# FACTORS AFFECTING THE OPERATIONS OF IFRS PRACTICE IN ETHIOPIAN SHIPING & LOGISTICS SERVICE ENTERPRISE

## BY

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## School of Graduate Studies

I, the undersigned, declare that the thesis prepared by **NEJAT ABDLA** entitled: ''factors affecting the operations of **IFRS** in Ethiopian shipping & logistics service enterprise'' submitted in partial fulfilment of the requirements for the degree of master of Accounting and Finance compiles with the regulations of the university and meets accepted standards with respect to originality and quality

## Approved by Board of Examiners:

**School Dean**_____ **Signature**_____**Date**_____

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# Abstract

*Arguments show that international financial reporting standard has many importance, but there are different challenges for the effective operations of IFRS. The main objective of this study was to examine the factors affecting the operations of **IFRS** in Ethiopian shipping & logistics service enterprise. To do so primary data collected through questionnaire and interviews by using randomly selected finance employees. The study employed both descriptive and econometrics method of analysis. The descriptive analysis revealed that IFRS has the benefit of improving efficiency and reliable of financial reporting, making external financing easier, provides transparency and effectiveness of internal audit, it provides better information for the investors, the information presented by IFRS is confidential. lack of guidelines for its implementation, Tax driven nature of previous standards, Lack of availability competent specialists, lack of training, Problem with IFRS's use of fair value accounting are challenges of IFRS operation. The regression result revealed that company size, professional bodies accountancy, level of awareness about IFRS and availability of required skill have statistically positive significant effect on IFRS practice. Based on the results revealed it is recommended that developing training, assist necessary modification should be made in governing business and laws and developing awareness of international financial report standards.*

**Key words: Factors, Practice, International Financial Reporting Standards, ESLSE, Benefits**

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# DECLARATION

I hereby declare, that the thesis report entitled," **factors affecting the operations of IFRS in Ethiopian shipping & logistics service enterprise**" written and submitted by me to School of Gradate Study (St. Mary's university), in partial fulfilment of the requirements for the degree of **MASTERS OF ACCOUNTING AND FINANCE)**.this is my original work and conclusions drawn are based on the material collected by me.

I further declare that this work has not been submitted to this or any other university for the awards for of any other degree, diploma or equivalent course.

**NEJAT ABDLA**

Signature_____        Date_____

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## ACRONYMS/ABBREVIATION

**IFRS**      International Financial Reporting Standard

**ESLSE**      Ethiopian Shipping and Logistics Service Enterprise

**IASB**      International Accounting Standards Board

**AISG**      Accountants International Study Group

**IASC**      International Accounting Standards Committee

**OLS**      Ordinary Least Square

**SPSS**      Statistical Package for the Social Sciences

# CHAPTER ONE
# INTRODUCTION

In this chapter the current state of IFRS operation and Ethiopian shipping & logistics enterprise are discussed. Moreover, problem statements, objectives of the study and its relevance were discussed**.**

## 1.1    Background of the study

The Presentation of international financial reporting standard (IFRS) is entirely related to the entire issue of globalization. The companies are getting to be around the world to contribute, to acquire and to communicate with other companies within the whole world. Globalization strengthens alter. As the world keeps changing, so the way that things are done must keep changing, as well. Each change brings almost a shape of distress, In case we truly accept in open universal markets and the good thing about global finance, at that point it can make sense to have diverse accounting rules and hones for companies and financial specialist working over national borders. That's why we require worldwide guidelines (Paul, 2015). IFRSs are a set of accounting standards that's quickly picking up acknowledgment on around the world. They are extent by the London-based, International accounting standards Board (IASB).

The objective of international accounting standards is to create data accessible for decision making. Diversity in finance is completely different in nations that emerge since the contrasts in legitimate frameworks, assess frameworks and trade structures. IFRS is planning to harmonize these differences by making data more comparable and less demanding for investigation, advancing productive collaboration of asset and decrease in capital taken a toll (Demaki, 2013).

Until now a days, as per information of the analyst exceptionally small observational inquiries about the selection of IFRS has been conducted in Ethiopia. Agreeing to World Bank on the Report on the Recognition of Benchmarks and Codes, there's no particular set of accounting regulations in Ethiopia and thus the practices change over institutions (ROSC, 2007). National bank of Ethiopia, Service of back and financial improvement and other government organizations are working together towards the appropriation of this worldwide standard in Ethiopia. The National Bank of Ethiopia has now required the banks to plan their budgetary

explanations in agreement with IFRS. In 2011 Service of Bank and Financial Improvement (MOFEC) Ministry of Finance and Economic Cooperation issued a draft proclamation called Monetary Detailing Decree of Ethiopia to supply for the budgetary detailing of Ethiopia (Fikru, 2012).

The application of IFRS will give a vigorous set of rules common to all companies, hence compelling the marvel of creative accounting, whereby the figures within the yearly accounts are controlled to impact investors' behaviour (Jordan, 2004). Organizational preparation for altering an imperative figure in fruitful execution of unused approaches, Programs, and hones (Weiner, 2014). And he creates a hypothesis of Organizational status for alter determinants. The determinants are altering valence; adequacy and relevant components that demonstrate how ample the organization within the nation is prepared to receive the upcoming situations. In like manner this paper tries to evaluate the availability of IFRS practices in Ethiopian shipping and logistics services enterprise (ESLSE), and suggestions in reference to literary works, worldwide best hones and in turn give proposals and knowledge of potential inquiries about ranges to encourage the standard.Contrary to this in Ethiopia the practice of IFRS is at its infant age and its implementation is not efficient and effective. Even there are no ample empirical studies on the subject area. Hence it motivates the researcher to conduct a study on factors affecting IFRS practice and its benefit in Ethiopian shipping and logistics service.

## 1.2  Statement of the Problem

IFRS are progressively getting to be the set of universally acknowledged accounting measures that meet wants of the world's progressively coordinates worldwide capital markets (Nandakuma et al., 2010).  As per the World Bank report (ROSC, 2007), significant gaps were shown within the nations encounter with their report. The services indicated in this report are within the fundamental capabilities or preconditions of IFRS appropriation. The approach suggestions given by the World Bank are preconditions that are required to be actualized to institutionalize the Ethiopian finance related announcing frameworks and set up the administrative systems within the setting of IFRS selection to coordinated Ethiopia into the worldwide financial framework. Consequent to impacts of globalization and the World Bank & IMF jointly consider the Ethiopian accounting framework (ROSC, 2007), presently Ethiopia has as of now set out on embracing IFRS formally within the districts of accounting framework by issuing declaration No.847/2014 for international accounting standards and control No. 332/2014, for the foundation

and assurance of the method of the accounting and examining board of Ethiopia (Yitayew, 2016).

Horton et al., (2010) argued that quality and comparability of information not influenced by the same standards by different countries but by the difference of implementation and interpretation of the standard. In line with the above finding the study of The Institute of Chartered Accountants in England & Wales, (2015) reveals that since differences in institutions and incentives, IFRS implementation benefits were unevenly distributed among different firms and different nations or there may have been either insignificant benefits or even negative effects rather than benefiting firms or countries. Therefore the researcher convinced to study benefit of IFRS not only from the perspective of the requirements that IFRS benefit has been defined or from the variables (reliability, comparability, consistency and so on but also needs to investigate country's legal & supporting institutions to proof whether the benefits identified comes from effective IFRS implementation or any other improvement.

In Ethiopia, Currently there is no legal requirement for compliance with accounting and auditing standards, but some laws such as the financial reporting proclamation prepared by ministry of finance and economic development (MOFEC) do require the acceptance of general accounting Principles and auditing standards (Report on observance of Standards and Codes (ROSC, 2011). Due to this and IFRS's newness in Ethiopia there are few empirical studies on the subject area. For instance, Fitsum (2008), Aytenew (2018), Fekadu (2018), Yitagesu (2019), Mesfin (2019) and Biniyam (2020) conducted study on IFRS. But all, of the authors focused on benefits, challenges, and costs of IFRS practice. In addition, the operation and performance of IFRS practice is different from country to country and from organization to organization. Hence there are empirical studies conducted on IFRS operations in ESLSE. As a result there is literature gap on factors affecting IFRS practice. This study wants to examine factors affecting effective implementation of IFRS and its benefit in ESLSE.

## 1.3 Research Objective

### 1.3.1. General Objective of the study

The main objective of this study is to examine factors affecting IFRS operations in the case of Ethiopian Shipping & Logistics services enterprise.

### 1.3.2. Specific Objective

❖ To assess the benefits of IFRS operations in ESLSE.

❖ to assess the challenges of IFRS operations in ESLSE

## 1.4. Research Questions

Q1. What are the benefits expected from IFRS in ESLSE?

Q2. What are the challenges of IFRS operations in ESLSE?

Q3. What are the factors affecting the practices of IFRS in ESLSE?

## 1.5. Significance of the study

The discoveries and suggestions of this study would advantage nations and company's which is able to receive IFRS to overcome challenges and upgrade understanding of partners around the benefits of IFRS appropriation for internal and outside partners as well as the total nation. The review may moreover be utilized as a start for those who are interested to conduct an investigation on a gritty and comprehensive ponder almost in the appropriation of IFRS. In worldwide harmonization of accounting standard are the rule approaches. This standard is expanding the productivity of the organization and accountably to monetary explanation planning. The significance of this consideration is to overcome the challenges of IFRS, bring straightforwardness money related data, to form financial choices, fortify responsibility, and contribute to financial efficiency.

## 1.6. Scope of the study

The common point of this research is to evaluate factors affecting IFRS and benefits of IFRS practices for the period of 2019/2020 restricting its scope to ESLSE. To choose ESLSE because of the early adoption of IFRS from Government enterprises .The research will approach the chief accountants, IFRS supervisors and in general finance employees as a respondent for survey.

Moreover it will approach also AABE's financial guidelines and other individuals who are specifically included within the checking and investigating entities' monetary reports.

## 1.7. Organization of the paper

The paper is organized into five chapters. The primary chapter deals with the presentation portion which comprises of foundations of the research, explanations of the issue, goals of the consideration, inquire about questions, and significance of the research and its scope. The next chapter's contains a survey of the related literature on both hypothetical and experimental considers. The investigation plan and technique is displayed in chapter three. Chapter four is focused on findings of the research. The last one is chapter five which bargains with the conclusions; suggestions and future investigation areas that are based on the results getting.

# CHAPTER TWO
# REVIEW OF THEORETICAL AND EMPIRICAL LITERATURE

## 2.1. Introduction

This chapter traces an audit of related writing regarding international financial reporting standards, Measures and its selection. It comprises a common diagram of international financial reporting standards approximately Measures, prospects and challenges of receiving IFRS. The chapter investigates existing experimental findings within the zone of IFRS and lastly it presents the rundown of an audit and identifying the service within the existing writing.

## 2.2. Conceptual and Theoretical Frame work of the study

## 2.2.1. Concept of IFRS

The primary measure towards accounting benchmarks was the proposition to make the accountants international study group (AISG), a Worldwide group, by the proficient accounting bodies in Canada, Joined with united Kingdom and the united states of America in 1966. It was shaped to arrange, develop comparative considers of accounting, and examining hones within these countries. And AISG was inevitably made in 1967. Henry Benson put forward the proposition for the forming up of the international accounting Standards Committee (IASC) at the 40th World Congress of accountants in Sydney in 1972. After dialogs and signature of endorsement by the three AISG nations and agents of the proficient bookkeeping bodies in Australia, France, Germany, Japan, Mexico and the Netherlands (Marenesh, 2018).An arrangement of accounting proclamations distributed by the international accounting standards Board (IASB), to assist preparers of budgetary explanations all through the world and show tall quality, straightforward and comparable financial information. One of the essential highlights of IFRS is that it may be a rule based standard and looks for to maintain a strategic distance from a run the show based mind-set (Hlaciuc, Mihalciuc, Cibotariu, &Apetri, 2009) as cited in (Fikru, 2012). Instep, the application of IFRS requires work out of judgment by the preparer and the evaluator in applying standards of bookkeeping on the premise of the financial substance of exchanges. The IASB system sets up a common necessity to account for exchanges in understanding with their substance, instead of as it were their lawful frame. This rule comes through exceptionally strikingly in numerous IFRS. The IASB extraordinary not to allow choices in a procedure survey treatment, as its objective is to require like exchanges and occasions to be

accounted for and to be detailed in a like way, and not at all like exchanges and occasions to be accounted for in unexpected way.

## 2.2.2. The Emerging Needs for International Accounting

International companies should have competent accounting measures with which to degree the adequacy and proficiency of their different worldwide backups, branches, and/or other value speculations. Moreover, in arrange to proficiently apportion and control the trade of capital, worldwide capital markets got to assess the ampleness of monetary articulations and divulgences made by those companies looking for to raise capital. Comparable benchmarks of bookkeeping and money related divulgence for companies competing for capital on universal scale are basic to the working of such markets. At last, other clients, such as providers and clients, uncovered to openings on worldwide scale require comparable budgetary data upon which to base their choices. Assessing the productivity or monetary position of two competing trade openings will have meaning as it were in case comparable bookkeeping benchmarks are input. Multinational companies, moreover known as transnational companies, must have comparable accounting measures. (Marensh, 2018)

## 2.2.3. Objective of international accounting standard

The most targets of IFRS are harmonization in monetary related announcing. There are also other destinations, among are; to make the international financial reporting framework, to create sound commerce sense among the recipients, to produce the dimensions of reasonable introduction of budgetary explanations and to preserve higher straightforwardness of budgetary explanations and versatility of capital (Kumar, 2014). The essential objective of IASC arrangement was to create a single set of quality international accounting standards (IASs), to supplant national guidelines (Ojedu.et.al. 2013) as cited in (Marenesh, 2018). The extreme target of joining is to realize a single set of inside steady, quality worldwide accounting measures, issued by the IASB and embraced by all the national standard setters (IASB, 2003) as cited in (Marenesh, 2018).

### 2.2.4. Harmonization of accounting standards

Harmonization of accounting guidelines has its own objective in the improvement of steady guidelines that will move forward comparability of finance related data. A number of parties are inquisitive about making accounting data as comparable as conceivable. In spite of the fact that comparability is their fundamental want, they may look for it for diverse reasons. In the event that an administrative body is evaluating a multinational enterprise's execution for purposes of determining taxable pay, it would be fascinated by accomplishing comparability in terms of cost and income acknowledgment in each nation where the venture works. The government of each nation in which it works would need to know how the enterprise prices merchandise exchanged from one nation to another. Exchanging procedures are curious about assessing the finance related condition and to work about the individual parties. Clearly, this assessment would be less demanding on the off chance that the parties made in accounting estimations based on common accounting measures.

### 2.2.5. What are the factors affecting the practices of IFRS in ESLSE

The components influencing the alternatives of accounting frameworks might be inside and/or outside, outside variables incorporate variables such as financial development and the level of riches, the level of expansion, the level of instruction, the lawful framework, the country's history and topography, the budgetary framework, the estimate and complexity of company, the well-known of the accounting calling, the improvement of budgetary advertise, sources of venture and financing and the transcendent culture and language (Abebaw, 2016). In this section the analyst attempt to reply the independent variables that seem influence the practices of IFRS in ESLSE, like a government policy, professional bodies, availability of required skill, level of awareness, and company size.

### 2.2.6. Benefits and Challenges of practices of IFRS in ESLSE

According to (usman, 2013) as cited in (Halefom, 2018) the adoption of a high quality set Of accounting requirements will enhance accounting data and additionally facilitate change and different funding possibilities and in turn, foster comparability, transparency and decrease data asymmetries. Accounting Professionals around the world have indexed numerous advantages of adopting IFRS. In spite of these prospects, practices of IFRS are a tough challenge and have many challenges. As evidenced with the aid of using the worldwide experience, convergence

with IFRS could have large demanding situations not unusual place to all nations and companies. Additionally, there are also certain specific challenges that are unique to particular countries (Robyn & Graeme, 2009), (Schachler, Al-Abiyad, & Al-Hadad, 2012) as cited in (Zakari, 2014). The practices of IFRS in ESLSE are facing several challenges and obstacles including, lack of technical skills and inadequate knowledge Of expert accountants, the issue to increase its present accounting systems, and a regulatory framework to address monetary and social Development, current evolution in accounting career which include global monetary reporting requirements application, and insufficient training and education of accountants and others.

## 2.2.7. Historical Background of Accounting in Ethiopia

Accountancy and its improvement stages had verifiable back grounds in Ethiopia, (Kinfu, 1990) as cited in (Mihret, James &Mula, 2012, Alemagena, 2016). Gives an account of the advancement of bookkeeping within the Nation and contends that the keeping of records in different shapes might have existed in old Ethiopia as early as the 3rd century A.D. The Axumite Kingdom in the country started cutting edge bookkeeping within the nation, and, its followed to the starting of the 20th century. As cited by Kinfu, the keeping of formal records of government exercises begun within the 1900s when Head Menelik set up Fund and Guava(meaning treasury) Service which was to keep records of the King's treasury. Knife too suggests that cutting-edge monetary accounting with inside the non-public zone began out in Ethiopia in 1905 while the Bank of Abyssinia turned into established. The bank was established as a branch of the Bank of Egypt, which was in turn administered under the British financial system (Mired et al., 2012) as cited in (Alemagena, 2016).The development of accounting in Ethiopia seems to exhibit distinct patterns during the three chronological periods: before-1974, from 1974 to 1991, and after -1991. These patterns are when British accounting firms, like Price Waterhouse and Peat, were opened branches in the country (Fikru, 2012).

### 2.2.7.1.      Before -1974

Two critical improvements within the story of bookkeeping in Ethiopia took put within the 1960s. In 1960 the Commercial Code of Ethiopia was announced (Government of Ethiopia 1960) that was taken after by the arrangement of the Office of the Reviewer Common (OAG) in 1961 by Decree 199/1961 (Government of Ethiopia, 1961). The business Code comprises of bookkeeping and outside inspecting arrangements, which act  as the lawful premise for monetary

announcing and outside review of companies (Argaw, 2000; Kinfu, 1990; ROSC, 2007)as cited in (Fikru, 2012).

## 2.2.7.2.   From 1974 to 1991

A military government came into control in Ethiopia during 1974, and announced a socialist belief system. Most individuals concur that this period (up to 1991) was a time when the advancement of bookkeeping have been held back. In any case, an critical point of interest within the history of bookkeeping and examining in this period was the arrangement of the Review  of audit service corporation (ASC) by Announcement 126/1977 by the Ethiopian state in 1977 ,(Fikru, 2012).

## 2.2.7.3.   After - 1991

Late 1991, when the nation moved back to a free-market financial economy, a number of open undertakings were privatized, which brought about in a modern corporate administration structure that would be anticipated to upgrade the significance of money related reports. Alter of government and the sort of government are imperative impacts on the advancement of the bookkeeping calling. At the mid this period the foundation of People's democratic  Republic of Ethiopia (PDRE) the control and capacities of The Reviewer Common were reformulated and changed by announcement 13/1988. In expansion to this, the EPAAA has been re-activated and three other proficient affiliations, i.e. the Ethiopian accounting and finance association (EAFA),the Established, institute  of Internal auditors(IIA), and the accounting  Society of Ethiopia (ASE) have been set up (Alemagena, 2016). Though IFRS was created in 1973 by proficient bookkeepers totally from different nations, its move to Europe came in 2005. Now ,even if  Ethiopia lacks technical and other resources  to practice IFRS in the country level ,the Ethiopian national bank  has settled up special guide lines in reporting financial statements,( as cited, alemayehu  2009).

## 2.3.   Empirical Evidence

(Xiyun, 2017), has joined an investigation on the appropriation of accounting standard in china. The point of the thesis was to identify the challenges to the selection of international Monetary Measures in China. By receiving the case deliberate approach and utilizing information collected from numerous sources counting essential sources and auxiliary records. The thesis appeared that IFRS might be inconsistent with the recent socio - political, proficient, and other situations in

China. The incongruence may bring common sense issues, such as the conflicting elucidations of IFRS and inappropriate interpretation of IFRS from English to Mandarin Chinese. Besides, the contradiction might deliver unintended results in China, such as deft applications of bookkeeping benchmarks. Certain alterations to Chinese-specific teach ought to be making to adjust them to IFRS execution. These alterations would bring critical costs to Chinese partners, counting enterprises to adopt IFRS in Chinese certain companies.(Zakari, 2014), Considers the challenges that confront executing of international financial reporting standard (IFRS) Guidelines by Libyan firms. Specifically, the paper investigations the impact of lawful, financial, bookkeeping instruction and culture structures on embracing of IFRS within the Libyan setting. A questionnaire was utilized to gather information with respect to the impact of a few chosen challenges on IFRS appropriation in Libya. The outcomes about the ponder demonstrate that IFRS appropriation by Libyan companies has confronted a few impediments such as bookkeeping instruction and financial issues. This investigate amplifies bookkeeping writing by examining the challenges of IFRS in Libya (a creating nation), cantering on the effect of legitimate, bookkeeping instruction, financial and culture in IFRS usage.

(John, 2018), inspected the selection of international financial reporting standards(IFRSs) in Nigeria, its inborn challenges and recommends ways forward to realize the anticipated benefits of its selection. The paper brought to spotlight the history, and challenges experienced amid the selection and the ways to move forward so as to procure the benefits of IFRS appropriation. They consider utilized survey and drift explanatory approach to find that IFRS selection and progressive the quality of monetary articulations, introduction, more so it was found that IFRS selection pulled in a parcel of benefits to the nation. Such incorporates the increment in outside coordinate venture influx, consistency of bookkeeping dialect which makes comparison of budgetary explanations conceivable. Regardless of the appropriation confronted a part of challenges which can be overcome by fortifying proficient bookkeeping instruction and preparing, raising mindfulness of proficient controllers and preparers to make strides the information hole an

(Fikru, 2012), investigated points to look at the selection of international financial reporting standard (IFRS). The considered cantered on the components, Prospects and challenges of IFRS selection in Ethiopia. The research centre's on analysing the benefits and challenges of IFRS counting the components that might impact its selection. To reply inquiries about questions and

test the speculations he considered embraced and the blended survey approach. The survey information were analysed utilizing clear insights, relationships, and different straight relapse investigation and information from meet and report surveys were deciphered subjectively. The outcomes about appear that IFRS selection in Ethiopia will result in a number of imperative benefits to a wide run of partners. To take a toll of embracing, the complex nature, need of appropriate informational from administrative bodies for executing IFRS, as well as IFRS's accentuation on reasonable esteem accounting, are recorded among the foremost imperative challenges of IFRS selection. The deliberate also, discovered that with the exemption of government policy the other four factors which are proficient bodies, capital market, and infrastructure level and company size altogether impacted the practices of IFRS in Ethiopia. (Alemagena, 2016), has conducted inquire about on the selection of international financial reporting standard (IFRS), of Advantage and key challenge of IFRS in Heineken Brewery plant. The research utilized both essential and auxiliary information. Essential information was collected through examiner and auxiliary information was collected from company profile and announcement and controls. Ponder utilized report investigation (yearly reports, legislations, mandates, and other reports) and survey to back officers and bookkeepers. Survey information was analysed utilizing clear measurements.

IFRS embraced formally in December (Yichilal, 2015), and he has inspected the reason to survey the appropriation of international financial reporting standards (IFRS) in Ethiopia: the benefits, challenges and basic variables influencing its selection. The essential information was collected utilizing survey whereas the auxiliary information were collected from diary articles, manuals, books and websites at that point the collected information are analysed utilizing different straight relapse investigation at that point displayed utilizing tables, charts, charts and expressive insights. The research found that Appropriation of IFRS by Ethiopia would make steps in the quality of bookkeeping so as to form judgmental choice among clients of bookkeeping data. In any case, Need of appropriate monetary detailing direction, Need of appropriate enlightening from administrative bodies, extra preparing for experts and modernized IT framework in taking care of the transitions to IFRS are the most challenges of IFRS selection.

## 2.4.  Summary and Gap in the existing literature

Since the issues related with the worlds accounting differences, it helps to decrease accounting procedure contrasts over nations have been continuous for decades (Nobes& Parker, 2004).

Appropriation of IFRS includes a number of imperative benefits for a wide run of partners such as, expanded comparability of solidified accounts, expanded levels of straightforwardness, way better get to the worldwide capital markets and other partners would advantage from by and large way better announcing and data (Jemrmalowicz, 2004) as cited in (Fikru, 2012). The selection of IFRS is numerous benefits as well as numerous challenges. Different literary works portray the challenges of practices of IFRS. Concurring to (Nasiru, 2017) the challenges of IFRS appropriation and compliance are heterogeneous and may show in unexpected way completely different settings.

In spite of the fact that different overview thinking's have been conducted to survey the selection of IFRS in several nations of the world, most of the considered have been carried out on IFRS analysing the information from part nations of EU, (Apostolos, Despina, & Christos, 2010) as cited in (Fikru, 2012). Moderately little thinking has been conducted on the information from creating nations. Practically many studies about it conducted on the challenges and prospects of IFRS in Ethiopia, as per the information of the analyst earlier studies does not address factors besides examinations particularly emphasized in Ethiopian shipping and logistics services enterprise, undertaking proceeding to issue their IFRS based budgetary report. Subsequently, so, this research would make an attempt to bridge this gap and illustrate the practices of IFRS,its benefits and challenges in Ethiopian shipping and logistics services enterprise.

## 2.5. Conceptual framework

| Government Policy |
| Professional accountancy Bodies |
| Availability of required skill |
| Level of awareness |
| Company size |

Affects → IFRS practice
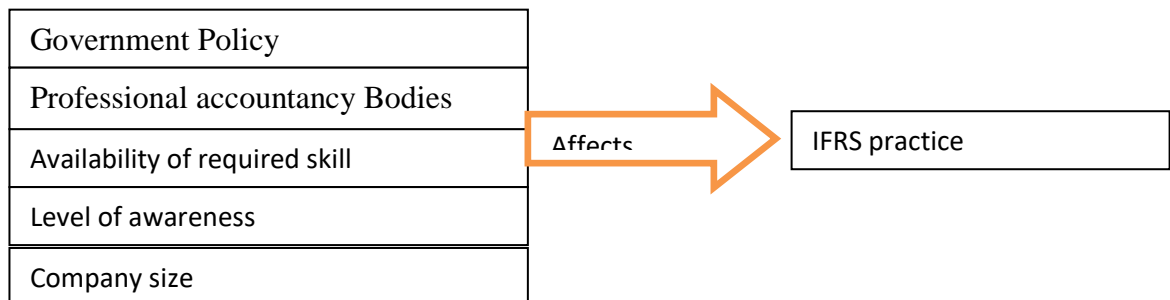
# CHAPTER THREE
# RESEARCH METHODOLOGY

## 3.1. Introduction

This chapter describes the methodology that is used in this study. It describes the categorical methods selected for data collection and analysis, and therefore the reasons for why these methods were chosen compared to the opposite alternative methods. The chapter is organised in seven sections. The primary two sections present the research design and the survey approach of the study. The third and fourth sections outline the theoretical framework adopted for this study and development of hypotheses respectively. The fifth section presents the regression model and measurement of the variables. The sixth section is about data analysis techniques and the final section outlines the validity and reliability, and ethical issues of the study.

## 3.2. Research Design

Research design is the framework of research methods and techniques chosen by a researcher. The design allows researchers to select and apply from the research methods that are suitable for the subject matter and set up the study up for success. A research design is a systematic approach that a researcher uses to conduct a scientific study. It is the overall synchronization of identified components and data resulting in a plausible outcome. Hence, in this study descriptive and explanatory empirical study design was used. To do so government policy, availability of required skills, level of awareness, company size and Professional Bodies were used as independent variables. The operation of IFRS was sued as dependent variables.

## 3.3. Source and types of data

According to William, et al., (2010), there are two types of data: primary and secondary data. The primary data are those which are gathered for the first time and afresh and thus collected for the case at hand (Kothari, 2004). Secondary data is defined as data that have been previously collected for some purpose other than the one at hand. For the purpose of this study in order to obtain relevant information primary data is used. Secondary source of data: which are collected or obtained from review of selected materials related to the employee performance and training, like reference book, magazines, internet and the organization's report.

## 3.4. Research approach

This study follows the mixed research approach. It has used both qualitative and quantitative approaches. The qualitative approach of the research explores the results of the collected data using descriptive statistics. The quantitative approach is developed to empirically test the effect of the explanatory variables identified in the research model. In the process the theoretical framework was empirically tested its validity using the identified variables that is the dependent variable; operation of IFRS in ESLSE, was explained given the known values of the explanatory variables government policy, professional bodies, availability of required skill, level of awareness, and company size, by using multiple linear regression analysis.

## 3.5. Method of Data collection

To conduct this research the study primary data was used. The primary source of data is collected through directly interviewing and distributing questionnaires to employees and managing directors of Ethiopian shipping& logistics service enterprise of the selected sample among the given target populations. The researcher used structured questionnaire which includes both open ended and close ended question. The reason to use close ended questions is because of it is simplicity for respondents to answer and for data analysis. If the question is too long respondents may be boarded and will lead to lose the exact values of the responses. Moreover, questionnaires with five likert scale options were developed and distributed to respondents. The questionnaires are developed based on those variables that are included in this study and the mentioned research questions. This is because questionnaires are advantageous in collecting large amount of data from large number of respondents and help respondents to fill the questionnaire at their convenient time without the interviewer bias. In addition, the study also used interview to collect information and data, because interview has a higher response rate and it clarify the questions well if the questions are not clear, since questionnaire doesn't.

## 3.6. Target population

The research centres on distinguishing the benefits and factors affecting the operation of IFRS in the Ethiopia shipping and logistics services enterprise. It's among the oldest governmental companies conjointly the only company included in ocean cargo within the nation. The target population for this study were the finance employees of finance division at head office.

## 3.7. Sampling technique

Determining an appropriate sample size is a very important issue in research, because samples that are too large waste resources, while too small samples may lead to inaccurate conclusion. Besides, there are several approaches to determine the required sample size of the study population. For this study, sample size is determined by using Yemane (1967) sample size determination formula. Researcher selected from a total population of 155 employees of head office and use 5% level of precision (95% of confidence). Finally, after determining sample size individual respondents were selected by using simple random sampling. The formula given as,

$$n = \frac{N}{1 + N(e)^2}$$

Whereas:

n = is the sample size,

N = is the population size, and

e= is the level of precision.

Therefore, the simplified formula to calculate the sample size used for this particular study will be:-

$$n = \frac{155}{1 + 155(0.05^2)} = 111.7 \approx 112$$

## 3.8. Data analysis

To attain the broad research objective, the paper is primarily based on cross sectional data, which is collected through direct interview and questionnaire distribution. The collected data was analysed by using descriptive statistics tools and Econometrics tools. Basically, descriptive statistical tools are used to analyse the mean, standard deviation, minimum and maximum values of the study. The study also used econometrics model to show the relationship between dependent and independent variables. The model estimation technique is estimated by Ordinary least square (OLS) estimation technique using SPSS 20 econometric software.

## 3.9. Model specification

Model specification refers the mathematical presentation of the relationship between variables and identifying which variables are independent and which one is dependent. In this study IFRS

practice was used as dependent variable. Independent variable includes government policy, Professional Bodies, Availability of required skill, Level of awareness, and Company Size. Ordinary least square (OLS) estimation method was employed for the regression. Linear least squares regression has earned its place as the primary tool for process modelling because of its effectiveness and completeness (Gujarati, 2004). The general model is specified as follows:

IFRS =f(Government Policy, level of awareness, Professional Bodies, company size, Availability of Required Skill)

The specific model for this study is presented as follows:

$$Y = \beta_0 + \beta_1 GP + \beta_2 LA + \beta_3 PB + \beta_4 CS + \beta_5 ARS + \varepsilon_i$$

Where: Y = Dependent Variable

$\beta_0$=Constant Term

GP = Government Policy

LA = level of awareness

PB = Professional Bodies

CS = company size

ARS = Availability of Required Skill

β1, β2....... β5: estimator coefficients of the explanatory variables

ϵi: the error term

## 3.10. Description of variables and hypothesis

### 3.10.1. Description of dependent variable

The dependent variable is the variable that's the impact or the result of other (free) variables (Neumann, 2007). In this research the dependent variables is the operation of IFRS in ESLSE. The practices of IFRS universally with detailing benchmarks are pertinent to common reason budgetary articulations and other monetary announcing of all benefit arranged organizations. . practice of IFRS is measured with the scales developed using the five-point Likert Scale of "1-Strongly Disagree", "2-Disagree", "3-Neutral", "4-Agree" and "5-Stronly Agree".

## 3.10.2. Description of Independent variable

Independent variables used in the study measured as likers scale with five options (strongly agree taking a value 5, agree takes a value 4, neutral takes a value 3, disagree takes a value 2 and strongly disagree takes a value 1). the next section presents definitions of variables used in the study.

**Government policy**: The government policy plays an important role in IFRS practice in many developing countries (Jermakawicz, 2007). According to Najar (2007)as cited in Sharif (2010) government policy affect the practice of IFRS in developing countries. Based on previous studies conducted it is hypothesized that government policy and IFRS practice will have positive relationship.

**professional Bodies:** According to (Sharif, 2010), a professional body is a group of people in a learned occupation who are entrusted with retaining manage or oversight of the valid exercise of the profession; and it's additionally a frame performing to guard the general public interest; corporations which constitute the hobby of the expert practitioners, act to keep their personal privilege and effective role as a controlling body. According to Mir and Rahman (2005) the existence of professional accounting bodies is a major factor that drives the decision to operation IFRS. Similarly, Aljifriand Khasharmeh, (2006) and Chamisa (2000) showed that professional bodies play important roles in IFRS operation in developing countries. It is hypothesized that there is a positive and significant relationship between professional bodies and practices of IFRS in ESLSE**.**

Availability of required skill: Common usage of IFRS requires satisfactory specialized capacity among preparers, evaluators, clients and administrative specialists. Nations that actualize IFRS oppose an assortment of capacity-related issues, depending on the approach they take. One of the vital troubles experienced within the viable execution prepare is the shortage of accountants and professionals who are in fact competent in actualizing IFRS and ISAs. Ordinarily, the time between when a choice is made to execute the benchmarks and the actual usage date isn't adequately long to prepare an adequate number of experts who seem competently apply worldwide guidelines. (UNCTAD 2008) Elena et al (2009) in their article managing with the issues of meeting between US By and large Acknowledged Bookkeeping Standards (GAAP) and IFRS were of the opinion that the selection of IFRS within the USA without a doubt would check a critical alter for numerous US companies. It would require a move to a more standards based moreover; legitimate application of certain estimation prerequisites in IFRS requires

input from competent experts in other regions such as statistician, property valuation and others. Need of specialized capacity postures a noteworthy obstruction to the effective usage of IFRS. (UNCTAD, 2008). Hence the researcher expects positive relationship between availability of the required skill and practices of IFRS in ESLSE.

**Level of awareness:** Level of awareness of the company employees are still the problem of IFRS practices in ESLSE. Lack of awareness of pros/cons of IFRS in the company, respondents believed that lack of awareness of pros/cons is factor affecting practice of IFRS (beti, 2020). There is a relationship between level of awareness and practices of IFRS in ESLSE.

**Company Size:** Company size here is referred to as everything the company has in terms of asset and liquidity. Aljifri and Khasharmeh, (2006) in the study of the United Arab Emirates accounting practice found that company size (large-medium-small) affect the adoption of IFRS. Russell et al (2008) as cited in Sharif (2010, p. 29) on the other hand found that company size has significant role towards adoption of IFRS. Therefore, in this regard, the next hypothesis is formulated to see the relations of company size as a factor for the adoption of IFRS. There is a relationship between company size and practices of IFRS in ESLSE.

## 3.11. Post estimation (Diagnostic) test

### 3.11.1. Hetroskedasticity

An important assumption of the classical linear regression model is that the disturbance term ui appearing in the population regression function is homoscedastic i.e. all cross sectional error terms have the same variance. But when there exist an outlier observation in relation to the observation in the sample, the assumption of constant variance is violated and this violation is referred to as Hetroskedasticity.  Breusch-Pagan or Weisberg test for hetroske-dasticity is used which the null hypothesis of constant variance and it is possible to reject this hypothesis when p value is greater than 5% significance level. If the problem of hetroskedasticty persists the remedies suggested to correct the problems of hetroskedasticity are transforming the data to the log and deflating the variable by some measures of size (Maddala, 1992).

### 3.11.2. Test for Normality

Normality test is used to determine if the data is well-modelled by a normal distribution and to compute how likely it is random variable is underling the data is set to be normally distributed.

In descriptive statistics terms, one measure of goodness of fit a normal model of the data. The null-hypothesis assumes that error terms are normality distributed. Normality of data is tested by Jarque- Bera test. If the test statistics value is greater than 5 percent, we accept null hypothesis. However, econometric theory states that the existence of non-normality does not affect and distort the estimator's BLUE and consistency property (Jarque and Bera, 1987).

### 3.11.3. Autocorrelation

The correlation between residuals is called autocorrelation which is induced by the transformation of the original data and manipulation of the data through interpretation and extrapolation. The simplest and most widely used model is one where the error term u and ut-1 have a correlation ρ. For this model one can think of testing hypothesis about ρ on the base of estimated correlation coefficient between the residuals. A commonly used statistic for this purpose is the Durban-Watson (DW) statistic which is denoted by dw. When DW statistic is zero (d=0) the estimated correlation coefficient is 1 and d=4 when the correlation coefficient which is estimated is -1. If d is closer to 0 or 4, then the residuals are highly correlated. The standard d statistic that serves as a rule of thumb is d =2 which indicates that the estimated correlation coefficient is 0 and hence the residuals are not correlated.  For existence of autocorrelation, it is customary to transform the data on the base of estimated first order autocorrelation and use ordinary least square with the transformed data. If it purees autocorrelation one can use appropriate transformation of the original model so that there, we do not have problem of autocorrelation in the transformed model. In this regard we will have to use the generalized least square (GLS) method (Madala, 1992). The Lagrange Multiplier Test (LM test) was applied to prove whether there is autocorrelation between error terms or not.

### 3.11.4. Multi-collinearity

Multicollinearity refers to the condition that independent variables are inter-correlated and it is the future of sample not for the population. The classical linear regression model assumes, for the presence of multicollinearity among the explanatory variables coefficients are indeterminate and there standard errors are infinite. On the other hand, if multicollinearity is less than perfect, the regression coefficient, although determinate, have larger standard error (in relation to the coefficient themselves) which means the coefficient cannot be estimated with greater precision or accuracy.  Variance inflated factor (VIF) is used to determine whether there exists the problem

of multicollinearity in making inferences. When VIF>10, there is the problem of multicollinearity and hence we can reject the hypothesis of no correlation among explanatory variables and vice-versa. There are some remedial measures suggested to the problem of multicollinearity such as priori information from previous empirical works, combining both cross section and time series data. One of the simplest things to do is dropping the variables which are highly correlated and specification bias. The variables should also be transformed when they tend to move in the same direction (Gujarati, 2004).

### 3.11.5. Model specification test

The motivation behind the link test is the idea that if a regression is specified appropriately, you should not be able to find additional independent variables. To test this, the link test regresses the dependent variable of the original regression against the original regression's prediction and the squared prediction. If the squared prediction repressors in the test regression is significant, there is evidence the model is miss-specified.

### 3.11.6. Validity and Reliability

Validity is concerned with how well the concept is defined by the measure(s) and accurately represents what it is supposed to. Therefore, in this study validity is addressed through the review of literature and adapting instruments used in previous research. Moreover, the validity of the data will be checked by post estimation tests. These tests include omitted variable test, model specification test, multicolliniearity test, hetrosckedasticty test and normality test. Reliability is the overall consistency of a measure. This measure is said to have reliability if it produces similar results under consistent conditions. It is the characteristic of a set of test scores that relates to the amount of random error from the measurement process that might be embedded in the score. For this study the widely used Cronbach Alpha is used to measure internal reliability for tests with multiple possible answers.

### 3.12. Ethical Consideration

The researcher had obtained the consent of the organization for the study. Employees who actively participated in management and clerical and supervisory position completes the questionnaires have been informed about the purpose of data collection, analysis and the covenant to maintain privacy of their responses. The collected data are confidential, and it was used only for the purposes of the study. Regarding published and unpublished materials used in

the literature review and throughout all part of the study, all citations from copy right holder had been made properly. Generally,the researchers have used proper citation, follow systematic collection and analysis of data techniques, maintain data confidentiality, obtained the consent of the case organizations and staffs and based on their consent to meet the ethical obligation of research.

# CHAPTER FOUR

# RESULTS AND DISCUSSION

## 4.1.  Introduction

The fourth chapter discusses and presents about the results from the collected information through organized survey from finance employees of ESLSE. The outcomes are displayed in tables and figures, and the chapter is discussed by survey and report examination. The survey achieves the goals discussed before and replies the response for the questions. A total of 112 surveys which managed the practices of international financial reporting standards, benefits and challenges were disseminated to finance employees of ESLSE. Out of them 103 surveys were collected, and it was 91.96% Response rate. The chapter analyzed through SPSS result of statistics, in order to compute, demography of respondents, benefits and challenges of IFRS practices, Normality test, Multicollinearity test, theory test and at the conclusion of the chapter the analyst would test fitness of the model or adequacy of the model and the hypotheses.

## 4.2.  Demographic Characteristics of Respondents

### 4.2.1. Gender Distribution of Respondents

From the total questionaries' distributed to respondents only 103 questionaries' were correctly filled and returned. From 103 respondents (35%) were females and the remaining (65%) were male respondents. This is because in Ethiopian shipping & logistics service enterprise the number of female employees is small as compared to male employees.

Table 4.1: Gender of respondents

|        | Frequency | Percent | Cumulative Percent |
|--------|-----------|---------|--------------------|
| Female | 36        | 35.0    | 35.0               |
| Male   | 67        | 65.0    | 100.0              |
| Total  | 103       | 100.0   |                    |

### 4.2.2. Years of Experience of Respondents

In the table below 4.2 the number of years that respondents are working for the ESLSE is reported. From the total of 103 respondents the majority, (42.7%), serves ESLSE from 6 to 10

years followed by the share of respondents who are working in the ESLSE from 11 to 19 years comprising 30.1%. Finally, (26.2%) respondents work 1 to 5 years in the ESLSE and the smallest share, (1%) serve the institution for more than 20 years. Hence, with respects to qualifications the findings implied that most of the employees working in the institution are well qualified about the practice of IFRS, this contributed a lot to the effectiveness and efficiency of IFRS practices.

Table 4.2: .Work experience of respondents

|  | Frequency | Percent | Cumulative Percent |
|---|---|---|---|
| less than 5 years | 27 | 26.2 | 26.2 |
| 6 to 10 years | 44 | 42.7 | 68.9 |
| 11 to 19 years | 31 | 30.1 | 99 |
| Over 20 years | 1 | 1.0 | 100.0 |
| Total | 103 | 100.0 |  |

## 4.2.3. Current Position of Respondents

Employees working in the ESLSE have different positions and job obligations. For instance, the majority of respondents (42.7%) are senior officer followed by (20.4%) division managers. In this study (14.6%) are officers and (11.7%) are junior officers. finally, respondents comprising 9.7% of total respondents are managers and the remaining 1 respondents are working in other positions which are not listed in this study.

Table 4.3: current position of respondents

|  | Frequency | Percent | Cumulative Percent |
|---|---|---|---|
| Junior officer | 12 | 11.7 | 11.7 |
| Officer | 15 | 14.6 | 26.2 |
| Senior officer | 44 | 42.7 | 68.9 |
| Division manager | 21 | 20.4 | 89.3 |
| Manager | 10 | 9.7 | 99 |
| Other | 1 | 1 | 100.0 |
| Total | 103 | 100.0 |  |

## 4.2.4. Education Level of Respondents

Table 4.4 presets education level of employees in ESLSE those randomly selected and filled the questionnaire. From the total of 103 respondents only (5.8%) are college diploma holder and

(64.1%) respondents are first degree holder. While (30.1) respondents are second degree holders. From the educational level of respondents the researcher can point out that employees are able to understand the concept of risk management based on the bank's rules and regulations of loan. Moreover, this demonstrated that most of the organization employees were qualified professionals with technical knowledge and skills on the study problem and thus provided the study with reliable information.

Tale 4.4: Education level of respondents

|  | Frequency | Percent | Cumulative Percent |
|---|---|---|---|
| Diploma | 6 | 5.8 | 5.8 |
| First degree | 66 | 64.1 | 69.9 |
| Master's degree | 31 | 30.1 | 100.0 |
| Total | 103 | 100.0 |  |

## 4.3. Benefits of practices of IFRS to ESLSE

The finance theory argues that financial reporting reduces information asymmetry by disclosing relevant and timely information. Because there may be significant version in accounting exceptional and financial performance throughout countries, global accounting systems provide an interesting setting to examine the economic consequences of financial reporting, Bhattacharjee &Islam, 2009). As shown table 4.3.1.1.Below, fifteen questions were distributed to assess the benefits of IFRS practices in ESLSE. The first question is related to whether or not respondents believe that IFRS practice improves the efficiency of financial reporting. The majority, (52.4%) of respondents answered as they are strongly agreed followed by agree responses comprising (39.8%) respondents. The remaining 3, 4 and 1 respondents are answered as strongly disagree, disagree and neutral. The mean response of the maximum value were, 4.35 i.e. IFRS provides better reporting and information on new and different aspects of the businesses. Similar to the first question on the second question the majority of respondents, (81.6%) believe that reporting financial statements based on IFRS are reliable and comparable followed by 15 respondents who believe that IFRS makes financial reporting reliable. The mean value of the second question is 4.74 confirming the response of respondents is strongly agree. Moreover, (61.2%) respondents believe that IFRS makes financing easier followed by agree responses comprising (35%) respondents. The remaining (3.9%) respondents are disagreeing. In

addition to the above questions respondents were asked whether or not IFRS improves financial reporting transparency and the majority of respondents, (91.3%), are agree and the remaining, (8.7%), respondents answered as they are strongly agree. The mean value of 4.09 which confirms the average response of respondents is agreeing option.

The sixth question was related to whether or not IFRS enables greater effectiveness of the internal audit and the majority of respondents, (71.8%), answered as they agree followed by strongly disagree response comprising (9.7%) respondents. The same number of respondents, (8.7%), answered as they are disagree and strongly agree. The mean value of the variable is 3.61, which is closer to agree. Surprising the majority of respondents, (81.6%), strongly disagree on the idea that IFRS reduces the cost of capital followed by respondents, (9.7%) who answered as they are disagree. The remaining 9 respondents answered as they're agree. The mean value of the question is 1.36. The researcher concludes that respondents are strongly disagree in that IFRS does not reduce the cost of capital. Almost all, (99%), agree that IFRS provides better information for decision making by investors. The mean value is 4.01, which is the value assigned for agree likert scale option. The same responses were answered by respondents for the question related to investors' confidence on information presented by IFRS. (31.1%) of respondents agree that information presented by IFRS increases investor's confidence.

Related to whether or not IFRS improves management information for decision making and it promotes cross border investment, the majority of respondents answered as they are agree followed by strongly agree answers. For the next question like IFRS practices improves regulation oversight and enforcement, IFRS provides greater credibility and improved economic prospects for the accounting profession, It provides better reporting and information on new and different aspects of the business. For all of these questions the majority of respondents answered as they are agree. Generally ,since the overall mean value of the benefits of IFRS to ESLSE were above 3.50, indicates that the respondents perception were close to one another, which revealed that on average the respondents agreed with the proposition that the practices of IFRS has many benefits to ESLSE.

Table 4.5: Benefits of practices of IFRS in ESLSE

| Benefit of adopting IFRS | SD | | D | | N | | A | | SA | | MEAN |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | F | % | F | % | F | % | F | % | F | % | |
| practices of IFRS improves the efficiency of financial reporting | 3 | 2.9 | 4 | 3.9 | 1 | 1 | 41 | 39.8 | 54 | 52.4 | 4.35 |
| Financial statements based on IFRS are reliable and comparable | -- | -- | 4 | 3.9 | -- | -- | 15 | 14.6 | 84 | 81.6 | 4.74 |
| Practices of IFRS improves effectiveness of financial reporting | -- | -- | 4 | 3.9 | -- | -- | 89 | 86.4 | 10 | 9.7 | 4.02 |
| IFRS makes external financing easier | -- | -- | 4 | 3.9 | | | 36 | 35 | 63 | 61.2 | 4.53 |
| It provides greater reporting transparency | -- | -- | -- | -- | -- | -- | 94 | 91.3 | 9 | 8.7 | 4.09 |
| It enables greater effectiveness of the internal audit | 10 | 9.7 | 9 | 8.7 | 1 | 1 | 74 | 71.8 | 9 | 8.7 | 3.61 |
| Reduced cost of capital | 84 | 81.6 | 10 | 9.7 | -- | -- | 9 | 8.7 | -- | -- | 1.36 |
| IFRS provides better information for decision making by investors | -- | -- | -- | -- | -- | -- | 102 | 99 | 1 | 1 | 4.01 |
| Investors will have more confidence in the information presented using IFRS | 2 | 1.9 | - | -- | 1 | 1 | 83 | 80.6 | 17 | 16.5 | 4.1 |
| practices of IFRS enhance transparency of companies through better reporting | 4 | 3.9 | 4 | 3.9 | -- | -- | 63 | 61.2 | 32 | 31.1 | 4.12 |
| IFRS improves management information for decision making | -- | -- | 1 | 1 | -- | -- | 92 | 89.2 | 10 | 9.7 | 4.08 |
| IFRS promotes cross border investment | | | | | 1 | 1 | 72 | 69.9 | 30 | 29.1 | 4.28 |
| IFRS practices improves regulation oversight and enforcement | 9 | 8.7 | 1 | 1 | 1 | 1 | 82 | 79.6 | 10 | 9.7 | 3.81 |
| IFRS provides greater credibility and improved economic prospects for the accounting profession | -- | -- | -- | -- | -- | -- | 94 | 91.3 | 9 | 8.7 | 4.09 |
| It provides better reporting and information on new and different aspects of the business | -- | -- | -- | -- | -- | -- | 68 | 66 | 35 | 34 | 4.34 |

## 4.4. Challenges of practices of IFRS in ESLSE

Even if accounting practitioners across the world have listed various benefits of IFRS, In spite of these benefits, practices of IFRS are also a difficult task and have many challenges. For example Iyoha and Faboyede (2011) as cited in (Tesfu, 2012) identified ethical environment and the ability to protect qualified and competent employees from being poached by other companies are main challenges facing Nigerian companies.(Tesfu, 2012) in his thesis entitled the adoption of IFRS in Ethiopia diagnosed that, the primary demanding situations with inside the system of adopting IFRS include significant cost of adoption of IFRS, need for training, the complex nature of some of the IASB‟s standards and the lack of adequate implementation guidance. Other key challenges include increased volatility of earnings, tax driven nature of previous standards and problem with IFRS's use of fair value accounting. On Table below, there were ten questions distributed to assess the challenges of IFRS practices in ESLSE.

confronted within the practice of IFRS in ESLSE were inquired for reaction by the articulations with a 5 point Likert scale and show the degree they agree with the explanations that's : 5 - Strongly agree, 4- Agree, 3 - Neutral, 2 - Disagree,1 - Strongly disagree the idea. A Mean (M) score of 0-1.50 implies that respondents strongly disagree, between "1.50 - 2.50"implies they disagree the idea, 2.50 - 3.50 implies that the respondents were unbiased or neutral; 3.50 – 4.50 implies they agreed, and above 4.50 implies the respondents are strongly agreed. Based on the table below the majority of respondents, (45.6%), answered as they are strongly agree about higher cost of IFRS practice followed by higher number of respondents, (43.7%), answered as they are agree. The remaining 4, 5, and 2 respondents were answered as they are strongly disagree, agree and neutral respectively. The average response of respondents is 4.22, confirming respondents are agreed on the idea that IFRS practice requirement of higher costs. For the next question stating IFRS increases the complexity of financial reporting the majority, (35.9%), are disagree and (25.2%) are strongly agree. On the other hand, 22, 16, and 2 respondents answered as they are agree, strongly disagree and neutral respectively. The average value of respondent's response, 3.05, tells us that respondents have neutral idea on the complexity of IFRS financial reporting.

Regarding to the availability of IFRS implementation guidelines there is no respondents whom answered as he/she is strongly disagree, disagree, and neutral. This implies respondents chose either agree or strongly agree. But when we see the mean value of respondents answer, 4.35, it

shows that all respondents are agree about lack of IFRS implementation guidelines. For tax driven nature of previous standards is a challenge for IFRS adoption the majority of respondents, (62.1%), agree followed by (24.3%) respondents answered as they are strongly agree. Similar argument is raised by respondents for the question Lack of availability competent specialists and Need for training. On the other hand, for Lack of proper instructions from regulatory body and Problem with the IT system in handling the transition to IFRS the majority of respondents are answered as they are strongly disagree and disagree with a mean value of 1.5 and 2.36 respectively.

Table 4.6: Challenges of IFRS Practice in ESLSE

| | SD | | D | | N | | A | | SA | | Mean |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | F | % | F | % | F | % | F | % | F | % | |
| Practice of IFRS is costly | 4 | 3.9 | 5 | 4.9 | 2 | 1.9 | 45 | 43.7 | 47 | 45.6 | 4.22 |
| IFRS increases the complexity of financial reporting | 16 | 15.5 | 37 | 35.9 | 2 | 1.9 | 22 | 21.4 | 26 | 25.2 | 3.05 |
| There is lack of IFRS implementation guidance | -- | -- | -- | -- | -- | -- | 67 | 65 | 36 | 35 | 4.35 |
| IFRS brings about increased volatility of earnings | 27 | 26.2 | 50 | 48.5 | 17 | 16.5 | 9 | 8.7 | -- | -- | 2.08 |
| Tax driven nature of previous standards is a challenge for IFRS adoption | -- | -- | 14 | 13.6 | -- | -- | 64 | 62.1 | 25 | 24.3 | 3.97 |
| Lack of availability competent specialists | -- | -- | -- | -- | 3 | 2.9 | 76 | 73.8 | 24 | 23.3 | 4.2 |
| Need for training | -- | -- | -- | -- | -- | -- | 20 | 19.4 | 83 | 80.6 | 4.81 |
| Lack of proper instructions from regulatory body | 67 | 65 | 20 | 19.4 | 16 | 15.5 | -- | -- | -- | -- | 1.5 |
| Problem with the IT system in handling the transition to IFRS | 19 | 18.4 | 49 | 47.6 | 14 | 13.6 | 21 | 20.4 | | | 2.36 |
| Problem with IFRS's use of fair value accounting | 2 | 1.9 | 2 | 1.9 | 2 | 1.9 | 9 | 8.7 | 88 | 85.4 | 4.74 |

## 4.5. Descriptive statistics of variables used to identify determinant factors of IFRS practice in ESLSE

Table 4.7: Descriptive statistics of variables used to identify determinant factors of IFRS practice in ESLSE

|        | N   | Minimum | Maximum | Mean   | Std. Deviation |
|--------|-----|---------|---------|--------|----------------|
| GP     | 102 | 2.50    | 4.50    | 3.2402 | .47057         |
| PAB    | 103 | 2.50    | 5.00    | 4.6165 | .49608         |
| ARS    | 103 | 3.00    | 5.00    | 4.5583 | .44447         |
| LA     | 103 | 3.00    | 5.00    | 4.4272 | .53048         |
| CS     | 103 | 4.00    | 5.00    | 4.7913 | .29309         |
| MIIE   | 103 | 2.00    | 5.00    | 4.5049 | .81498         |

## 4.6. Inferential Analysis

Within this section, in analyzing the variables that may influence the practices of IFRS in ESLSE, the analyst utilized a regression analysis to test the impact of independent variables on the dependent variable i.e. the practices of IFRS in ESLSE. Hence, the functional relationships between the practices of IFRS with government policy, professional bodies, availability of required skill, level of awareness and company size were examined. Before reporting the regression result of the model the researcher checked whether or not the classical linear regression assumptions are not violated and reported on the next portion.

### 4.6.1. Checking assumptions and diagnostics tests

Brooks, (2008) suggests five critical assumptions that must be met before utilizing OLS estimation in order to reasonably test the hypothesis and estimate the coefficient. Hence, the basic classical linear regression model assumptions and their diagnostic tests are discussed below.

### 4.6.1.1. Multicolinearity Test

One of the assumptions of the CLRM (classical linear regression model) is that there's no perfect relationship exists among any of the explanatory variables. When this assumption is violated, we speak of perfect MC and the reverse is true. While imperfect multicollinearity exists amongst explanatory variables, now no longer simplest is we able to obtain OLS (ordinary least square)

estimates but these estimators will also be the best linear unbiased estimators (BLUE). To test the presence of multicolinearity variance inflation factor (VIF) was used. As can be seen from the table below the value of variance inflation factor for each variable is less than, not only each individual variable's VIF but also the mean value. Moreover the level of tolerance is greater than 0.1. Hence, the researcher can conclude that the data under consideration has no multicollinearity problem. Moreover, the correlation coefficient for all variables is less than 0.8, which supports the above argument.

Table 4.8: Statistics of Multicollinearity Test of explanatory variables

| Independent Variables | Collinearity Statistics | |
|---|---|---|
| | Tolerance | VIF |
| Government policy | .981 | 1.020 |
| Professional bodies | .831 | 1.203 |
| Availability of required skill | .841 | 1.189 |
| Level of awareness | .927 | 1.079 |
| Company size | .988 | 1.012 |

Source: output of SPSS

Table 4.9: Pearson Correlation of explanatory variables

| | | GP | PAB | ARS | LA | CS |
|---|---|---|---|---|---|---|
| GP | Pearson Correlation | 1 | | | | |
| PAB | Pearson Correlation | -.132 | 1 | | | |
| ARS | Pearson Correlation | -.051 | .369[**] | 1 | | |
| LA | Pearson Correlation | -.152 | .256[**] | .091 | 1 | |
| CS | Pearson Correlation | .012 | -.135 | -.150 | .027 | 1 |
| **. Correlation is significant at the 0.01 level (2-tailed). | | | | | | |

## 4.6.1.2.   TEST FOR HETROSKEDASTICITY

As can be seen from the figure below we can test the problem of hetrosckedasticity by looking the scatter plots of the residual and predicted value.  The problem of heteroscedastic implies whether or not the residual has constant variance overtime. If the scatter plot is like a straight line or if we can predict the trends of the residual we can conclude there is the problem of hetrosckedasticity. On the other hand if the scatter plot has no clear trend we can say there is no hetrosckedasticity problem or the error term has constant variance.  The figure shows no trend and it confirms there is problem of the assumption.
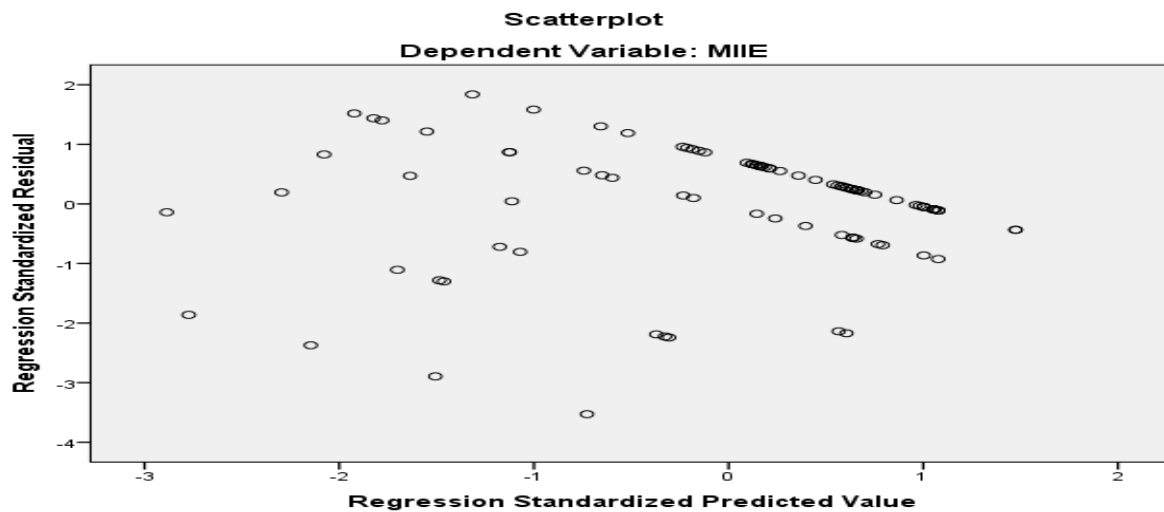


Figure 4.1: test for hetroskedasticity (scatter plot)

## 4.6.1.3.   Test of autocorrelation between the disturbances

A commonly used statistic for this purpose is the Durban-Watson (DW) statistic which is denoted by dw. When DW statistic is zero (d=0) the estimated correlation coefficient is 1 and d=4 when the correlation coefficient which is estimated is -1. If d is closer to 0 or 4, then the residual are highly correlated. The standard d statistic that serves as a rule of thumb is d =2 which indicates that the estimated correlation coefficient is 0 and hence the residual are not correlated. Durbin-Watson test statistics shows a value of 2.08, which approximately 2. Hence, this assumption is certainly met.

Table 4.10: Test of autocorrelation between the disturbances

|  | Durbin-watson statistics | df | Sig. |
|---|---|---|---|
| Step 1 | 2.084 | 5 | 0.000 |

## 4.6.1.4.  TEST FOR NORMALITY

In this study as can be seen from the figure below the mean value is zero. Thus we can conclude that the error term is normally distributed. Normality focuses on the extent to which the sample data distributes according to normal distribution (Hair, Tatham, Anderson, & Black, 2006) as cited in (Nobel, 2019). The estimators of the regression coefficients are also normally distributed. Consequently, the F-test of model adequacy and the t-test of significance of regression coefficients will be applicable; the Jarque-Bera test is one of the common tests of normality, this test is based on the coefficients of skewness (S) and kurtosis (K) of the residuals (Dimitrios & Stephen, 2007). Skewness is a measure of symmetry of the probability density function of the residuals, while kurtosis measures the peakedness of the same. (Kline, 2010) as cited in (Nobel, 2019) were that the Skewness and Kurtosis values should range between +/- 3.0 and +/- 10.0 respectively. Output of Skewness and Kurtosis of the current data ranged that between -1.082 and 0.930, it shown that the data are normally distributed. As well, since the value in the histogram ranges in between-2 and 3, so, the distribution is normally distributed.

## Histogram
### Dependent Variable: MIIE



Mean = -5.20E-18
Std. Dev. = 0.975
N = 102
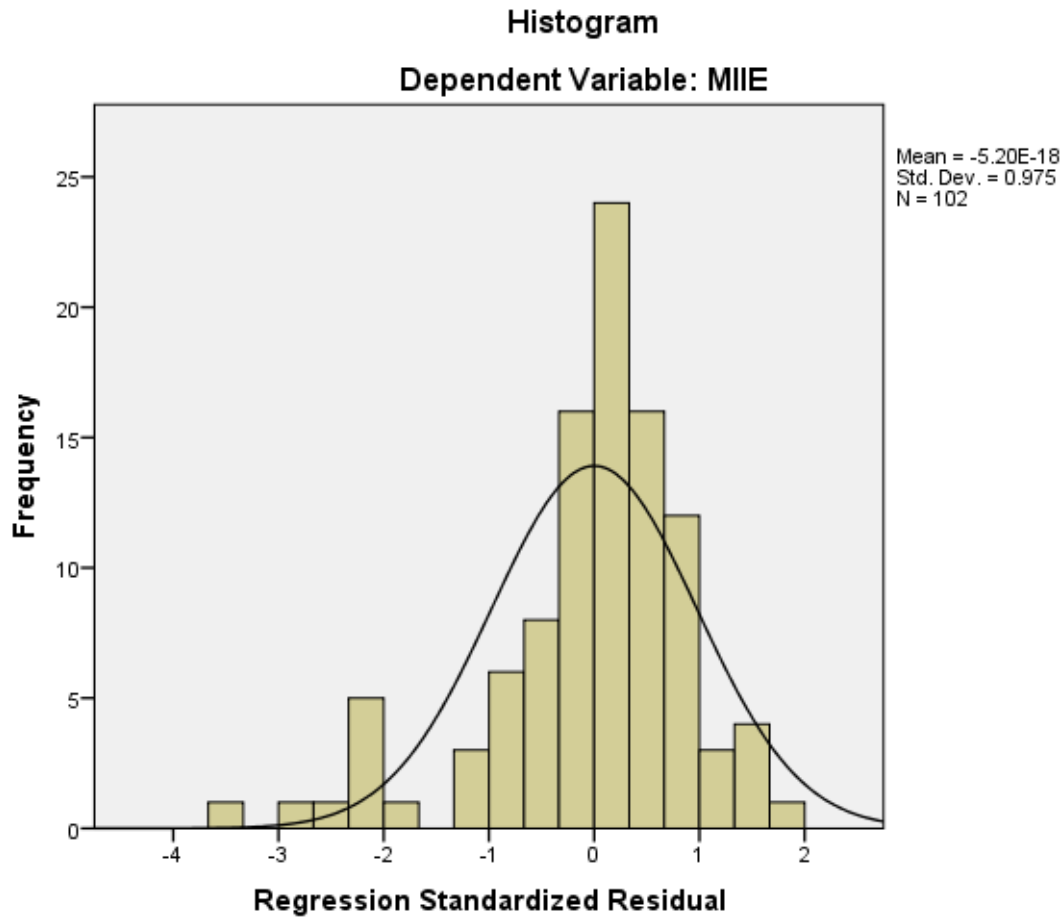
Figure 4.2: histogram normality plot

## 4.6.2. Analysis of ANOVA

Here below on table 4.11 ANOVA table is presented. As can be seen from the table though the value of residual sum of square is higher the overall goodness of the model is checked by F-statistics. It shows that the value of F-statistics is 13.4 whereas the probability that will be greater than F-statistics is zero (0), which confirms that our model is fitted for the data under consideration. And also, it considers the residual that demonstrates the range of the dependent variable that don't seem to be captured by the model. From the ANOVA table above it can be seen that the value of sum of squares of the model (SSM) is 8.372 and the residual sum of square (SSR) which is not explained by the model is 9.812 and the mean square of the model and the residual are 1.457 and 0.022 respectively. As a result ,the value of the mean square of the regression model is greater than the residual ,with P-value less than 0.05, which is higher and

highly significant at (P<0.0001). Hence, it can be concluded that this model can significantly be able to predict the outcome variable (practices of IFRS in ESLSE).

Table 4.11: Testing the model through ANOVA (Goodness of fit statistic)

| Model | Sum of Squares | df | Mean Square | F | Sig. |
|-------|---------------|-----|-------------|--------|-------|
| Regression | 25.256 | 5 | 5.051 | 13.412 | .000[b] |
| Residual | 36.156 | 96 | .377 | | |
| Total | 61.412 | 101 | | | |
| a. Dependent Variable: MIIE | | | | | |
| b. Predictors: (Constant), CS, PAB, GP, LA, ARS | | | | | |

### 4.6.3. Model summary

As can be seen from the table below 4.12 R-square, which tells us how much percent of variation of the dependent variable comes from explicitly listed predictor variables, is 81.1% and adjusted R-square is 79.2 i.e. 79.2% of variation of IFRS performance in ESLSE comes from change in government policy, level of awareness, availability of required skills, company size and professional bodies. Thus the researcher can conclude that the model is correctly specified.

Table 4.12: Goodness of fit through R – Square

| R | R Square | Adjusted R Square | Std. Error of the Estimate | Durbin-Watson |
|------|----------|-------------------|----------------------------|---------------|
| .841[a] | .811 | .792 | .61369 | 1.835 |
| a. Predictors: (Constant), CS, PAB, GP, LA, ARS | | | | |
| b. Dependent Variable: MIIE | | | | |

Source: output of SPSS

## 4.6.4. Hypothesis Testing and Interpretation of the Results

The final section of the study points to discover out the components influencing the practices of international financial reporting standard in ESLSE. This specific area presents the correlation and regression between independent variables and IFRS practices were compared against the hypotheses formulated in this study. The regression result of the study shows that there is positive relationship between the dependent variable (IFRS practice) and professional bodies,

availability of required skill, level of awareness, and company size. Here below the details of the relationship between significant variables and the dependent variable.

**Government policy:** unlike to the expected sign government policy has insignificant and negative effect on the operation of IFRS in ESLSE. Thus the alternative hypothesis which states that government policy has positive significant effect on IFRS practice in ESLSE is rejected rather the null hypothesis is accepted. This may be because the government actively involves in the adoption of IFRS, but after its implementation the effectiveness of IFRS highly depends on management and employees of the organization.

**Professional Bodies:** this variable measurement is computed from five scale likert scale questions like by asking do you believe that lack of the availability of competent specialists that affect the practice of IFRS. Hence professional body's accountancy has positive significant effect on the effective practice of IFRS in ESLSE at 1 percent level of significance. the regression coefficient show that as professional bodies accountancy changes by 1 point likert scale the effective practice of IFRS practice changes by 0.42 likert scale point with the same direction. According to Mir and Rahman (2005) the existence of professional accounting bodies is a major factor that drives the decision to adopt IFRS. Similarly, Aljifriand Khasharmeh, (2006) and Chamisa (2000) showed that professional bodies play important roles in IFRS adoption in developing countries. Hence, the second hypotheses are not rejected, (rather, supported).

**Availability of required skill:** the other statistically significant variable which affects the practice of IFRS is availability of required skill for the program. Availability of required skill has positive significant effect on effective practice of IFRS at 1 percent level of significance. A 1 point likert scale change in availability of required skill will increase the effectiveness of IFRS practice in ESLSE. This is consistent with the assumptions that trained peoples in on the subject and highly educated accountants in which the researcher used as an indicator for availability of required skill positively influences the practice of IFRS. Therefore the result's per the hypothesis of the study. Hence, the third hypotheses are not rejected, (rather, supported).

**Level of awareness:** A person's attitude toward a selected behavior is his/her positive or negative feeling about performing a behavior. Attitude will have an effect on behavioral intention. Attitude towards IFRS ranges from a complete opposition to broad acceptance and accelerated adoption (Arsen et al., n.d). Therefore, first the researcher wants to check whether

there's a relationship between general attitude towards IFRS in ESLSE accounting community and possible intent of practices in ESLSE. The regression result shows that level of awareness has positive significant effect on IFRS practice at 1 percent level of significance. A 1 point likert scale increase in level of awareness increases IFRS practice by 0.42 likert scale point. This means that, level of awareness influences IFRS practices in ESLSE. So, the fourth hypotheses are not rejected. This finding is in line with the finding of Beti (2020).Thus expected effect and sign founds in this study and the researcher accepts the alternate hypothesis which states that level of awareness has positive significant effect on effective operation of IFRS.

**Company Size:** like other variables company size has positive significant effect on effective practice of IFRS in ESLSE. The regression coefficient shows that a 1 point likert scale increase in company size causes the effectiveness of IFRS practice in ESLSE increases by 0.47 likert scale point. This finding agrees with other results that larger companies intend to disclose more information (Andrikopoulos & Diakidis, 2007; Iatridis, 2008; Marfo & Atsunyo, 2014; OwusuAnsah, 1998; Palmer, 2008; Santos et al., 2013). The implication of the result is that the increase in company increases leads to disclosure increases, and cost also increases thereby affecting the financial performance of the firm. Thus expected effect and sign founds in this study and the researcher accepts the alternate hypothesis which states that company size has positive significant effect on effective operation of IFRS.

Table 4.13: Regression analysis on IFRS operation in ESLSE

| | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|
| | B | Std. Error | Beta | | |
| (Constant) | -2.979 | 1.205 | | -2.473 | .015 |
| Government policy | -.095 | .131 | -.058 | -.727 | .469 |
| Professional bodies | .417 | .134 | .266 | 3.099 | .003 |
| Availability of required skill | .397 | .150 | .226 | 2.652 | .009 |
| Level of awareness | .421 | .104 | .329 | 4.047 | .000 |
| Company size | .472 | .166 | .224 | 2.847 | .005 |

## 4.7.　Summary of the Chapter

In this part summarized conclusion of the major findings that the researcher observed from the response of the questionnaire will be discussed. The SPSS result shows that demographic profile of respondents in the first category indicated that majority of the respondents with 59.4%, were male. The second category was, work experience, the respondents agreed that6 to 10 years of work experienced employees with a total of 40.6% dominated the rest group. The third category was educational status of employees, in this category 73.3% of the respondents were degree holders and In the last demographic category 40.6% of respondents  are senior officers ,this indicate that the majority service providers are senior officers. In this study the researcher conclude for the three research questions test as follows: The first question is benefits of practices of IFRS in ESLSE. The second question is the challenges faced by the process of practices of IFRS in ESLSE. The last question is underlying factors (i.e., government policy, professional bodies, availability of required skill, level of awareness, and company size) that could affect the practices of IFRS in ESLSE.  For those questions of descriptive analysis result shows that, mean of the respondents are greater than 3 and, this indicates that perception of the respondents were close to one another in practices of IFRS in the company.

The study also found that practices of IFRS in ESLSE had numerous benefits for the company, the listed benefits were: IFRS improves the efficiency of financial reporting, IFRS is reliable for financial statements preparation, provides better information for management to make decision, improves accountability of financial statements, improves the effectiveness of financial reporting, it is ease to integrate IT system and decreases information cost and other benefits. The mean value of the output result was above 4, this shows that most of the respondents agreed that practices of IFRS has a benefit for the company, and this shows that the theoretical assumption correlate with the practical result test. Factors (government policy, professional bodies, availability of required skill, level of awareness and company size)affecting practices of IFRS in ESLSE, mean value of the result shows that greater number of respondents agreed that the list factors affect practices of IFRS in ESLSE.

In this research the list challenges of IFRS practices are: resistance to adopt new things, in adequate training facilities at an affordable cost is a road block to IFRS, in adequately listed source document, high training cost and Tax driven nature of previous standards, the frequency of result shows that greater than 50% of respondents agreed that the listed questions are the challenges of IFRS practices in the company, this indicates that theoretical assumption correlated

with practical result. The study summarized the result and discussions, such as Normality test, linearity, significance level, and model adequacy test, test of hetroskedasticity, multicolliniority test and test of autocorrelation were contacted. Normality test of statistics collected in the data result of Skewers and Kurtosis ranges in between 0 and 3, this indicates that the data are normally distributed and bell-shaped chart clearly shows that good distribution of the variables. Multicollinarity test of dependent and independent variables of the correlation and VIF test result shows absence of Multicollinarity, it implies that the variables had linear relationships each other and the independent and dependent variables had a significant relationship . The other section determines coefficient of determination (R2), it identifies model of adequacy. Based on the output result the model is adequate at 5% significance level and significant linear relationship between government policy, professional bodies, and availability of required skill, level of awareness, and company size and or practices of IFRS in ESLSE. This means that ,based on government policy, professional bodies, availability of required skill, level of awareness, and company size and  practices of IFRS in ESLSE we can make valid inferences about factors affecting the practices of IFRS in ESLSE at 95% level of confidence. In this research the output result of R2 were 92.8% .this indicates that 92.8% of the dependent variable is explained by the independent variables and also the model were adequate.

Based on the respondent opinions of open ended question of the challenges of IFRS practices in ESLSE, majority of the respondents said that: back logs of financial statements and lack of adequate training are the key challenges of in the practices of IFRS in the company, and few of the respondents responded the following; determining the useful life of the asset, the residual value of each plant property and equipment and also net realizable of each inventory were very difficult, and complex structure of the company intermediate rates of more than sixteen commercial banks up on collection of sea freight inland leverage and Djibouti clearance charges have become challenges in the practices of IFRS in ESLSE.

For the list challenges the respondents remedy measures were as follows; take time to training and availability of improving the knowledge gap, develop ICT system like oracle software should be practically applying to conduct relative reward instead of manual reviewing and posting ,and there should be assigning a technical specialist committee to determine the useful life of the residual value of plant property and equipment ,there should be able a competitive market in the country to determine the net realizable value of the inventory item and review IFRS manual.

# CHAPTER FIVE
## SUMMARY, CONCLUSION AND RECOMMENDATION

## 4.8. Introduction

This chapter presents conclusions and recommendations on the result of findings discussed in previous chapters. The conclusion is based on practically distributed questionnaire and theoretically referencing of secondary data and the recommendation part of the researcher suggested his opinion and comment for the overall research area and giving feedbacks for improvement, adjustment, and future research study.

## 4.9. Summary of major findings

In this section summary of major findings are discussed. A total of 112 questionnaires were distributed to respondents and 103 questionnaires were filled and collected correctly. Thus this study is analysed based on the data collected from 103 respondents from employees of ESLSE. From the total respondents 65% are male and the majority, 42.7%, have a work experience 6 to 10 years followed by highest number of respondents having 11 to 19 years' experience comprising 30.1%. Senior officer's position comprises the highest percent of respondents, 42.7%. When we see education level of respondents, first degree holders takes the highest share, 64.1%, of respondents followed by master's degree holder's sharing 30.1% of the total samples.

In addition to demographic characteristics benefits of IFRS were examined. 52.4% of respondents are strongly agree that IFRS improves the efficiency of financial reporting followed by agree responses covering 39.8% of the total samples. Moreover, the response of respondents show that 81.6% of respondents are strongly agree on the question that IFRS based financial reporting are reliable and comparable followed by 14.6% of respondents who chose agree option. Also respondents answer indicated that 61.2% are agree about IFRS external financing easiness. Furthermore, as the response of respondents indicates 91.3% of them believes that IFRS provides greater reporting transparency and it enables greater effectiveness of the internal audit. However, 81.6% of respondents are strongly disagreed on the question that IFRS reduces cost of capital. On other questions related to the benefits of IFRS the majority of respondents answer shows either agree or strongly disagree.

Regarding to the challenges of IFRS the majority of respondents, (45.6%), answered as they are strongly agree about higher cost of IFRS practice followed by higher number of respondents, (43.7%), answered as they are agree. For the question stating IFRS increases the complexity of financial reporting the majority, (35.9%), are disagree and (25.2%) are strongly agree. Regarding to the availability of IFRS implementation guidelines there is no respondents whom answered as he/she is strongly disagree, disagree, and neutral. For tax driven nature of previous standards is a challenge for IFRS adoption the majority of respondents, (62.1%), agree followed by (24.3%) respondents answered as they are strongly agree.

In addition to the descriptive statistics analysis of AVOVA and the overall fitness of the model were discussed. F-statistics shows that the value of F-statistics is 13.4 whereas the probability that will be greater than F-statistics is zero (0), which confirms that our model is fitted for the data under consideration. Moreover, other classical linear regression assumptions show was tested. The value of variance inflation factor, used to check multicollinearity, for each variable is less than10, not only each individual variable's VIF but also the mean value. Thus the data under consideration has no multicollinearity problem. In addition, the scatter plot has no clear trend, so we can say there is no hetrosckedasticity problem or the error term has constant variance. Also Durbin-Watson test statistics show a value of 2.08, which are approximately 2. Hence, theassumption of no autocorrelation is hold. Finally the regression result show that Professional bodies, Availability of required skill, Level of awareness, and Company size have positive significant effect on operation of IFRS in ESLSE. On the other hand, government policy has no significant effect.

## 4.10. Conclusion

This study examined the factors affecting IFRS practices and its practical benefit in Ethiopian shipping and logistics service enterprise. To do so the researcher used primary data from employees of ESLSE collected through distributing questionnaire. Among 112 respondents only 103 questionnaires were filled correctly and returned, which are used for the analysis. The collected data was examined by using both descriptive statistics and econometrics analysis. OLS econometrics estimation techniques with SPSS software were employed.

From the descriptive analysis the researcher concludes that among the benefits of IFRS improving efficiency and reliable of financial reporting, making external financing easier,

provides transparency and effectiveness of internal audit, it provides better information for the investors, the information presented by IFRS is confidential, it promotes cross border investment. In addition, IFRS provides greater credibility and improved economic prospects for the accounting profession. But respondents believe that IFRS requires higher costs. In addition to higher costs, from the response of respondents the researcher concludes that among the challenges of IFRS practice lack of guidelines for its implementation, Tax driven nature of previous standards, Lack of availability competent specialists, lack of training, Problem with IFRS's use of fair value accounting are challenges of IFRS practice in ESLSE. On the other hand respondents do not accept complexity of IFRS, Lack of proper instructions from regulatory body and Problem with the IT system in handling the transition to IFRS as major challenges.

In addition to the descriptive statistics, regression analysis was used to identify which factor has significant effect on IFRS practice and in which direction (sign of the relationship). Before reporting the result of the regression the researcher checked whether or not the classical linear regression assumptions are violated. The test statistics shows that all the classical linear regression assumptions are not violated. The regression result revealed that company size, professional bodies accountancy, level of awareness about IFRS and availability of required skill have statistically positive significant effect on IFRS practice.

Generally, though effective operation of IFRS faces many challenges the response of respondents shows that the benefits of IFRS operations outweigh the challenges or the costs required.

## 4.11. Recommendation

Based on the findings the researcher recommends the following policy directions:

❖ The regulatory organs AABE, ERCA, and NBE as it should be need take a look at the gaps, exists in IFRS practices in companies. And is better to resolve gaps related to regulations developed by the government. These and related governing body laws should be revised by referring IFRS requirement so as reporting entities can implement this standard without challenging with conflicting laws. Any laws concerning financial reporting should first be referencing IFRS instead of placing special requirement. In addition, corrective actions should be taken based on the findings of monitoring and review programs of reporting entities. For instance, AABE should support the reporting entities by organizing capacity

building workshops and seminars, should provide clear and proper instructions when providing orders regarding reporting and auditing, and arrange regular meeting periods with reporting entities.

❖ Developing awareness of international financial report standards by giving training for exciting employees, take time for practicing to be narrow the skill gap, selecting Model Company Sharing their idea, practice and working habit. On the other hand to will adjust with the main problems of IFRS adoption should be supporting by all stakeholder , a rigorous IFRS capacity structure program ought to be embarked upon through all regulatory bodies and training institutes in order to offer the needed manpower for IFRS implementation.

❖ In order to develop the availability of required skill of IFRS, Developing training, assist necessary modification should be made in governing business and laws. As well, it's better to communicate with Universities, colleges and other training institutions.

❖ Generally, based on the respondent's opinion of the survey results, need of trained manpower, modern ICT system, and high training cost and take time to trend from GAAP to IFRS was a challenge on the company, so that all concerned bodies or stakeholders should be responsible to support the implementation practices in the company.

## 4.12. Future research areas

The study above focused only on the practices, benefits, factors affecting, and challenges in ESLSE, the study focused exclusively on the practices of IFRS in ESLSE. However, further studies are better to consider the challenges on the profitability of ESLSE that arise when providing annual financial reports.

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# Appendix

## Questionnaires

**Factors Affecting the Operation of IFRS in ESLS; survey instrument St. Mary's University**

Questionnaires Prepared for the finance Employee of ESLSE

**Dear Respondents'**

I am the student of St Mary University, studying MBA in accounting and finance program. The purpose of this questionnaire is to collect data for the thesis being conducted on the title ''Practices and challenges of Practical Implementations of IFRS in ESLSE'', for the partial fulfilment of the requirements for the MBA in accounting & Finance.

No Personality identifiable information is being collected from you and all information you provide will be combined with other respondents' data and analysed in aggregate. Responses will be kept confidential at all times and used only for academic purpose.

I thank you in advance for your cooperation,

For further information, please contact nejatabdla@gmail.com or sell phone 0911098700

Direction: Please put "√" mark for your appropriate choice at the space provided and part four; write your appropriate answer on the space provided.

**Part I: Demographic Questions**

1. Sex ;
   A) Male_____                                      B) Female_____
2. Working Experience;
   A) Less than 5years_____ B) 6 to 10 Years_____ C) 11 to 19 Years D) Over 20 years_____
3. Your educational Status;
   A) Certificate_____ B) Diploma___ C) Degree_____ D) Masters E) PHD_____
4. What is your Position in the organization?
   A) Junior Officer_____ B) Officer C) Senior Officer_____ D) Division Manager_____ E) Coordinator _____F) Other_____

**Part II: The challenges of IFRS Practices in ESLS**

For the statements bellow, please put the '√' mark in the appropriate box to indicate the extent to which you agree or disagree with each statement. The item scales are five point Liker to which you agree or disagree with each statement. The item scales are five point Liker scales with 1= strongly disagree, 2 = disagree, 3 = neutral, 4 = agree, 5 = strongly agree.

| No | Attributes | Measurement | | | | |
|---|---|---|---|---|---|---|
| | | Strongly disagree | disagree | neutral | agree | Strongly agree |
| | **Challenges of IFRS Practice in ESLSE** | 1 | 2 | 3 | 4 | 5 |
| 1 | Practice of IFRS is costly | | | | | |
| 2 | IFRS increases the complexity of financial reporting | | | | | |
| 3 | There is lack of IFRS implementation guidance | | | | | |
| 4 | IFRS brings about increased volatility of earnings | | | | | |
| 5 | Tax driven nature of previous standards is a challenge for IFRS adoption | | | | | |
| 6 | Lack of availability competent specialists | | | | | |
| 7 | Need for training | | | | | |
| 8 | Lack of proper instructions from regulatory body | | | | | |
| 9 | Problem with the IT system in handling the transition to IFRS | | | | | |
| 10 | Problem with IFRS's use of fair value accounting | | | | | |

**Part III: Measurement of IFRS practices in ESLSE**

In this section the researcher is seeking your perceptions to assess the practices of IFRS in Ethiopian shipping and logistics services enterprise. Please kindly thick (√) your appropriate answer based on the following scale ranging from-Strongly Agree to –Strongly Disagree. The scales are: (SA=strongly agree, A=Agree, N=Neutral, DA=Disagree and SD=Strongly Disagree).

| No | Measurement of IFRS implementation Effectiveness | Strongly disagree | disag ree | neutral | agree | Strongly agree |
|----|---|---|---|---|---|---|
| 11 | IFRS has really improved the reporting practice in your company better than GAAP | | | | | |
| 12 | The adoption of IFRS provide high quality financial statements | | | | | |

**Part IV: Factors affecting the practices of IFRS in ESLSE**

For the statements bellow, please put (√) mark in the appropriate box to indicate the extent to which you agree or disagree with each statement. The item scales are five point Liker scales with 1 = strongly disagree, 2 = disagree, 3 = neutral, 4 = agree, 5 = strongly agree.

| | Attributes | Strongly disagree | Disagree | Neutral | Agree | Strongly agree |
|----|---|---|---|---|---|---|
| No | **Government policy** | | | | | |
| 13 | The Ethiopian government encourage companies to adopt IFRS | | | | | |
| 14 | Politics is one of the major barriers to adopt IFRS | | | | | |
| | **Professional Accountancy (Associations) Bodies** | | | | | |
| 15 | Lack of Professional bodies support with IFRS experience | | | | | |
| 16 | Lack of availability of competent specialists that affect the practice of IFRS | | | | | |
| | **Availability of required skill** | | | | | |
| 17 | Having trained people in place | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| | greatly influence the practice | | | | | |
| 18 | Weak educational level of accountants is barrier for the adoption of IFRS | | | | | |
| | **Level of awareness** | | | | | |
| 19 | Lacks of aware of the pros/cons of IFRS are affects while applying the standard | | | | | |
| 20 | Insufficient preparatory period is causing difficulty IFRS adoption. | | | | | |
| | **Company Size** | | | | | |
| 21 | Size of the companies determines early adoption of IFRS. | | | | | |
| 22 | Size of capital may lead to adoption of IFRS. | | | | | |
| | **Benefit of adopting IFRS** | | | | | |
| 23 | practices of IFRS improves the efficiency of financial reporting | | | | | |
| 24 | Financial statements based on IFRS are reliable and comparable | | | | | |
| 25 | Practicesof IFRS improves effectiveness of financial reporting | | | | | |
| 26 | IFRS makes external financing easier | | | | | |
| 27 | It provides greater reporting transparency | | | | | |
| 28 | It enables greater effectiveness of the internal audit | | | | | |
| 29 | Reduced cost of capital | | | | | |
| 30 | IFRS provides better information for decision making by investors | | | | | |
| 31 | Investors will have more confidence in the information presented using IFRS | | | | | |
| 32 | practices of IFRS enhance transparency of companies through better reporting | | | | | |
| 33 | IFRS improves management information for decision making | | | | | |

| 34 | IFRS promotes cross border investment | | | | | |
|----|------------------------------------------|---|---|---|---|---|
| 35 | IFRS practices improves regulation oversight and enforcement | | | | | |
| 36 | IFRS provides greater credibility and improved economic prospects for the accounting profession | | | | | |
| 37 | It provides better reporting and information on new and different aspects of the business | | | | | |

## VI. Short answer

1. If you do you have any comment or suggestion, please specify about the challenges of IFRS practices in ESLSE.

2. Please state your possible solutions about how to improve challenges of IFRS practice in ESLSE?

**'Thank you in advance for your participation'**

**Kind regards,**