**
OIB	19.41	26.19	-6.77	**0.741**
ZB	22.02	22.84	-0.82	**0.964**

Table 4.3 shows the average of Comparability Index of ROE for all the commercial banks under study. It also shows the number of firms that experience increase and decrease by the transition to IFRS. It is observed from the results that of the index values of ROE for commercial bank of Ethiopia (CBE), Dashen Bank (DB) and Bank of Abyssinia (BOA) are greater than 1.0 indicating

that upon transition to IFRS by these banks negatively affects the ROE. On the other hand, the index values of ROA for Awash Bank (AB), Nib Bank(NIB), Zemen Bank(ZB),Oromia international Bank(OIB), United Bank(UB) and Cooperative Bank of Oromia(CBO) are less than 1.0 signifying a positive effect of IFRS on ROE of these banks.

Table 4.4: Banks' Computed Comparability Index for EPS (%)

Banks	**GAP**	**IFRS**	**Difference**	**Comparability index**
CBE	8.17	7.71	0.46	**1.059**
AB	10.53	12.00	-1.47	**0.878**
DB	6.10	8.64	-2.54	**0.706**
BOA	10.58	11.76	-1.18	**0.900**
CBO	11.33	11.00	0.33	**1.030**
UB	10.33	11.67	-1.33	**0.886**
WB	10.77	12.33	-1.57	**0.873**
NIB	9.14	9.96	-0.81	**0.918**
OIB	10.53	11.88	-1.34	**0.887**
ZB	11.41	11.61	-0.20	**0.983**

Table 4.2 shows the average of Comparability Index of EPS for all the commercial banks under study. It also shows the number of firms that experience increase and decrease by the transition to IFRS. It is observed from the results that of the index values of EPS for Commercial Bank of Ethiopia (CBE) and Cooperative Bank of Oromia are greater than 1.0 indicating that upon transition to IFRS by these banks negatively affects the EPS whereas the index values ofEPS for the remaining banks are less than 1.0 signifying a positive effect of IFRS on EPS of these banks.

Table 4.5: Overall Banks' Computed Comparability Index

Banks	GAP	IFRS	Difference	Comparability Index
ROA	2.503	2.513	-0.010	**0.996**
ROE	23.749	22.328	1.421	**1.064**
EPS	9.891	10.855	-0.965	**0.911**

Table 4.2 shows the average of Comparability Index of ROA, ROE and EPS for all the commercial banks under study. It is observed from the results that of the index values of ROA and EPS for commercial banks are less than 1.0 signifying that upon transition to IFRS by banks under the study positively affects the ROA and EPS ratio while the index values of ROE is greater than 1.0 indicating a negative effect of IFRS on ROE of the banks.

4.3: Analysis of the study hypothesis using one sample T-test

The Gray's comparability index does not show whether the difference significant or not. Therefore, to test whether the difference obtained is significant or not one sample T-Test was employed. The aim was to test whether there is any significant difference in the mean value of the financial indices of the banks that included in the study. The test is the difference between a sample mean and a known or hypothesized value. The group mean answered the research questions while t-statistics tested the hypotheses.

H_{01} : There is no statistically significant difference in return of equity reported under IFRS and GAAP.

H_{02} : There is no statistically significant difference in return of asset reported under IFRS and GAAP.

H_{03} : There is no statistically significant difference in earning per share reported under IFRS and GAAP.

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Table 4.6 shows one sample T-test for the study variable. Regarding to ROA, there is strong evidence to reject null hypothesis H_{01} at 1%level of significance (P<0.01) and it is concluded that IFRS adoption significantly affect the return of equity of the banks. Likewise, there is a strong evidence to reject H_{02} and H_{03} (P < 0.1) which are stated “there is no significant effect of IFRS adoption on return on asset of the commercial banks” and “there is no significant effect of IFRS adoption on Earning per share of the commercial banks” respectively and concluded that IFRS adoption significantly affect the return on assets (ROA) and earning per share (EPS) of the banks.

Table 4.6 :Over all One-Sample Test result for the study variable

	Test Value = 1					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
ROA	27.678	29	.000	2.47437	2.2955	2.6533
ROE	14.917	29	.000	22.54487	19.5206	25.5691
ER	46.628	29	.000	10.36939	9.9244	10.8144

4.4 Model Diagnostics Test for fixed effect model

Similarly, for the above fixed effect regression model, the diagnostic tests such as the overall significant of the regression coefficients (F-test), normality, Breusch-Pagan LM test have been conducted. The estimated residuals did not provide any significant evidence of Cross sectional dependency, and non-normality effect in the error term because the pob. value for each test greater than 0.05(prob.>0.05). F-test showed the overall significant of the estimated model parameters at 1% level of significance (Prob. < 0.01). The result of each test is presented in table 4.6 below.

Table 4.7 Model Diagnostic Test Result

Diagnostic test for ROA	Test statistic	Prob.	Hypothesis
Jarque Bera Normality Test	0.502	0.777***	H0=Residual are normally distributed
Breusch-Pagan LM test	0.627	0.706***	H0=There is no cross sectional dependencey
F-Test (overall significant estimated parameter)	18.245	0.0000***	H_0 =All variable are zero jointly and simultaneously
Test for ROE	Test statistic	Prob.	Hypothesis
Jarque Bera Normality Test	0.301	0.576***	H0=Residual are normally distributed
Breusch-Pagan LM test	0.455	0.606***	H0=There is no cross sectional dependencey
F-Test (overall significant estimated parameter)	7.761	0.0000***	H_0 =All variable are zero jointly and simultaneously
Test for EPS	Test statistic	Prob.	Hypothesis
Jarque Bera Normality Test	0.402	0.567***	H0=Residual are normally distributed
Breusch-Pagan LM test	0.523	0.501***	H0=There is no cross sectional dependencey
F-Test (overall significant estimated parameter)	5.538	0.0000***	H_0 =All variable are zero jointly and simultaneously

P-values are in parentheses.

**** Significant at 0.01 level, ** Significant at 0.05 level, * Significant at 0.10 level*

Table 4.12: Summary of the hypothesis test results

Number	Hypothesis	Result
H_{01} :	There is no significant effect of IFRS adoption on net income and equity of the commercial banks(ROE)	**Rejected**
H_{02} :	There is no significant effect of IFRS adoption on return on asset of the commercial banks	**Rejected**
H_{03} :	There is no significant effect of IFRS adoption on Earning per share of the commercial banks	**Rejected**

Source: Author, 2021

4.5 Discussions of findings

The study postulated three hypotheses and key findings of the tests are explained in subsequent paragraphs. The findings indicate that IFRS implementation has an effect on the financial performance of the commercial banks. The result of the study on IFRS is summarized as follows:

From the average of Comparability Index, It is observed from the results that of the index values of ROA and EPS for commercial banks are less than 1.0 signifying that upon transition to IFRS by banks under the study positively affects the ROA and EPS ratio while the index values of ROE is greater than 1.0 indicating a negative effect of IFRS on ROE of the banks. The implication is that IFRS adoption has significant role on improvement on financial statement of the bank more specifically on financial performance measured by ROA while it deteriorate the financial statement on return on equity so that the banks should look is there any challenge or factors in adoption of IFRS with respect to this ratio.

Based on one sample T-Test, the study found that that IFRS implementation has a significant positive effect on the financial performance of the commercial banks measured by ROA. The study conducted by Ironkwe and Oglekwu (2016); Anna et al (2010), Blanchette (2011), T Lantto and Sahlström (2009), erzi, Otkem and Sen (2013), Abata (2015) and Shehu (2015) come up with similar results and found that the implementation of IFRS has a significant positively effects on Profitability ratio and financial performance measured by ROA.

Regarding to ROE, The study revealed that IFRS implementation has a significant negative effect on the financial performance of the commercial banks measured by ROE. The study conducted by Ironkwe and Oglekwu (2016); Anna et al (2010), , Hung and Subramanyam (2007), Blanchette (2011), Terzi, Otkem and Sen (2013) and Shehu (2015) come up with different results and found that the implementation of IFRS has no significant effects on financial performance measured by ROA.

Based on one sample T-Test, the study found that that IFRS implementation has a significant positive effect on the earning per share of the commercial banks. The study conducted by Muhammad (2012), come up with similar results and found that the implementation of IFRS has a significant positively effects on earning per share.

CHAPTER FIVE
Conclusions and Recommendations

5.1 Conclusions

The main objective of this study was to examine the effect of IFRS adoption on the financial performance commercial banks. To achieve these goals relevant data collected and explored by dint of statistical tools used in SPSS 21.0. To analyze the samples, financial ratios such as Return on asset, return on equity, earning per share, net interest margin, bank size measured by log of total asset were used. Based on the analysis result the following conclusion is forwarded.

From Gray's comparability index the study found that of the index values of ROA and EPS for commercial banks are less than 1.0 signifying that upon transition to IFRS by banks under the study positively affects the ROA and EPS ratio while the index values of ROE is greater than 1.0 indicating a negative effect of IFRS on ROE of the banks.

Based on one sample T-test for the study variable, the study found a strong evidence to reject null hypothesis H_{01} which states "There is no statistically significant difference in return of equity reported under IFRS and GAAP." at 1%level of significance (P<0.01) and it is concluded that IFRS adoption significantly affect the return of equity of the banks. Likewise, the study found a strong evidence to reject H_{02} and H_{03} (P < 0.1) which are stated "There is no statistically significant difference in return of asset reported under IFRS and GAAP." and "there is no significant effect of IFRS adoption on Earning per share of the commercial banks" respectively and concluded that IFRS adoption significantly affect the return on assets (ROA) and earning per share (EPS) of the banks.

From Fixed effect panel regression analysis the study found a strong evidence to reject null hypothesis H_{01} which states "There is no significant effect of IFRS adoption on net income and equity of the commercial banks (ROE)", H_{02} "there is no significant effect of IFRS adoption on return on asset of the commercial banks" and H_{03} "There is no statistically significant difference in earning per share reported under IFRS and GAAP." at 1%level of significance ($P<0.01$) and concluded that IFRS adoption has a significantly effect on return on asset, the return of equity and earning per share of the banks.

5.2 Recommendations

It is evident that IFRS will be the dominant accounting standard moving forward. With this in mind, analysts are encouraged to adopt a cautious approach while examining financial ratios during the transition to IFRS in Ethiopia. Analysts should pay particular attention to situations where IFRS and GAAP lead to uneven results. Otherwise, the comparability may be impaired and rendering the trend analysis misleading.

Users of financial statements are advised to be mindful of the new feature, comprehensive income, which incorporates unrealized gains and losses that bypass the profit of the income statement. A difference between the regular and the comprehensive versions of ROA and ROE should prompt further investigation of the underlying causes.

It is believed that business managers, analysts and creditors may find this study useful for IFRS transition in Ethiopia. In addition, the regulatory agencies may find this study beneficial for the harmonization process of IFRS in Ethiopia. They should also make sure to understand the primary characteristics of IFRS, as it may be only a matter of time before Ethiopian adopts these standards.

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