ADDIS ABABA UNIVERSITY

Impact of IFRS Adoption on Earning Management

A review of Four selected Private Commercial Banks in Ethiopia

A Thesis Submitted to Addis Ababa University School of Graduate Studies in Partial Fulfilment of the Requirements for the Degree of Master of Business Administration (MBA)

By:

Netsanet Regassa

Advisor:
Alem Hagos (PHD)

DECLARATION

I, Netsanet Regassa, declare that the thesis entitled "Impact of IFRS Adoption on Earning Management; A review of Four selected Private Commercial Banks in Ethiopia" is my original work. I have carried out the present study independently with the guidance and support of the research advisor, Alem Hagos (PhD). Any other contributors or source used for the study have been duly acknowledged. Moreover, this study has not been submitted for the award of any Degree or Diploma program in this or any other institution.

Netsanet Regassa __________________________ ___________________

Signature Date

STATEMENT OF CERTIFICATION

This is to certify that Netsanet Regassa has carried out her research work entitled "Impact of IFRS Adoption on Earning Management; A review of Four selected Private Commercial Banks in Ethiopia" for the partial fulfilment of Master of Business Administration. This study is original and is not submitted for any degree in this university or any other universities and is suitable for submission of Master's in Business Administration.

Confirmed by Advisor ___________________ ______________

Alem Hagos (PhD) Signature Date

Addis Ababa University

College of Business and Economics

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This is to certify that the thesis prepared by Netsanet Regassa, titled: "Impact of IFRS Adoption on Earning Management; A review of Four selected Private Commercial Banks in Ethiopia" and submitted in partial fulfilment of the requirements for Degree of Master of Business Administration complies with the regulations of Addis Ababa University and meets the accepted standards with respect to originality and quality.

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Approved by the Board of Examiner

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Internal Examiner	Signature	Date

ACKNOWLEDGMENT

I want to give my greatest acknowledgment for Holy Spirit my God, my immediate help for helping me finish this thesis.

Next, I would like to express my heartfelt gratitude to my advisor Alem Hagos (PhD), for his guidance and encouragement in preparing and finishing this study.

I am very grateful to my Spiritual father Reverend Tezera Yared for his prayer and encouragement, to my family specially my sister for her continuous follow up and encouragement, and to my colleagues at DCA Ethiopia for their support and inspiration. My special thanks go to my dearest friends who were there for me in difficult times by encouraging, consulting, and pushing me forward to finish this thesis.

Finally, I am thankful for the four selected private commercial Banks for making their annual reports available on their websites.

ACRONYMS

AABE: -____________Accounting and Audit Board of Ethiopia

ACCA: -____________Association of Chartered Certified Accountants

AISG: -____________Accountants International Study Group

ANAN: -____________Association of National Accountants of Nigeria

BOD: -____________Board of Directors

CFO: - ____________Chief Finance Officer

CIA: - ____________Certified Internal Auditor

CPA: - ____________Certified Public Accountant

EBT: - ____________Earning Before Tax

EU: - ____________European Union

FASB: - ____________Financial Accounting Standard Board

FDI: - ____________Foreign Direct Investments

FRC: - ____________Financial Reporting Council

GAAP: - ____________Generally Accepted Accounting Principle

IAS: - ____________International Accounting Standard

IASB: - ____________International Accounting Standards‟ Board

IASC: - ____________International Accounting Standards Committee

ICAN: - ____________Institute of Chartered Accountants of Nigeria

IFRS: - ____________International Financial Reporting Standards

IFI: -____________International Financial Institution

IOSCO: -____________International Organization of Securities Commissions

IPSAS: - ____________International Public Sector Accounting Standards

ISA: -____________International Standard for Auditors

MCPE: -____________Mandatory Continuing Professional Education

NASB: -____________National Accounting Standard Board

NBE: -____________National Bank of Ethiopia

PIE: -____________Public Interest Entities

ROA: -____________Return on Asset

SME: -____________Small and Medium Enterprises

SPPS: -____________Statistical Package for Social Science

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Abstract

The general objective of this study is to measure the Impact of IFRS Adoption on Earning Management measured by discretionary accruals in terms of quantitative terms. Among all the business sectors in Ethiopia banking sector is the one where IFRS adoption is fully implemented. To achieve the objective four Selected Ethiopian private commercial banks Audited Financial statements for the period of 8 years are assessed. To assess quantitative data quantitative method of research is implemented and Explanatory research design is employed. For data collection the population considered in this study is the number of private commercial banks in Ethiopia and random sampling is taken to get the information required for the study. This study measured the impact of IFRS on the level of earning management after its adoption where discretionary accruals are taken as a proxy. The researcher chose Modified Jones Model and came up with a result that shows there is a positive relation between IFRS and Discretional accruals which is used as a proxy to measure earning management. The adoption of IFRS brough an increase in discretionary accruals which led to a conclusion IFRS adoption have an increasing impact over earning management. Since earning management is mostly appreciated by Bank Management and CEO's the researcher put recommendation for investors and shareholders to force the management of commercial banks to give due consideration on their decision regarding discretionary accruals which could also increase the level of earning management on its annual auditing and to have a specific Audit other than generally used financial statements audit to detect the level of earning management and to bring the actual figure of the income.

Key Words: IFRS, AABE, Discretionary Accruals, Earning management, Commercial Banks.

Chapter one

Introduction

1.1. Background of the Study

It is known that the early development of accounting dated back to ancient Mesopotamia, and is closely related to developments in writing, counting and money and early auditing systems by the ancient Egyptians and Babylonians. Through the centuries the financial reporting has been developed and it was always progressing for an international standard. In acknowledgement of the necessity to have quality financial reports and other benefits like its ability to meaningfully advance the comparability of Business organisations, giving better contact to worldwide capital markets and condensed cost of capital, and facility of energy to international acquisitions that the implementation of International Financial Reporting Standards is becoming a tendency among countries. After GAAP which was widely used by many countries the need to have a single financial reporting standard rises and business movements experienced a huge shift throughout the last few decades. Such shift embodies the implementation and adaptation of regional accounting procedures and standardizing it with that of the International Financial Reporting Standards (IFRS) formerly International Accounting Standards (IAS). This conversion is begun in 2002 when European Union made it compulsory for publicly operated companies to produce consolidated financial statements in compliance with International Financial Reporting Standards starting from January 01, 2005 (Jermakowicz, 2004; Susana et al., 2007; Apostolos et al., 2010) by these IFRS first adopted in Europe. Due to this fact most of the studies on the subject matter was done on Europe. The developing countries are a little behind from the adoption but now it seems they are heading to it.

In Ethiopia on the observance of Requirements and Regulations, there was no set of accounting guidelines because of that accounting procedures differed throughout organizations. But in recent years with the formation of AABE (Accounting and Auditing Board of Ethiopia) by a Financial Reporting Proclamation No. 847/2014 in 2014 the idea of having standardise Financial Reporting under IFRS implementation is started. AABE is established for the process of IFRS adoption in our country. When AABE established, they come up with a road map to implement IFRS throughout the country. In the road map it is explained why IFRS implementation and having a standardised international reporting system is important for our country. Among the benefits some of them are easy comparison of reports among companies and industries, fair market competition, create easy linkage with international market, accessible consolidation of local companies with international companies if its need, and increase in the reliability Financial reports. Even though it took more time than its expected and required by AABE (Accounting and Auditing Board of Ethiopia) nowadays most companies are already adopting IFRS as their reporting system. But before most companies shifted to IFRS Commercial banks were under the leading phase to implement and adopt IFRS with the requirement of National bank of Ethiopia. (Alexander Hache,2019)

Numerous assessment studies have been performed to review the adoption of International Financial Reporting Standards in several countries of the world and some are made in our country. A set of researches have been performed related to the significance (Apostolos et al., 2010; Iyoha and Faboyede, 2011), the challenges of adopting IFRS (Alessandro et al., 2009; Robyn and Graeme, 2009), Assessment (HALEFOM SEYOUM DESTA, 2018) and Challenges and Opportunities (Alexander Hache,2019).With the best knowledge of the researcher there is one research made regarding IFRS adoption and its impact on audit quality; measuring the audit quality by the level of Earning Management which is Impact of IFRS on Audit quality Review of stock listed Australian Companies (Kishan Kheda 2014). There is other research made on earning management on banking industry done buy Erasmus university master's graduate. Earnings Management in the Banking sector the consequences of IFRS implementation on discretionary use of loan loss provisions (R.J.J. van Oosterbosch 2009). In our country case there is no research done regarding the adoption of IFRS and its impact on earning management.

By exploiting a logical outline from the existing theoretical and experimental indication from other countries background, the research went through the details of the Impact of IFRS on earning management on the selected private commercial banks of Ethiopia and brought an analysis and results by using the Audited financial statement of those selected banks.

1.2 Statement of the problem

Several researches have been done to review adoption of IFRS in various countries across the world. Most of these studies are done based on the data of developed and industrialized countries. Since the European Union (EU) took the lead to made IFRS adoption mandatory to all member states most studies are conducted there. Although it became mandatory for firms listed on capital markets of European and other developed countries to implement IFRS beginning from 2005, at first only few emerging countries were successfully adopted IFRS as their reporting standards. But through time most countries are following the steps of those few countries and converting their financial reporting standards in to IFRS as a matter of fact even some of the countries do not have a standardized and harmonised reporting standard before IFRS. Therefore, most prior present studies on the change from long time used local GAAP to IFRS or better state IFRS adoption focus majorly on European and other developed countries.

Among the studies related with its importance (Apostolos et al., 2010; Iyoha and Faboyede, 2011) and the challenges of adopting IFRS (Alessandro et al., 2009; Robyn and Graeme, 2009). The additional experiments have been led on the effect IFRS has on firms and countries at big (Jermakowicz, 2004; Alicja et al., 2007; Susana et al., 2007; William et al., 2010). Not much research has been done based on the data from developing and emergent countries like Ethiopia.

Studies on IFRS have been conducted in Nigeria such as Demaki (2013) examines Prospects and Challenges of International Financial Reporting Standards to Economic Development in Nigeria. The findings were for challenges need of amendment of laws and regulation and the major benefit was enhanced effectiveness of management function, Michael (2013) studied the Application and Challenges of International Financial Reporting Standards in Nigeria the findings of the thesis was lack of preparedness as a major challenge, and Odia et al. (2013) studied the issues, challenges and lessons from IFRS Adoption The findings were problems on lack of legal and regulatory allocations of resources, and Impact of IFRS on Audit quality Review of stock listed Australian Companies (Kishan Kheda 2014) this study used Modified Jones Model to answer its research questions. The dependent variable was Audit quality measured by earning management by the level of discretionary accruals the researcher used IFRS as a dummy variable and EBIT and ROA as a controlling variable. where the level of EBIT after the adoption of IFRS does not affect Audit quality but ROA gave a different result, and a high level of ROA brings an elevated level of discretionary accruals which is linked with earning management which have an impact also on Audit quality. An elevated level of discretionary accruals is linked with an elevated level of earnings management and therefore a smaller level of audit quality.

There are few studies made in Ethiopia and mostly focused on Challenges and opportunities (Alexander 2019), Assessment of adoption of IFRS (Halefom, 2018) and Challenges of practical implementation of IFRS (Ayitenew, 2018). The researcher did not find any study made in Ethiopia about the concept of earning management related with IFRS adoption. But Among the studies made in some other countries Impact of IFRS Adoption on Audit quality; a review of Australian stock listed Companies (Kishan Kheda 2014) where audit quality was measured by the level of earning management gave insight for the researcher to conduct this study. The researcher is inspired for this study to fill the gap of the available studies related with IFRS adoption specifically regarding the Impact of IFRS on earning management.

This study basically measured the impact of IFRS adoption in terms of earning management by taking Discretionary accruals as an independent variable and having EBT and ROA as a controlling variable. Since one of the motivational factors for the development of IFRS was to produce quality report by increasing accountability and transparency among users of the financial report the researcher believes studying the impact of IFRS on earning management play a vital role on measuring quality report. Moreover, it is crucial to see that the Ethiopian situation is unique from Economically advanced countries situation where the accounting vocation is more utilized with a comprehensive industry focused on specific set of accounting regulation. Therefore, it is well to see the problem in emerging countries context to supplement and encompass the understanding of International Financial Reporting Standards regard to its impact on earning management in Ethiopian situation by taking four selected commercial banks out of the Ethiopian banking industry.

1.3 Research questions

This Study investigated whether earnings management has improved or declined because of IFRS adoption in Selected Private Commercial Banks of Ethiopia. Earnings management measured in the process the discretionary accruals are used as the independent variable. Discretionary accruals have often been used to recognize earnings management in various empirical studies. In a banking context these discretionary accruals are the loan loss provisions. If there is an increase in discretionary accruals, the statement can be made that the possibilities regarding earnings management have increased as well. Based on the above description the main research questions raised are: -

RQ1. What is the impact of IFRS on selected private commercial banks on the level of Earning management?

RQ2.What is the influence of EBT amount after the adoption of IFRS on the level of Earning Management of selected private commercial banks?

RQ3.What is the influence of ROA after the adoption of IFRS on the level of earning management of selected private commercial banks?

1.4 Objectives of the study

1.4.1 General Objective

The general objective of this study is to measure the Impact of IFRS Adoption on Earning Management measured by discretionary accruals in terms of quantitative terms. Among all the business sectors in Ethiopia banking sector is the one where the IFRS adoption is fully implemented. to achieve the objective four Selected Ethiopian private commercial banks Audited Financial statements for the period of 8 years will be assessed.

1.4.2 Specific objectives

1. To examine the impact IFRS adoption on the level of Earning management of Selected private commercial banks.
2. To evaluate the effect of return on asset (ROA) related with the adoption of IFRS on Earning management.
3. To investigate the effect of change in EBT related with the adoption of IFRS on earning management.

1.5 Hypothesis Development

To answer the three research questions, three Hypothesis are developed. The three Hypothesis are first developed on the study made by (Kishan Kheda, July 2014) on the impacts of IFRS adoption on Audit quality measured by earning management of Australian stock listed companies.

Based on the study mentioned Audit quality is considered improved when there is an indirect relationship with the discretionary accruals which could affect earning management positively. The researcher-built argument based on the literature review discussed on the study which says if discretionary accruals are increased earning management will be increased which led to a decrease in Audit quality. Therefore, since IFRS come up with a lot of disclosure steps unlike the previous GAAP this hypothesis is developed considering the change. The major motivation of IFRS standards to be adopted globally were their intention to be a specific set of excellence accounting requirements, to encourage transparent and comparable information to enlighten economic decisions (Chen et al. 2010); considering the solid views of regulators about the possibility of taming the quality of information through IFRS, the implementation may have a positive effect on earnings management because since the standards are principle-based standards it can offer more rooms for managers to practice their expert judgments on the preparation of financial reports. Callao and Jarne (2010) on their study which dealt about the change of earnings management after adopting IFRS on European Union came up with a result which says Earnings management increased after the adoption of IFRS. In conducting this study, the researcher adopts the following hypothesis to be tested on the scope of this study.

H1: Discretionary accruals used to measure Earning management has been affected positively by the adoption of IFRS.

To address the second research question by adding additional controlling variable EBT a second hypothesis is developed. Some researchers suggest that change in EBT compared to the previous year has an impact on the Earning management with its influence on Discretionary Accruals. (Kishan Kheda, July 2014)

H2: An increased EBT, compared to the year before, is linked with an increase of discretionary accruals (Loan Loss Provisions) in the years prior to the adoption of IFRS compared to the period after the adoption IFRS.

To answer the third research question by adding additional controlling variable ROA a third Hypothesis is developed. To test if an increased ROA has a higher impact on the level of earning management the following Hypothesis is formed. (Kishan Kheda, July 2014)

H3: An increased ROA has a higher impact on the level of earning management in the years prior to the adoption of IFRS compared to the period during IFRS.

1.6 Scope and limitation of the study

1.6.1 Scope of the study

The general intention of the research is to assess the Impact of IFRS on earning management of randomly selected four commercial banks in Ethiopia. Data is gathered from the Audited financial statements for the last six years before the start of IFRS adoption and two years after the start of the adoption. Due to the wide and the multidimensional description of International Financial Reporting Standards, this study primarily concentrated on the impact of IFRS on Earning management. This study used Discretionary accruals (Loan Loss Provisions) as an independent variable and EBT (Earning Before Tax) and ROA (Return on Asset) as a controlling variable. Geographically this study exclusively concentrates on four Private Commercial Banks located in Ethiopia. The research was constructed on the current area of knowledge and study made in other countries and few studies in Ethiopian context.

1.6.2 Limitations of the study

The findings of the research might endure some limitation. First, this paper examined only one independent variable and two controlling variables, and it has a limited measurement of other factors which could affect the level of earning management under IFRS adoption. In addition, this research is limited with the representation of other Private banks in the industry since it randomly selects the four private commercial banks it did not measure the impact of IFRS in banking industry in Ethiopia.

Despite the above likely limitations, the researcher applied full determination to design the research as accurately as possible and to attain the specified objectives.

1.7 Significance of the study

The study has some sort of advantage for finance and related practitioners and academicians by providing useful information about Impact of International Financial Reporting Standards (IFRS) on earning management. It certainly has some useful findings for the selected private commercial banks management about the impact of their decision on discretionary accruals which have a direct link with earning management, to shareholders and to external Auditors by providing information about the Impact of IFRS on Earning management.

And finally, this research could be a rationale force for those who will be fascinated to operate a detailed and wide-ranging study regarding the implementation of IFRS and its Impact on Earning Management on private commercial banks of in Ethiopia and in other sectors as well.

1.8. Organization of the Study

This study is organized in five chapters, the first chapter deals with background of the study, statement of the problem, research questions, objective of the study, Hypothesis formulation, significant of the study, scope, and limitation of the study. The second chapter tries to highlight review of theoretical and conceptual literature review and review of empirical literature related to the subject matter under considerations. Methodology of the study, which comprises research design, target population, sampling technique, sample size, data collection method and instrument, data analysis method and the model used in the study presented in chapter three. In the fourth chapter, the data collected analysed; interpreted, the findings presented accordingly, and discussion of comparison is made with other similar researches done previously. Finally, in chapter five, after summary of findings and conclusion, the study recommends measures to be taken by the private commercial banks and for future studies to be done for a further understanding of the study matter.

Chapter Two

Literature Review

Introduction

This chapter consists of generally the theoretical and conceptual concepts of the research that is undertaken. On the theoretical part issues like the concept of International Financial Reporting Standards from the initial stage till the current development level, criteria for implementing IFRS, benefits of IFRS for the organisation and the country in general, comparison of IFRS with GAAP and IFRS and Earning management are discussed.

In addition, the empirical evidence on the adoption of IFRS are also encompassed. After summarising and identifying the research gap the chapter ends by putting the conceptual framework of the study.

2.1 Theoretical Literature Review

2.1.1 The concept of International Financial Reporting Standards (IFRS)

Financial accounting information are statutorily necessary to be arranged in a way of generally recognized assumptions, principles and conventions of accounting which help intra-firm, inter-firm and industry parallels overtime. (Abel 2011) Coordination of accounting requirements can reduce these matters by expanding the compatibility of accounting procedures by setting boundaries to their level of deviation.

The emerging of international businesses around the world and the larger involvement in the worldwide financial market needs larger comparability and transparency in financial reporting (Nobes, 2006). For a company employing accounting policies that are steady with worldwide requirements raises its quality of report in terms of transparency and comparability with other companies using worldwide standards. Globalisation has greater role in the necessity of massive capital markets to fund governmental privatization strategies which are the main justifications for emerging and implementing global standards for accounting. So, these standards help us to make assessments between company's financial accomplishment throughout countries and it enriches the resourceful distribution of resources (Nobes and Parker, 2008).

Aghator & Adeyemi (2009) stated that with the introduction of globalization and growing need for transparent, comparable financial information in the markets, the IASC was reorganized in the year 2001 by establishing the International Accounting Standards Board

(IASB), including other changes. The IASB is accountable for evolving, in the civic interest, a single set of great quality, comprehensive and enforceable worldwide accounting standards that necessitate transparent and comparable information in general purpose financial statements and additional financial reporting to help partakers in the numerous capital markets of the world and additional users of the information to make monetary decisions (Armstrong et al, 2007). In the mission of its objectives, the IASB collaborates with domestic accounting standards compositors to attain conjunction in accounting standards in the world. IFRS are advanced through an international due procedure that includes accountants, financial analysts, and additional users of financial statements the business community, stock exchanges, supervisory and lawful authorities, university professors and other concerned individuals and organizations from around the globe (Nobes, 2006).

IFRS stands for International Financial Reporting Standards, which are standards for reporting financial results, which are pertinent to general purpose financial statements and additional financial reporting of all for profit organisations (IFRS foundation, 2017; Fikru, 2012 and Yitayew, 2016). The term IFRS includes IFRS developed by IASB; IAS delivered by IASC; and explanations released by the Standing Interpretations Committee (SIC) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB (Fikru, 2012; Nobes, 2011 and IFRS foundation, 2017).

Aghator & Adeyemi (2009) defined the International Financial Reporting Standards (IFRS) as a sequence of accounting assertions circulated by the International Accounting Standards Board to help producers of financial statements, internationally, produce and present elevated quality, transparent and comparable financial information. IFRS foundation (2017) states that IFRS Standards stipulate the items that should be recognized as assets, liabilities, income, and expenses, how to evaluate those items and how to present them in a set of financial statements, and associated disclosures about those items.

Substantial research findings have explored the rationales following the adoption of IFRS by developing states. According to a few of these surveys, the choice to adopt IFRS originates from the fact that developing states are largely incompetent to assign the financial and technical resources required to develop high-quality and native accounting standards (Nobes, 2011).

2.1.1.1 Criteria for implementing IFRS

Experis Finance & Accounting (2008) consider some criterions to assess countries and companies' readiness to implement IFRS. The criterions are well-documented policies and procedures, Existence of skilled IFRS resources, Presence of IFRS awareness in crucial line and operational positions outside of finance, Presence of other crucial skilled resources, Organizational capacity for making accounting judgments, and Centralization of operations and complexity of organization.

According to IFRS Foundation (2013, p. 5 cited in Teferi and Pasricha, 2016) in its adoption model, adopting IFRS is like beginning a new household as it needs prudent planning, dedication, and complete knowledge of its implications. According to IFRS foundation,2017 there are three steps that should be followed before IFRS adoption. The steps are making policy decisions through building consensus among concerned stakeholders, preparing a plan with deadlines to identify obstacles that must be overcome and, recognising the resources that we have on hand and what is essential to implement the new standard such as accessibility of local experts at a firm and countrywide level, finance for capacity building, and source of finance, materials, and technical supports (Teferi and Pasricha, 2016).

2.1.1.2 Benefits of IFRS

According to Atu, O G, (2016), despite the negative encounters of adopting IFRS in developing and less developing nations, some benefits are recognised like Attraction of investment and financial support credible financial information, Bridge Communication gap with Stakeholders, Attraction of More Foreign Direct Investments (FDIs), Uniformity in Accounting Language

Additional benefits contain the smaller exposure to political tensions than national standards, extension of local implementation supervision for local situations and the inclination for accounting standards to be lifted to the greatest feasible quality level all over the world (Alfred's son et al, 2004). Irvine & Lucas (2006) asserted that some of the benefits credited to IFRS are larger productivity in the distribution of resources, enhanced and more comparable financial reporting, and a reduction in the prospects for earnings management representation.

2.1.1.3 Comparison of IFRS and GAAP

The main distinction between the two schemes is that GAAP founded on rules and IFRS is founded on principles. This difference demonstrates itself in specific aspects and explanations. Essentially, IFRS regulations offer much less general aspect than GAAP. Accordingly, the theoretical framework and principles of the IFRS give more room for explanation and may often necessitate prolonged disclosures on financial statements. On the other hand, the logical and instinctive principles of IFRS are more rationally sensible and may conceivably better characterize the economics of business transactions.

Possibly the most significant explicit distinction between GAAP and IFRS involves their management of inventory. IFRS rules prohibit the use of last-in, first-out (LIFO) inventory accounting methods. GAAP rules permit for LIFO. Both systems permit for the first-in, first-out method (FIFO) and the weighted average-cost method. GAAP does not permit for inventory reversals, while IFRS permits them under specified circumstances (Gaydarzhyys’ka et al., 2018).

2.1.1.4 Advantages and disadvantages of IFRS

The shift from any local GAAP is supplemented by several advantages and disadvantages. The fact that there is one common worldwide reporting language permits for comparability over all financial markets, irrespective of the country of origin. This ultimately leads to advantages for investors since their decision-making procedure is positively influenced by one common global reporting language (Kishan Kheda,2014).

The advantages of IFRS are the usage of one shared global reporting language is rising the helpfulness of financial reports, Investors will have improved information for decision making, Firms will have more flexibility for pertaining accounting principles, There is the potential for condensed financial reporting difficulty, All stages of management will have to be more tangled in financial reporting and mindful of transactions and, finally, firms should be more competent and have the advantage of cost-savings(Paul A., 2011).

Even if IFRS has advantages it has its own disadvantages too. Some of the disadvantages are Inharmoniousness may arise as firms claim to have converted to IFRS but in reality have only designated the portions that best fit their needs, there is an enormously high price tag, Officials have three years to change their minds, a conversion of this extent is too much to ask of directors and management, A minimum of two years of financial information prior to conversion would need to be maintain on two sets of books, both GAAP and IFRS, to meet the requirement of financial statements to contain three years of financial data(Paul A., 2011).

2.2 IFRS for Banks

It is very important in this research to know how IFRS affects financial institutions like banks regarding income smoothing by earnings management. IFRS contains a broad spectrum of accounting standards, most of which are general, and some are industry specific.

First, and most importantly, before it is outmoded by IFRS 7 Disclosures’, in 2007, IAS 30 ‘Disclosures in the Financial Statements of Banks and Similar Institutions’ prescribed presentation and disclosure standards for banks and similar financial institutions, to achieve that users of financial statements are provided with appropriate information to help in evaluating the financial performance and position of banks and understanding the special operations characteristics of banks(Moison, 2007, pp. 1307-1340).

Second, IAS 32 'Financial Instruments: Disclosure and Recognition' intends to help the users of financial statements recognize the importance of financial instruments to the statement of financial position, profit and loss statement, and cash flow statement of an entity. Some of the components regarding disclosures of financial instruments are also substituted by IFRS7(R.J.J. van Oosterbosch,2009).

And third, IAS 39 'Financial Instruments: Recognition and Measurement' is essential. This standard creates principles for acknowledging and evaluating financial assets, financial liabilities, and some contracts to buy or sell non-financial items.

2.3 Earnings management

Earnings management can be defined as methods that managers and directors have at their throwing away to manipulate financial reports in a way that the outcomes are submitted too optimistic or too pessimistic. This erroneous presentation is resulting in a gain for the manager or director caused by the likelihood to delay or to speed up costs and/or revenue in their benefit. The significance of reducing earnings management has been a topic of argument since the start of financial reporting. it is fascinating to see how IFRS has added to lessening earnings management (Kishan Kheda,2014).

2.3.1 IFRS and Earning Management

The introduction and application of IFRS has been one of the foremost subjects in accounting over the last years. IFRS was advanced by the International Accounting Standards Board (IASB), an independent accounting standard regulating body. The purpose of the IASB is to offer the world's incorporating capital markets with a shared language for financial reporting. IFRS is intended to enhance transparency and comparability of the financial statements of enterprises that employ them and become a universal body of accounting standards. IFRS is well-known for its emphasis on fair value accounting and shift towards a more principle-based methodology in accounting (Ewert and Wagenhofer 2005, p. 1102)

Since 2005, all publicly listed companies within the European Union are put into an obligation to prepare their consolidated financial statements in agreement with IFRS under the Resolution of the European Parliament and the Council of July 19, 2002 (Resolution no. 1606/2002). Even though it is expected the level of earning management after the adoption of

IFRS might be decreased some research showed a different result which says rather than decreasing some of their results even shows a decrease in earning management.

The enhancement of transparency and comparability of financial statements is one of the goals of the application of IFRS (Heemskerk and Van der Tas, 2006, p. 571). On the reverse, it is supposed that earnings management has an inverse impact on this transparency and comparability. Due to the strict criteria for applying accounting standards under IFRS the inverse impact of Earning management lead to the anticipation that by employing IFRS in financial statements, the level of earnings management would decline. Yet Heemskerk and Van der Tas (2006, p. 574) state on their research because of the sizeable number of conditions where subjective judgments must be made on estimations of fair value and provisions the sum of possibilities for earnings management after adopting IFRS rise in comparison with local GAAPs. They conclude in their research that IFRS did not lead to a reduction in the use of discretionary accruals for earnings management, but in fact has led to a rise in earnings management. Moreover, they also find a proof that income smoothing risen since the introduction of IFRS (R.J.J. van Oosterbosch,2009).

2.4 Discretionary Accruals

Accruals are an essential part of operational management and specifically in accounting decisions. Accruals can be defined as revenue and costs that after accumulation result in the divergence between the profit of an entity and its cash flow. Income which has been earned but not yet received, Expense which has been incurred but not yet paid, Revenue collected in advance, but which is not yet earned, and Expense paid in advance, but which has not yet been incurred are cases of accruals.

Accruals are created when business activities have not been financially finalized. Accruals can be recognized into two categories, namely discretionary accruals, and non-discretionary accruals. Non-discretionary accruals are accruals that are unavoidable and occur due to regular operating activities. Discretionary accruals are accruals that are created due to management decisions and not due to regular operating activities (Kishan Kheda 2014).

Davidson, R. & Neu, D. (2010). Notes that given the subjective characteristics of discretionary accruals, managers may use these accruals to manipulate reported income to minimize the forecasted and reported income figures. In fact, there are not a lot of options for managers to manipulate stated income to produce figures in their best viable interest. Therefore, discretionary accruals are a standard for analysing earnings management.

In this study the discretionary Accruals on the commercial banks are the loan loss provisions (PPLs) that are taken as a proxy to measure earning management.

For banks, the adoption of IFRS has launched some new requirements which are particularly valuable to banks: IAS 30, IAS 32, and IAS 39 (and currently IFRS 7). This provides rise to the question how the launching of IFRS in banks' financial statements influence earnings management through loan loss provisioning. According to IAS 30.43, banks are obliged to provide detailed information about loan losses. This information comprises the means of which the provisions and losses on uncollectible loans are determined, modifications through a provision during the period included by the financial statement and the combined amount of the provision at balance date (Moison, 2007, pp. 1333-1334). In other words, very particular information on loan losses is needed under IFRS, also regarding individual classes of loans instead of combined amounts. It is essential to acknowledge why management is persuaded to manipulate income to do earnings management. The theory finds that management is benefiting from the condition where financial statements give positive results (R.J.J. van Oosterbosch,2009).

2.4.1 IFRS and Discretionary Accruals

In the commercial Banks' context, the discretionary accruals are mainly referred to as loan loss provisions. Since the main research question is focusing on the impact of IFRS on earning management measured by discretionary accruals it is very important to discuss the change in Discretionary accruals with the introduction of IFRS.

According to IAS 30.43, banks are obliged to give complete information regarding loan loss Provisions. This information contains the approach of which the provisions and losses on uncollectible loans are defined, mutations during a provision during the period covered by the financial statement and the total amount of the provision at balance date (Moison, 2007, pp. 1333-1334). In other words, very detailed information on loan losses is necessary under IFRS, also involving individual classes of loans instead of total amounts.

According to Pérez, Salas and Saurina (2006) based on the detailed requirement of disclosures about provision under IFRS, loan loss provisions would be a less efficient instrument for earnings management by a bank's management. These two researchers tested for earnings management at banks in Spain, which has a very comprehensive set of rules governing LLPs, and discovered that despite this, management has applied LLPs for earnings management. They assume that the adoption of IFRS is a step ahead in the path of a more principle-based style, which might be the only alternative put for accounting standard compositors to neutralize management using LLPs to their decision. Comprehensive disclosure might be helpful to attain this (Pérez, Salas and Saurina, 2006, p. 25). generally, it can still be projected that improved disclosure obligations under IFRS will lead to a reduction in earnings management. There have been empirical studies investigating the link between disclosures and earnings management. Lobo and Zhou (2001) have examined the relationship between disclosure quality for a sample of U.S. companies and found a substantial negative relationship between corporate disclosure and earnings management, representing that firms that disclose more incline to engage less in earnings management and vice versa. They find that flexibility presented by minimum disclosure obligations is used by management to exercise discretion over earnings.

2.5 Relationship Between Discretionary Accruals and Earnings Management

As indicated above, discretionary accruals are a signal for the open prospects concerning earnings management. The presence of discretionary accruals generates the opportunities to do earnings management.

If there is a rise in discretionary accruals with consecutive years, an assertion can be made about the prospects regarding earnings management have risen. Research involving earnings management, while employing discretionary accruals as a variable, have been performed in different regions and locations. In this study the researcher analysed selected private commercial banks specifically regarding the discretionary accruals on the level of earning management under the adoption of IFRS (Kishan Kheda,2014).

2.6 Empirical Evidences on IFRS Adoption and Earning management

In adopting IFRS there are greater accountability and wider political participation and acceptance of necessary political reforms faced by countries. In which most countries adopted IFRS are already done the reforms regarding laws and regulations. Most studies are made on the adoption and implementation of IFRS related with its challenges, opportunities, and benefits. But there are very few studies found on its impact on earning management.

Heemskerk and Van der Tas. Capkun, Cazavan-Jeny, Jeanjean and Weiss (2008) have researched earnings management at European firms during the 2004-2005 IFRS conversion period and have found that conversion earnings management was present in all countries, reliable with the management of firms using the conversion to progress reported earnings. Jeanjean and Stolowy (2008) have studied earnings management before and after compulsory IFRS-adoption in Australia, France, and the UK, and found that there was no deterioration in the level of earnings management and in fact a rise in earnings management in France after the transition to IFRS. Paananen and Lin (2007) find a decline in accounting quality and an increase in income smoothing, led by the variations in accounting standards after the compulsory adoption of IFRS in their sample of German companies. The same applies to Sweden, according to a study by Paananen (2008). Tendeloo and Vanstraelen (2005) have researched the voluntary adoption by German companies during the period 1999 to 2001, but their findings imply that voluntary IFRS-adopters do not display various earnings management behaviour compared to firms reporting under German GAAP.

Lawrence, A., Minutti-Meza, M. & Zhang, P (2010) concentrates on the role of the Audit Committee, how the personal characteristic related with independence of such experts affects the examining of accruals quality. The study shows that the quality of accruals is positively affected when an Audit Committee are independent and have a lesser tenure in their firms.

Knechel, W., Krishnan, G., Pevzner, M., Schefchik, Lori. & Velury, U. (2013) Elaborates further on existing literature regarding audit quality. In this paper the fight between the statements that audit quality is more perceiving rather than observing is debated. To achieve a perfect and precise opinion about the delivered audit quality throughout an audit, the study declares that a balance scorecard that captures the crucial qualities of auditing is the solution. However, the paper is not using empirical indication to support their statement.

Francis, J. & Krishnan, J. (1999) Accounting Accruals and Auditor Reporting Conservatism. Contemporary Accounting Research focuses the declaration that the occurrence of modified audit opinions is linked to the number of discretionary accruals. Auditors for firms with significant discretionary accruals are more likely to issue revised audit opinions, which is a clue that modified audit opinions can be applied as a measure for audit quality. Among these studies Some of them claimed that firms using IFRS generally exhibit higher accounting quality than firms using local GAAP (Barth et al., 2008). By documenting numerous capital market benefits of IFRS adoption, including reduced cost of capital and improved liquidity (Daske et al., 2008; Li, 2010), higher foreign investment (Covrig et al., 2007; DeFond et al., 2011), and impact on the quality of accounting numbers (Daske, 2006; Stecher and Suijs, 2012). Similarly, these studies suggest that firms applying IFRS should have higher financial reporting quality and greater comparability than those applying domestic accounting standards (Landsman et al., 2012; Cuijpers and Buijink, 2005; Christensen et al.,2007; Barth et al., 2008).

Bartov, E (2000) Discretionary-Accruals Models and Audit Qualifications comprises of weighing the capability of the Jones model and modified Jones model to identify earnings management. The calculation is done by analysing the link between discretionary accruals and audit qualifications. The research finds that the Jones Model and the modified Jones are showing better results than other time-series counterparts in identifying earnings management.

Callao and Jarne (2010) conducted a study on European Union on the change of earnings management after adopting IFRS. The result of their research shows Earnings management expanded after the adoption of IFRS. Denis (2016) Canada 2016 The Advent of IFRS in Canada: Incidence on Value Relevance the result of this study was Less earnings management accompanies IFRS adoption. Doukakis (2014) made a research on European Union 2000-2010 on the effect of compulsory IFRS adoption on real and accrual-based earnings management activities and the result found was IFRS has no significant impact on earnings management.

Kishan Kheda (2014) Made a study on the Impact of IFRS on Audit Quality of Australian Listed companies by applying two models Modified Jones Model and Roy Chowdhury’s Earnings Management Model and came up with a result which says there is no effect on audit quality for stock listed companies in Australia after the adoption of IFRS when applying the Modified Jones Model or Roy Chowdhury’s Earnings Management Model. This research used further controlling variables PBT and ROA to further measure the effect of IFRS on Audit Quality measured by earning management and the results indicate the level of PBT is not affecting audit quality for stock listed companies in Australia because of the adoption of IFRS by using the Modified Jones Model or Roy Chowdhury’s Earnings Management Model. But The effect of ROA is displayed two different results for both models. The Roy Chowdhury’s Earnings Management Model did not discover a substantial link between ROA and audit quality because of the adoption of IFRS. However, the Modified Jones Model is displaying different results. This model found that a high level of ROA is linked with a high level of discretionary accruals after the adoption of IFRS. High level of discretionary accruals shows a rise in earning management and a decline in Audit quality.

R.J.J. van Oosterbosch (2009) performed a research on Earnings Management in the Banking Industry; The effects of IFRS implementation on discretionary use of loan loss provisions by taking a sample of listed and non-listed commercial banks from different countries of Europe and US. The study came up with a conclusion that banks in Basel countries in Europe used loan loss provision to smooth their earning before the adoption of IFRS and prior to IFRS, listed banks did not exhibit higher levels of earnings management. In addition, as per the researcher's hypothesis when additional information on loan losses is accessible, it can be anticipated that the inducements for discretionary use of loan loss provisions for income smoothing by bank managers will be lessened. In other words, management would be less probable to participate in earnings management through loan loss provisions when detailed disclosures on loan loss accounting are expected. As per the findings found the adoption of IFRS certainly led to a decline in the level of earnings management for the sample of banks taken by the researcher.

In Ethiopia according to the knowledge of the researcher no studies are found on the Impact of IFRS on earning management but there are some researches reviewed related with IFRS. Alexander (2019) conducted a study on the Challenges and Opportunities in Adopting IFRS by Private Commercial Banks. The general objective of his study was to identify the challenges and opportunities for private commercial Banks in the first-time adoption of IFRS in the accounting process and financial statement preparation. The gap the researcher was attempting to fill was lack of studies specifically in Ethiopia about the opportunities and Challenges of adopting IFRS specific to private commercial banks even though the adoption of IFRS itself is not a long year's story. The study used purposive sampling to conduct the research in a focus group of IFRS implementation team of each private Bank using questionnaire. Finally, the result of his survey shows there is a challenge in lack of knowledge to practically apply the standard, problem of data asymmetry, compatible technology which can embed accounting information with the requirement of IFRS, and lack of competent training having the capacity to provide beyond the theory of IFRS are the major findings and the opportunities are access to finance, comparability, improve analysis of information for decision making and better access to capital market.

Conversion to IFRS offers companies with the chance to create a worldwide finance function with simplified operations, polices, processes and controls; consolidated technology; optimized resources; and improved decision support capabilities. (Experis Finance & Accounting (2008) and Nobes and Parkers (2010) The key is for firms to apply the IFRS timeline to create their assessments and turn IFRS into a true opportunity rather than expecting for a nightmare to unroll (Deloitte, 2011a). The conversion to IFRS can be said of as a set of performed activities that place a firm in a place to take gain of improvements quicker and reduce adverse financial considerations later. This allows firms to match financial reporting and financial market gains to a company's willingness to execute. In addition, moving down the IFRS route empowers business entities to start building a base for a worldwide finance function (Masoud, 2014).

Akgün (2016) a study made on The Journal of Accounting and Finance published in Turkey which came up with a conclusion that IFRS can present more accurate information to the users of financial statements in determining the performance levels of businesses by positively affecting the quality of the analysis of financial statements through providing consistent basis for comparison of data from different periods. Which also helps in making appropriate decisions on subjects vitally important for the business. It also increases the efficiency of the financial analysis since they help make audits of the business easier. Finally, findings show that the adoption of IFRS on listed firms in Turkey significantly contributes to an improvement in financial analysis forecast accuracy.

Halefom (2018) conduct a research on assessing the adoption of IFRS in Ethiopian commercial banks. In addition to the general objective which is assessing the adoption of IFRS in commercial banks he also set specific objectives which were analysing the factors affecting the adoption of IFRS for commercial banks in Ethiopia, evaluating the challenges encountered by the banks and measuring the prospects originating from the adoption of IFRS. The researcher used both qualitative and quantitative research approach based on evidence collected through semi-structured interview and questionnaires. The questionnaires were examined using descriptive statistics, correlations analysis, and data from interview of the selected banks officials, National Bank of Ethiopia and the Accounting and Auditing Board of Ethiopia (AABE) for the adoption of IFRS, and document reviews were inspected and interpreted qualitatively. The results indicate that IFRS adoption by commercial banks in Ethiopia gave several benefits to a broad range of stakeholders of commercial banks. The study identified some challenges of IFRS adoption like Excessive expenditure of adopting, knowledge divergence, the complicated nature of IFRS, lack of appropriate guidelines and control from governing bodies for implementing IFRS.

Relatively, a smaller number of researches have been conducted from other countries on the adoption, prospects, and challenges of IFRS (Iyoha and Faboyede, 2011; Fikru, 2012; Nobes, 2011; Teferi and Pasricha, 2016). Even if IFRS seems to be equally crucial for all countries, there is an absence of empirical study that examines the data from developing countries like Ethiopia (Fikru, 2012 and Yitayew, 2016 and Teferi and Pasricha, 2016)

2.7 Summary and Research Gap

Even With the advantages of convergence of accounting standards, there are different opinions for and against the adoption of the IFRS by different academics; some academics argue for advantage of implementing the international accounting reporting standards while others argue in contradiction to the adoption of the standards. Hail et al (2010) signalled the adoption of IFRS would be important in lessening cost of capital, distributing capital, and offering bigger market liquidity. They further claimed that convergence to IFRS is prone to have cost advantage in financial reporting in a way that transnational companies will not need to report by employing more than one set of accounting standards for businesses operating in transnational conditions. Quite the contrary, the opponents of the adoption of IFRS pointed out that variation in the implementation of the standards and poor execution mechanisms may Reduce financial reporting quality and lead to larger managerial discretion (Yitayew, 2016). Sunder (2007) contended that the adoption of IFRS across the world may not adequately reproduce regional differences across countries; the adoption of IFRS may not satisfactorily accommodate the political and economic alterations of countries.

Though numerous survey studies have been done to assess the adoption of IFRS in different nations of the globe, nearly all the studies have been held on IFRS analysing the data from the European Union member countries. (Nobes, 2011).

The Financial Report Proclamation of Ethiopia cliques the financial reporting standards that reporting Business organisations in Ethiopia must apply when making their financial statements (Fikru, 2012 and Teferi and Pasricha, 2016). These are IFRS issued by IASB or its successors, IFRS for SMEs issued by IASB or its successor and International Public Sector Accounting Standard (IPSAS) issued by the International Public Sector Accounting Standards Board or its successor (Fikru, 2012 and Yitayew, 2016). Presently all commercial banks have already implemented IFRS as per the declaration made by the Auditors opinion on their annual reporting.

Currently, financial institutions in Ethiopia especially the Commercial banks are shifted to IFRS. Since 2018 all commercial banks in Ethiopia produced their report according to the IFRS principles. But according to my literature search there is a big gap of studies made on the impact of IFRS on earning management. Therefore, in this study the researcher tried to bridge this gap and asses the Impacts of IFRS on earning management of four randomly selected Private commercial banks of Ethiopia.

2.8 Conceptual Framework

The conceptual framework shows the Impact of IFRS Adoption on Earning Management measured by the level of discretionary accruals of randomly selected four Private commercial banks by comparing the value of the proxies used to measure the earning management which is taken form the Audited financial statements of those private commercial banks. The relationship between the dependent variable earning management, the independent variable Discretionary accruals before and after the adoption of IFRS and the controlling variables EBT and ROA are analysed by using the modified Jones model which is widely used by most researchers to measure the effect of discretional accruals on the level of earning management. Furthermore, IFRS is added as a dummy variable.

As mentioned above since this study is majorly focused on the impact of IFRS on earning management the dependent variable is Earning Management, while the independent variables are discretionary accruals (Loan Loss Provisions) adding EBT and ROA as a controlling variable (Kishan Kheda,2014)

The adoption of IFRS should have positively affected the detailed and clearer disclosure requirements of financial statements which ought to shrink the possibilities to perform earnings management. The impact of IFRS on earning management in Selected Private commercial banks of Ethiopia is measured by looking at the discretionary accruals which are Loan Loss Provisions (LLPs) in the commercial banks which is a proxy for earnings management:

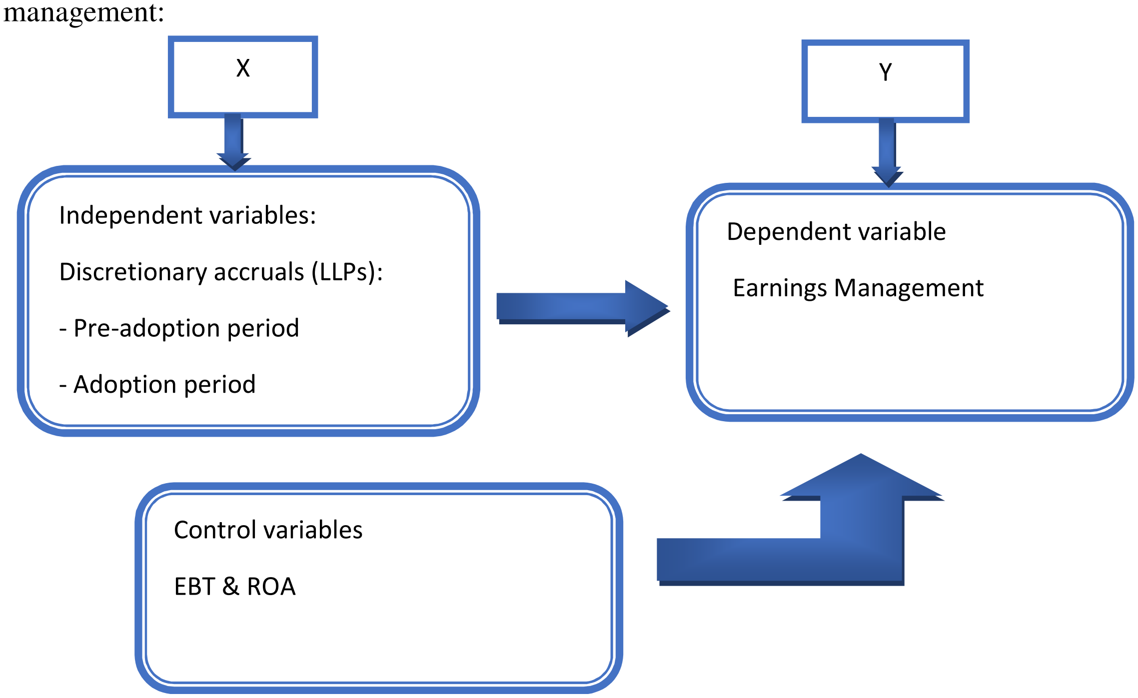


Figure 2. 1 Dependent Independent and control Variables (Kishan Kheda,2014)

Chapter Three

Research Methodology and Design

Introduction

This chapter describes the methodology and design that are used to conduct the study. It describes in detail the types of methods that are implemented for data collection and analysis and the reasons why these methods were chosen to be applied in comparison to the other alternative methods.

3.1Research Design

To ascertain and be able to describe the characteristics of the variables of interest in the effects of the reporting quality under IFRS an explanatory research design is undertaken. The goal of this study under this specific research design, is to describe the effects of the independent and controlling variables on the dependent variable mentioned in the previous chapter.

3.2Data type and data source

3.2.1 Survey Design

This study is absorbed to assess the Impact of IFRS Adoption on Earning Management measured by discretionary accruals on four randomly selected Private commercial banks in Ethiopia. Secondary data is gathered from the audited financial statements of the selected private commercial banks by focusing on the variables mentioned for the period of 8 years;6 years before the adoption of IFRS and 2 years after the adoption of IFRS.

3.2.2 Sample Selection

Since IFRS adoption is mandatory for all companies in Ethiopia especially commercial banks were in the leading phase to adopt IFRS. There are 17 commercial banks in Ethiopia among them 16 are private from this private Banks Data is taken for 25% of them by random sampling technique. Since all the commercial banks in Ethiopia have fully adopted th researcher took list of all private commercial banks where all of them had an equal possibility of being chosen. But when the calculation is done four of them were randomly selected with an online random sampling calculation platform (Research Randomizer, 2021).

Moreover, the sample period consists of 8 years from 2012 to 2019. This provided us the chance to look at the condition prior to the adoption of IFRS and the condition following the adoption of IFRS.

Survey sampling is the method of selecting, from a much sizable population, a group about which the researcher wants to make assertions so that the carefully chosen piece will represent the total group (Leedy, 1989). All the private commercial banks in Ethiopian banking industry are the population in this study. Among a random sampling is taken to get the information required for the study. Random sampling is one of the simplest forms of collecting data from the total population. Under random sampling, each member of the subset carries an equal opportunity of being chosen as a part of the sampling process. Therefore, out of the total number of private commercial banks in Ethiopia four sample private banks are selected randomly. The four randomly selected commercial banks are Awash international Bank, Dashen Bank, Oromia international bank and Zemen Bank. Based on Cohen et al., (2005), encompassing the whole population in the survey makes the survey challenging. Therefore, among the total of 16 private commercial banks the researcher decided to draw 25 % of the whole population for inquiry which are four private commercial banks. For a similar population this much sample size is believed to be representative. (Cohen et al., 2005).

3.3Research Method

As per Creswell (2003) there are three methods that are used in performing a presented research. The methods are quantitative, qualitative, and mixed research methods. Quantitative research approach concentrates primarily on the formation of quantitative data, and quantitative data is a methodical record that consists of numbers built by researcher applying the process of measurement and enforcing structure (Kent, 2007). The quantitative research method use measurement that can be quantifiable while qualitative cannot be measured (Bryman & Bell, 2007). In mixed research method enquirers took liberally from both qualitative and quantitative assumptions (Creswell, 2009).

In this paper the researcher used quantitative research approach; to Measure the Impact of IFRS on Earning management in selected private Commercial banks. Since this research is basically focusing on Impact of IFRS on Earning management the quantitative approach will give the ultimate result on the level of earning management by analysing the values of the variables from consecutive years of audited financial statements before and after the adoption of IFRS.

3.4. Data Collection Method and Instrument

To identify the Impact of adopting IFRS on Earning management for selected private commercial Banks, data is gathered from Secondary sources to meet the objective of the study.

The Secondary data is obtained from the audited financial statement of the selected commercial banks for the period of eight years from 2012 to 2019 in which six years before the adoption of IFRS and two years after the adoption of IFRS. By taking the numbers from the audited financial statements analysis is done considering the variables mentioned.

3.5. Data Analysis Methods

Since the researcher chose quantitative research approach to measure the level of earning management under the adoption of IFRS on selected private commercial banks Modified Jones model is used. This model is used by many researchers to measure earning management by using accruals as a proxy. SPSS software is used to compute the different results of the variables which are the normality test, Model testing, Correlation and Regression.

3.5.1 The Modified Jones Model

The modified Jones model is corrected for the difficulties faced in the usual Jones model such as opportunities to manipulate revenue. The modified Jones model reduces this risk by using the net-revenue as a Variable for non-discretionary accruals. Also, as noted by Arezoo Aghaei Chadegani, most research linked to discretionary accruals apply this model for verifying audit quality measured by earnings management. This Research used the Modified Jones Model (Dechow, 1995) since most research papers involving discretionary accruals applied this model to complete the analysis. To get the results each phase of calculating the variables is done by the formula developed by the Modified Jones Model.

In the modified Jones model, the discretionary accruals are calculated by looking at the non-discretionary part of the total accruals:

$$NDA_t = \alpha_1\left(\frac{1}{A_{t-1}}\right) + \alpha_2\left[\frac{\Delta REV_t - \Delta REC_t}{}/A_{t-1}\right] + \alpha_3(PPE_t/A_{t-1})$$

$\Delta REVt$= Difference in revenue in year t

$\Delta RECt$ = Difference in net receivables in year t less year t – 1

$PPEt$ = Total worth of property, plant, and equipment as of December 31st of year t

At = Total assets in year t

After calculating the non-discretionary part of the total accruals, the discretionary part of the total accruals in a certain year can easily be computed by subtracting the NDA (non-discretionary accruals) from the total accruals.

Furthermore, the total accruals will be calculated by looking at the change in current assets, change in cash balance, change in current liability and depreciation and amortization expenses:

$TACi,t = \Delta CAi,t - \Delta CASHi,t - \Delta CLi,t + \Delta Debt\ in\ CLi,t - DPNi,t$

$TACi,t$ = Total accruals for company i in time$t$ lagged for total assets

$\Delta CAi,t$ = Difference in current assets for firm i in time$t-1$ to t

$\Delta CASHi,t$ = Difference in cash balance for firm i in time$t-1$ to t

$\Delta CLi,t$ = Difference in current liabilities for firm i in time$t-1$ to t

$\Delta Debt\ in\ CLi,t$ = Difference in short term debt for firm i in time$t-1$ to t

$DPNi,t$ = depreciation and amortization expenses for firm i in time$t$ 1 to t

3.5.2 Regression

The assessment of the research question is completed through econometrics methods employing a regression. By using regression methods in this study, the researcher investigated the relation between earnings management and the adoption of IFRS. Since the impact of IFRS on earning management is being investigated, a dummy variable is necessary to measure this effect; IFRS is the dummy variable. Also, the change in discrepancy perseverance between the period prior to IFRS and following IFRS is important and therefore being processed in the formula. Also, the control variables are implemented in the regression. The following regressions will be utilized.

3.5.3.1 The Modified Jones Model

$$DACC_{i,t} = \beta_0+\beta_1 IFRS_{i,t}+\epsilon_{i,t}$$

$$DACC_{i,t} = \beta_0+\beta_1 IFRS_{i,t}+\beta_{i,t}\Delta OBIT_{i,t}+\beta_3(\Delta OBIT * IFRS)_{i,t}+\varepsilon_{i,t}$$

$$DACC_{i,t} = \beta_0+\beta_1 IFRS_{i,t}+\beta_2 ROA_{i,t}+\beta_3(ROA * IFRS)_{i,t}+\varepsilon_{i,t}$$

$DACC_{i,t}$ = The discretionary accruals (Loan Loss Provision) lagged for total assets. This value will be used to determine possible earnings management.

$IFRS_{i,t}$ = This is a dummy variable where 0 equals the years before adopting IFRS and 1 equals the years after adopting IFRS

$ROA_{i,t}$ = Return of assets for firm i in year t

$\Delta EBIT_{i,t}$ = The change in PBT for firm i in time$t-1$ to t. The variable ΔPBT will be included as a control variable in the regression.

ε = Error term.

Chapter Four

Data Presentation, Analysis and Discussion of Results

In this chapter the data set up is discussed, the research is conducted, and the results are analysed. The results are presented as descriptive statistics, with graphs and Regression results for all variables. After the analysis of the results the hypotheses are tested, and results are shown after comparing the results on the next chapter the summary, conclusion and recommendation is discussed.

4.1 Formula for Discretionary accruals

As briefly discussed in the previous chapter the following formula is used for the calculation of discretionary accruals as a step for Modified Jones Model.

$TACi,t= \Delta CAi,t- \Delta CASHi,t- \Delta CLi,t+\Delta Debt\ in\ CLi,t-DPNi,t$

TACi,t = Total accruals for company i in time t lagged for total assets

ΔCAi,t = Difference in current assets for firm i in time t-1 to t

ΔCASHi,t = Difference in cash balance for firm i in time t-1 to t

ΔCLi,t = Difference in current liabilities for firm i in time t-1 to t

ΔDebt in CLi,t= Difference in short term debt for firm i in time t-1 to t

DPNi,t = depreciation and amortization expenses for firm i in time t-1 to t

4.1.1 Descriptive statistics

Table 4.1 gives a review of the descriptive statistics of the earnings management proxies used in this research. The total accruals (TACC), non-discretionary accruals (NDACC) and discretionary accruals (DACC) are used in the Modified Jones Model. The descriptive statistics of all other research variables are contained in table 4.2. Crucial variables that are drawing attention due to their values, are skewness and kurtosis.

These two variables show the shape of the distribution. Skewness is usually described as a measure of a dataset's symmetry – or lack of symmetry. A perfectly symmetrical data set will have a skewness of 0. The normal distribution has a skewness of 0. kurtosis is all about the tails of the distribution A general guideline for skewness is that if the number is greater than +1 or lower than –1, this is an indication of a substantially skewed distribution. For kurtosis, the general guideline is that if the number is greater than +1, the distribution is too peaked.

Descriptive Statistics								
	N	Minimum	Maximum	Mean	Std. Deviation	Variance	Skewness	Kurtosis
TACC	32	-14411.71	1822.39	-2164.5453	3352.16163	11236987.570	-2.353	6.156
NDACC	32	-14156.54	1614.13	-2031.8419	3280.91723	10764417.865	-2.402	6.392
Discretionary Accruals	32	0.00	406.99	145.7199	117.92940	13907.343	0.226	-0.666
Valid N (listwise)	32							

Table 4. 1Summary of statistics for earning management proxies.

Descriptive Statistics								
	N	Minimum	Maximum	Mean	Std. Deviation	Variance	Skewness	Kurtosis
Cash	32	784.64	9432.31	3756.2206	2293.31320	5259285.451	0.592	-0.176
Receivables	32	1245.61	20147.05	8258.7220	5480.34099	30034137.404	0.524	-0.738
PPE	32	46.95	3020.68	750.5155	817.79778	668793.209	1.771	2.367
Total Asset	32	2394.24	74635.40	21413.0859	17646.09337	311384611.152	1.322	1.592
Current Liabilities	32	1792.88	59616.06	16969.7279	13975.84698	195324298.697	1.329	1.714
Debt_CL	32	200.34	6227.54	1670.5124	1610.93167	2595100.854	1.470	1.509
Revenue	32	173.93	5948.47	1521.9700	1280.54119	1639785.731	1.607	3.376
DPN	32	12.95	207.32	75.8509	57.27644	3280.591	0.887	-0.222
ROA	32	1.49	5.13	3.0316	0.78414	0.615	0.302	0.378
IFRS	32	0	1	0.25	0.440	0.194	1.212	-0.570
deltaEBIT	28	-80.30	1387.20	166.2591	289.29435	83691.223	3.163	11.822
Current Asset	32	2070.89	28618.60	12014.9425	7483.04913	55996024.282	0.389	-0.847
Valid N (listwise)	28							

Table 4. 2 Descriptive statistics for all variables

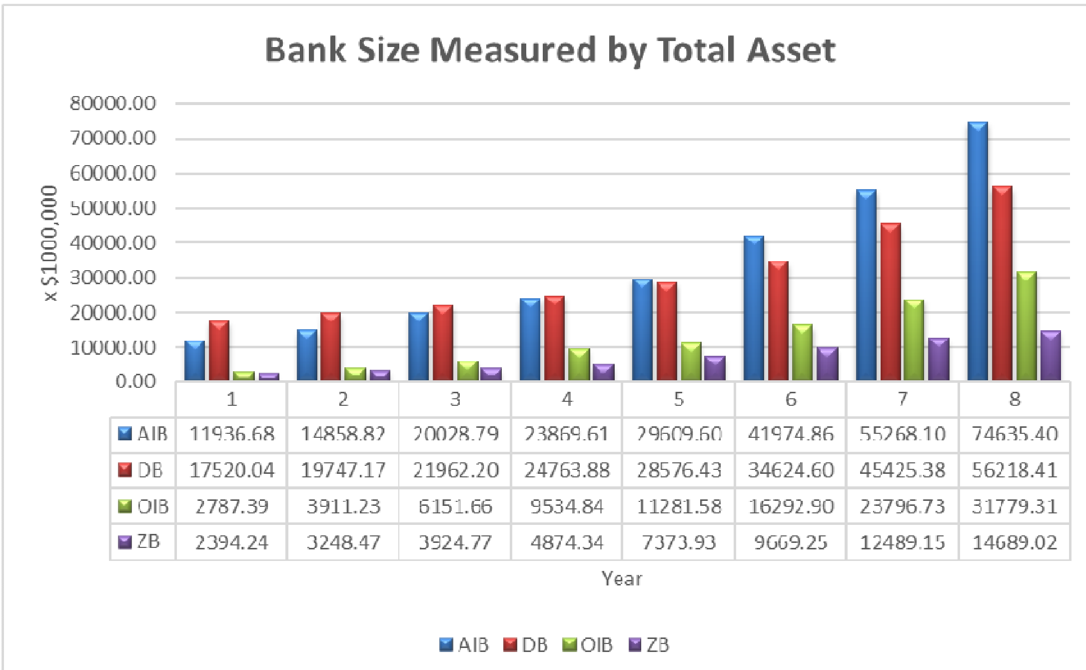
On the collected data using the Modified Jones Model formula the computed total accruals gave a negative result all most for all the sample banks and years which shows the total accruals have a negative impact on the net income. From table 4.2 the mean of the total accruals shows -2164.53 when we calculate the percentage with the total sample year it gave us a percentage of 3.125% which indicates income is being decreased by 3.125% during the sample years. Because The accrual component of the model is the change in current net operating assets. A positive accrual component indicates that accruals have increased net income while a negative accrual component indicates that accruals have decreased income.

The non-discretionary accruals and discretionary accruals are separately having mean values of -2031.84 and 145.7199 which suggests that discretionary accruals have risen comparatively greater than non-discretionary accruals for the selected samples.

Looking at the kurtosis values of all the variables, it is observed some larger values (higher than 3) in some variables. Kurtosis signifies the size of the tails of the distribution, a high-pitched kurtosis indicates a lot of extreme values. The distribution of this sample size consists of extreme values which is fundamental to the characteristics of the companies in the sample size. The kurtosis of the most crucial variable discretionary accruals is relatively low (lower than 3).

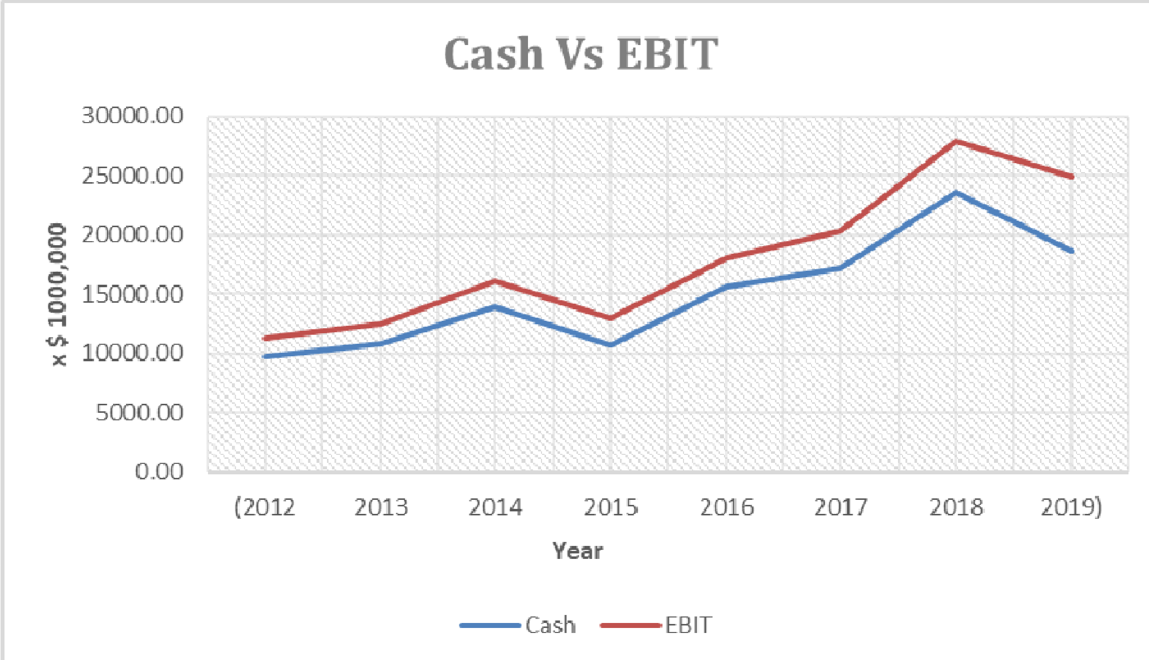
4.2 Preliminary Analysis

The data is gathered for the years 2012 to 2019 for four randomly selected Private commercial banks in Ethiopia. In the graph below (graph 4.1), the size of the selected banks for each sample year is presented. As we can see from the graph among the four banks Awash bank is larger in size in terms of total asset and Zemen bank is the least among the four.



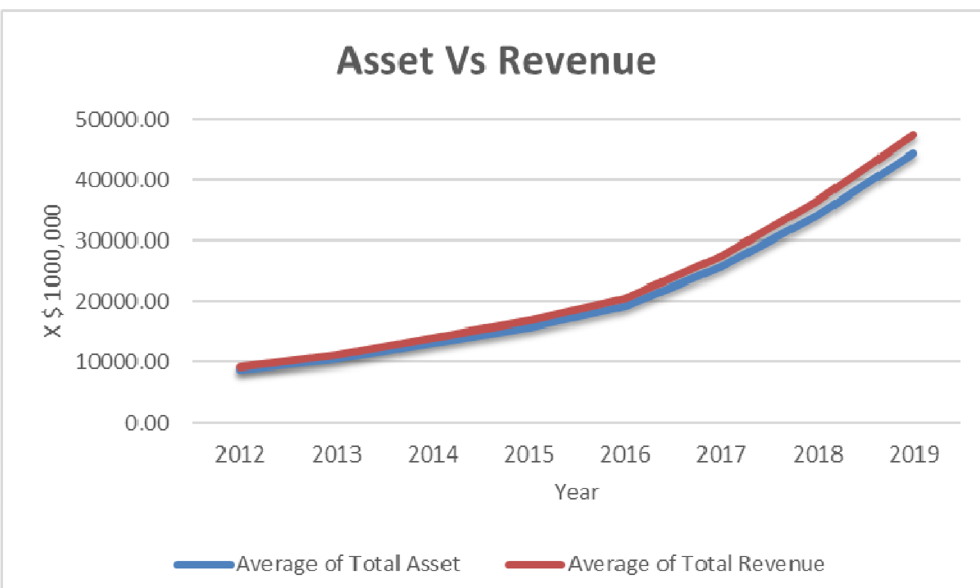
Graph 4. 1Bank size measured by Total Asset.

In the below graph 4.2, the EBT (Earnings Before Taxes) is contrasted with the cash balance (Cash) for all the companies in the sample size. Looking at the graph, it can be observed that both cash and EBIT has a stable growth from 2012 to 2018 but after 2018 it is noticed there is a decline in both variables the adoption of IFRS in commercial banks of Ethiopia occurred in 2018, the graph presents a decrease of both Cash and EBIT and there appears to be some impact, but we cannot decide with this. The regression results clarified if IFRS is impacting these variables.

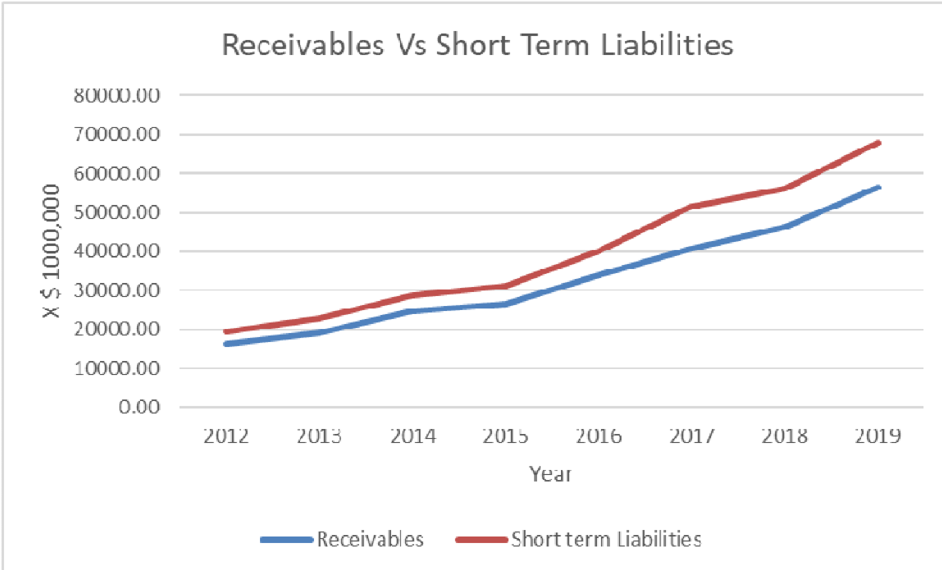


Graph 4. 2 Cash Vs EBIT

In graph 4.3, the variables total assets and revenue are giving a parallel development during the years 2012 to 2019. Both total assets and Revenue show a constant growth even following the adoption of IFRS. The regression results clarified if there is indeed a significant positive relation. In addition, it is fascinating to look at how IFRS impacts the return on assets (ROA) and how discretionary accruals is linked to that. The regression results offered more information regarding these relations.



Graph 4. 3 Asset Vs Revenue



Graph 4. 4 Receivables Vs Short Term Liabilities

The growth of the debt in current liability and the receivables is shown in graph 4.4. Both variables are growing show a rise following the adoption of IFRS in 2018. Moreover, both variables form a component of the discretionary accruals and this could be a signal that the adoption of IFRS has certainly influenced the discretionary accruals. Therefore, the regression results in the next paragraphs offered more information about this relation.

4.3 Correlations

In the following table, the correlations between the variables used in the Modified Jones Model are presented.

Correlations							
		TACC	NDACC	DACC	ΔEBT	ROA	IFRS
TACC	Pearson Correlation	1	.999**	-.467**	-.707**	0.078	-.675**
	Sig. (2-tailed)		0.000	0.007	0.000	0.670	0.000
	N	32	32	32	28	32	32
NDACC	Pearson Correlation	.999**	1	-.444*	-.707**	0.079	-.673**
	Sig. (2-tailed)	0.000		0.011	0.000	0.667	0.000
	N	32	32	32	28	32	32
DACC	Pearson Correlation	-.467**	-.444*	1	.413*	0.058	.385*
	Sig. (2-tailed)	0.007	0.011		0.029	0.753	0.030
	N	32	32	32	28	32	32
ΔEBT	Pearson Correlation	-.707**	-.707**	.413*	1	0.285	.521**
	Sig. (2-tailed)	0.000	0.000	0.029		0.141	0.004
	N	28	28	28	28	28	28
ROA	Pearson Correlation	0.078	0.079	0.058	0.285	1	-0.073
	Sig. (2-tailed)	0.670	0.667	0.753	0.141		0.690
	N	32	32	32	28	32	32
IFRS	Pearson Correlation	-.675**	-.673**	.385*	.521**	-0.073	1
	Sig. (2-tailed)	0.000	0.000	0.030	0.004	0.690	
	N	32	32	32	28	32	32
**. Correlation is significant at the 0.01 level (2-tailed).							
*. Correlation is significant at the 0.05 level (2-tailed).							

Table 4. 3 Correlations

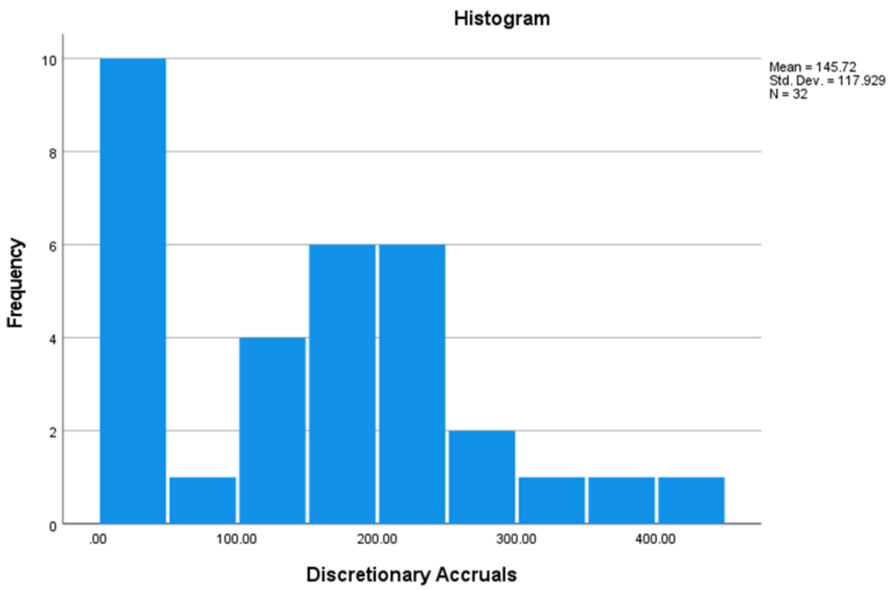
DACC and NDACC correlates at a significance level of -0.444. which tells a rise in discretionary accruals results in a decline of the non-discretionary accruals. This is acceptable because the Modified Jones Model computes discretionary accruals by subtracting the total accruals with the non-discretionary accruals.

4.4 Normality test

Normality of discretionary accruals is tested based on the Shapiro-wilk normality test. The Shapiro–Wilk test is developed in 1965 by Samuel Sanford Shapiro and Martin Wilk and it is a test of normality in frequentist statistics. According to this test if the value of the Shapiro-Wilk Test is greater than 0.05, the data is normal, if it is below 0.05, the data significantly deviate from a normal distribution. As the result below shows the significance level is 0.01 which is less than 0.05 that make the distribution deviate from a normal distribution. In addition, graph 4.5 and 4.6 its illustrated how the data does elevate from normal distribution. we can notice that there is an outlier on this data set. To bring the data to some level of normality Winsorising is used.

Tests of Normality						
	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Discretionary Accruals	0.173	32	0.016	0.909	32	0.010
a. Lilliefors Significance Correction						

Table 4. 4 Normality Test



Graph 4. 5 Histogram presentation of Normality Test

4.4.1 Winsorising the distribution

The Shapiro – Wilkinson Normality test is performed to verify if there is a normal distribution in this model. As reviewed in the prior paragraph, there are extreme values due to the attributes of the sample size. To reduce the effect of getting extreme values in the sample size of the variable the way out is Winsorising. Winsorising or winsorization is the transformation of statistics by limiting extreme values in the statistical data to reduce the effect of possibly spurious outliers. It is named after the engineer-turned-biostatistician Charles P. Winsor (1895–1951). Some scholars argue Winsorising is the future of data analysis even though it is not widely used. Winsorising will result in a more normally distributed sample size by placing the biggest and least extreme values to the marginal values.

But due to the characteristics of the sample size even after Winsorising perfect normality is still absent from the distribution. In the discretionary accrual sample data by Winsorising the extreme largest value or the outlier is winsorised and the result is the following:

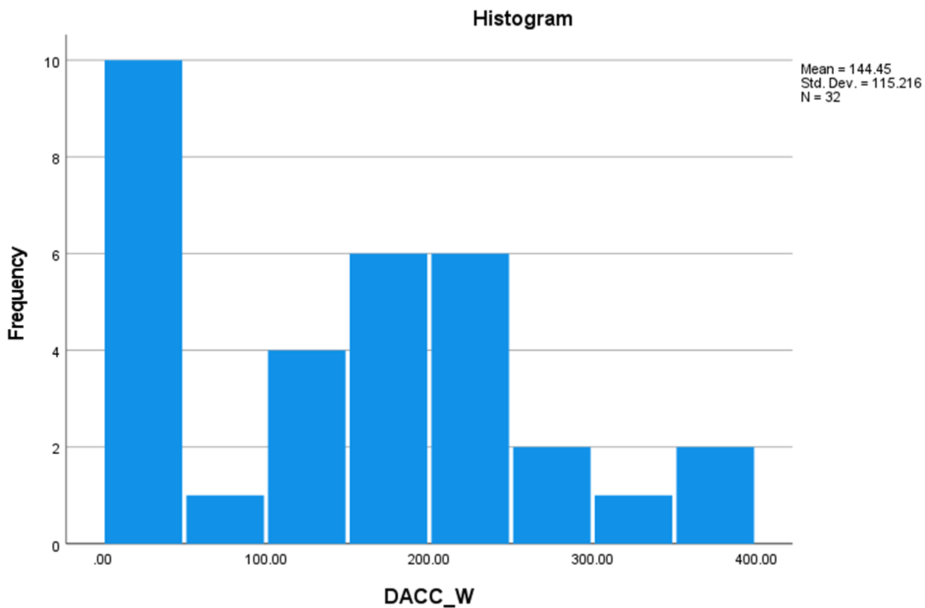
Tests of Normality

	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
DACC_W	0.176	32	0.013	0.902	32	0.007

a. Lilliefors Significance Correction

Table 4. 5 Normality Test after Winsorising

As it is stated on the table 4.2 after the winsorization the shapiro-Wilk normality test show



Graph 4. 6Histogram presentation of Normality test after Winsorising

4.5 Regression

Since IFRS is implemented in 2018 it is incorporated as a dummy variable. In Addition, the control variables Return on Assets and Earnings before Taxes are incorporated too. The following three regression models are used for the Modified Jones Model in this study.

$DACC_{i,t} = \beta_0 + \beta_1 IFRS_{i,t} + \epsilon_{i,t}$

$DACC_{i,t} = \beta_0 + \beta_1 IFRS_{i,t} + \beta_{i,t} \Delta OBIT_{i,t} + \beta_3 (\Delta OBIT * IFRS)_{i,t} + \varepsilon_{i,t}$

$DACC_{i,t} = \beta_0 + \beta_1 IFRS_{i,t} + \beta_2 ROA_{i,t} + \beta_3 (ROA * IFRS)_{i,t} + \varepsilon_{i,t}$

$DACC_{i,t}$ = The discretionary accruals (Loan Loss Provision) lagged for total assets. This value will be used to determine the audit quality and thus possible earnings management.

$IFRS_{i,t}$ = This is a dummy variable where 0 equals the years before adopting IFRS and 1 equals the years after adopting IFRS

$ROA_{i,t}$ = Return of assets for firm i in year t

$\Delta EBIT_{i,t}$ = The change in PBT for firm i in time $t-1$ to t. The variable ΔPBT will be included as a control variable in the regression.

ε = Error term.

4.5.1 Multiple regression results Modified Jones Model

Before we proceed to the regression results there is a brief look at the strength of the Modified Jones Model below

Model Summary[b]

					Change Statistics					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	F Change	df1	df2	Sig. F Change	Durbin-Watson
1	.600[a]	0.360	0.280	0.0939333478621	0.360	4.505	3	24	0.012	1.563

a. Predictors: (Constant), PPE/TAt-1, ΔREV-ΔREC/TAt-1, 1/TAt-1

b. Dependent Variable: TACC/laggedTA

Table 4. 6 Model summary for the first Equation

The R-squared suggests how the variation of the dependant variable is being explained by the independent variable, in this model the R-squared equals 3.6%. The adjusted R-squared is the R-squared adjusted for the number of variables. The F-statistic which is 4.505 merged with the p-value (0.012), tests the explanatory power of the model. Since the P value is smaller than 5% it signifies that the model is significantly explanatory.

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	0.119	3	0.040	4.505	.012[b]
	Residual	0.212	24	0.009		
	Total	0.331	27			

a. Dependent Variable: TACC/laggedTA

b. Predictors: (Constant), PPE/TAt-1,ΔREV-ΔREC/TAt-1, 1/TAt-1

Table 4. 7 ANOVA test

Coefficients[a]											
		Unstandardized Coefficients		Standardized Coefficients			Correlations			Collinearity Statistics	
Model		B	Std. Error	Beta	t	Sig.	Zero-order	Partial	Part	Tolerance	VIF
1	(Constant)	-0.081	0.072		-1.130	0.270					
	TACC/laggedTA	-385.555	190.764	-0.383	-2.021	0.055	-0.051	-0.381	-0.330	0.743	1.345
	ΔREV-ΔREC/TAt-1	-0.830	0.284	-0.543	-2.924	0.007	-0.488	-0.512	-0.477	0.773	1.294
	PPE/TAt-1	-1.715	1.286	-0.252	-1.334	0.195	-0.301	-0.263	-0.218	0.749	1.336

Table 4. 8 Coefficients of Model Estimation

Coefficient Correlations[a]					
Model			PPE/TAt-1	ΔREV-ΔREC/TAt-1	1/TAt-1
1	Correlations	PPE/TAt-1	1.000	-0.270	0.329
		ΔREV-ΔREC/TAt-1	-0.270	1.000	0.282
		1/TAt-1	0.329	0.282	1.000
	Covariances	PPE/TAt-1	1.653	-0.099	80.656
		ΔREV-ΔREC/TAt-1	-0.099	0.081	15.270
		1/TAt-1	80.656	15.270	36390.935
a. Dependent Variable: TACC/laggedTA					

Table 4. 9 Coefficient of correlations of Model Estimation

Collinearity Diagnostics[a]							
				Variance Proportions			
Model		Eigenvalue	Condition Index	(Constant)	1/TAt-1	ΔREV-ΔREC/TAt-1	PPE/TAt-1
1	1	3.164	1.000	0.01	0.03	0.03	0.01
	2	0.532	2.438	0.01	0.21	0.11	0.08
	3	0.266	3.449	0.00	0.58	0.70	0.00
	4	0.038	9.130	0.98	0.19	0.16	0.92
a. Dependent Variable: TACC/laggedTA							

Table 4. 10 Collinearity Diagnosis for Model Estimation

Residuals Statistics[a]					
	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	-0.296951115131	0.029245328158	-0.126999120036	0.0664542183836	28
Residual	-0.1908122599125	0.1487919688225	0.0000000000000	0.0885612096704	28
Std. Predicted Value	-2.557	2.351	0.000	1.000	28
Std. Residual	-2.031	1.584	0.000	0.943	28
a. Dependent Variable: TACC/laggedTA					

Table 4. 11Residual's statistics for Model Estimation

The next step is to measure the variables using the regression equation developed by modified Jones Model. The three regressions mentioned above are being applied and presented below.

The first hypotheses to be tested is: -

H1: Discretionary accruals used to measure earning management has been affected positively by the adoption of IFRS.

Model Summary[b]										
					Change Statistics					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	F Change	df1	df2	Sig. F Change	Durbin-Watson
1	.385[a]	0.148	0.120	108.08272	0.148	5.227	1	30	0.029	1.018
a. Predictors: (Constant), IFRS										
b. Dependent Variable: DACC										

Table 4. 12 Model Summary for Equation 1

On the above model summary for the first equation with a dummy variable IFRS the P value is less than 5% which is 2.9% which makes this model is explanatory for conducting this research.

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	61059.638	1	61059.638	5.227	.029[b]
	Residual	350456.244	30	11681.875		
	Total	411515.882	31			
a. Dependent Variable: DACC						
b. Predictors: (Constant), IFRS						

Table 4. 13 ANOVA test for Equation 1

The ANOVA results shows that the sum and mean of squares for Regression and residual of the dummy variable IFRS.

Coefficients[a]								
		Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
Model		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1	(Constant)	119.232	22.062		5.404	0.000		
	IFRS	100.879	44.125	0.385	2.286	0.029	1.000	1.000
a. Dependent Variable: DACC								

Table 4. 14 Coefficients for Equation 1

In table above the coefficient of the dummy variable for the introduction of IFRS is significant at a 5% level for the model. This result brings an inference that the adoption of IFRS has had a positive effect on discretionary accruals. Which means discretionary accruals have increased after the adoption of IFRS. Therefore, Hypothesis 1 is supported.

Collinearity Diagnostics[a]					
Model		Eigenvalue	Condition Index	Variance Proportions	
				(Constant)	IFRS
1	1	1.500	1.000	0.25	0.25
	2	0.500	1.732	0.75	0.75
a. Dependent Variable: DACC					

Table 4. 15 Collinearity for Equation 1

Residuals Statistics[a]					
	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	119.2321	220.1113	144.4519	44.38092	32
Residual	-128.19125	246.16792	0.00000	106.32516	32
Std. Predicted Value	-0.568	1.705	0.000	1.000	32
Std. Residual	-1.186	2.278	0.000	0.984	32
a. Dependent Variable: DACC					

Table 4. 16 Residuals for Equation 1

The second Hypotheses is: -

H2: An increased EBT, compared to the year before, is linked with an increase of discretionary accruals in the years prior to the adoption of the IFRS compared to the period after the adoption IFRS.

Model Summary[b]										
					Change Statistics					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	F Change	df1	df2	Sig. F Change	Durbin-Watson
1	.473[a]	0.224	0.127	109.64905	0.224	2.307	3	24	0.102	1.182
a. Predictors: (Constant), ΔEBT*IFRS, IFRS, ΔEBT										
b. Dependent Variable: DACC										

Table 4. 17 Model summary for Equation 2

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	83228.375	3	27742.792	2.307	.102[b]
	Residual	288549.957	24	12022.915		
	Total	371778.332	27			
a. Dependent Variable: DACC						
b. Predictors: (Constant), ΔEBT*IFRS, IFRS, ΔEBT						

Table 4. 18 ANOVA test for Equation 2

Coefficients[a]								
		Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
Model		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1	(Constant)	102.334	30.921		3.310	0.003		
	IFRS	79.180	61.415	0.310	1.289	0.210	0.558	1.793
	ΔEBT	0.326	0.259	0.803	1.256	0.221	0.079	12.642
	ΔEBT*IFRS	-0.229	0.275	-0.581	-0.835	0.412	0.067	14.957
a. Dependent Variable: DACC								

Table 4. 19 Coefficients for Equation 2

In the above table the coefficient of the collaboration of variation in the EBT with respect to the previous year with the dummy variable for the adoption of IFRS (IFRS x ΔEBT), is insignificant at a 5% level. Where the P value is greater than 5%. This implies that an increased EBT compared to prior year has not caused an increased discretionary accrual in the period following the adoption of IFRS. Therefore, Hypothesis 2 is rejected.

When we see below the collinearity test the variance proportions VIF indicates the percentage of the variance inflated for each variable's coefficient. If VIF has a value of 1 there is no collinearity, a VIF between 1–5 indicates moderate collinearity while values above 5 indicate high collinearity. Some cases where high VIF would be acceptable include the use of interaction terms, polynomial terms, or dummy variables (nominal variables with three or more categories). In this case as it is presented on the table the VIF for ΔEBT and IFRS and their interaction is higher which shows there is interaction terms we use for both variables.

Collinearity Diagnostics[a]							
			Condition	Variance Proportions			
Model		Eigenvalue	Index	(Constant)	IFRS	ΔEBT	ΔEBT_IFRS
1	1	2.878	1.000	0.02	0.03	0.01	0.01
	2	0.717	2.004	0.44	0.01	0.01	0.02
	3	0.376	2.765	0.13	0.76	0.02	0.00
	4	0.029	9.973	0.40	0.19	0.96	0.97
a. Dependent Variable: DACC							

Table 4. 20 Collinearity for Equation 2

Residuals Statistics[a]					
	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	76.1670	315.2703	152.8929	55.52056	28
Residual	-149.46181	253.56679	0.00000	103.37812	28
Std. Predicted Value	-1.382	2.925	0.000	1.000	28
Std. Residual	-1.363	2.313	0.000	0.943	28
a. Dependent Variable: DACC					

Table 4. 21 Residuals for Equation 2

The third Hypotheses is: -

H3: an increased ROA has a higher impact on Earning Management in the years prior to the adoption of the IFRS compared to the period during the IFRS.

Model Summary[b]										
					Change Statistics					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	F Change	df1	df2	Sig. F Change	Durbin-Watson
1	.378[a]	0.143	0.035	115.25056	0.143	1.330	3	24	0.288	1.017
a. Predictors: (Constant), ROA*IFRS, ROA, IFRS										
b. Dependent Variable: DACC										

Table 4. 22 Model Summary for Equation 3

In the below table, the coefficient of the collaboration of ROA with the dummy variable for the introduction of IFRS is insignificant at a 5% level. Where the P value is greater than 5%. This shows that an increased ROA compared to prior year has did not result in higher discretionary accruals in the period after the adoption of IFRS Therefore, H3 is rejected.

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	52993.753	3	17664.584	1.330	.288[b]
	Residual	318784.579	24	13282.691		
	Total	371778.332	27			
a. Dependent Variable: DACC						
b. Predictors: (Constant), ROA*IFRS, ROA, IFRS						

Table 4. 23 ANOVA test for Equation 3

Coefficients[a]								
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	85.017	102.575		0.829	0.415		
	IFRS	116.535	220.987	0.457	0.527	0.603	0.048	21.009
	ROA	13.774	33.363	0.088	0.413	0.683	0.792	1.262
	ROA*IFRS	-7.447	73.297	-0.088	-0.102	0.920	0.047	21.151
a. Dependent Variable: DACC								

Table 4. 24 Coefficients for Equation 3

Collinearity Diagnostics[a]							
Model		Eigenvalue	Condition Index	Variance Proportions			
				(Constant)	IFRS	ROA	ROA_IFRS
1	1	3.022	1.000	0.00	0.00	0.00	0.00
	2	0.926	1.806	0.01	0.01	0.01	0.01
	3	0.038	8.950	0.39	0.15	0.39	0.16
	4	0.013	15.022	0.59	0.83	0.59	0.83
a. Dependent Variable: DACC							

Table 4. 25 Collinearity for Equation 3

Residuals Statistics[a]					
	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	105.5532	225.3161	152.8929	44.30273	28
Residual	-133.00291	247.42656	0.00000	108.65927	28
Std. Predicted Value	-1.069	1.635	0.000	1.000	28
Std. Residual	-1.154	2.147	0.000	0.943	28
a. Dependent Variable: DACC					

Table 4. 26 Residuals for Equation 3

4.6 Discussion of the results

On this chapter using the modified Jones model to measure the level of Earning management by using Discretionary accruals as a proxy the three research questions were addressed on the above findings. The results above showed that for the first research question which was "What is the impact of IFRS on selected private commercial banks on the level of Earning management?" To answer this question the Hypothesis developed was the Discretionary accruals used to measure earning management has been affected positively by the adoption of IFRS. According to the findings the adoption of IFRS did affect discretionary accruals positively which led to a conclusion to say that the adoption of IFRS has a direct impact on the increased level of earning management. In short, the discretionary accruals have increased after the adoption of IFRS. Therefore, Hypothesis 1 is supported. Since in this study we took the assumption earning management is linked with discretionary accruals the positive effect IFRS adoption resulted on discretionary accruals shows an increase in earning management.

The second question was “What is the influence of EBT amount after the adoption of IFRS on the level of Earning Management of selected private commercial banks?” To answer this question the Hypothesis developed was an increased EBT, compared to the year before, is associated with an increase of discretionary accruals (Loan Loss Provisions) in the years prior to the adoption of the IFRS compared to the period following the adoption IFRS. But opposite to the hypothesis the findings shows that an increased EBT compared to prior year did not result in greater discretionary accruals in the period following the adoption of IFRS; it did not have any significant effect. Therefore, Hypothesis 2 is rejected.

For the last question which relates with higher ROA with higher Earning management the Hypothesis was an increased ROA has a greater impact on earning management in the years prior to the adoption of IFRS compared to the period during IFRS. According to the results found this hypothesis is rejected. the results indicated an increased ROA compared to prior year did not result in greater discretionary accruals in the period following the adoption of IFRS; it did not have any significant effect. Therefore, Hypothesis 3 is rejected.

Differing from the study made on the impact of IFRS on Audit quality measured by earning management for a review of Australian stock listed companies which was mentioned on the empirical section of the literature review this study brought a different result on the impact of IFRS on the level of earning management. On that study the result was IFRS did not have any impact on the level of earning management which the researcher used as a measure of audit quality. Even though the remaining two Hypothesis with the collaboration of difference in EBT and Higher ROA with IFRS resulted the same conclusion.

Where us this study brought the same result with the study conducted by Callao and Jarne (2010) conducted a study on European Union on the change of earnings management after adopting IFRS. The outcome of their study shows Earnings management boosted following the adoption of IFRS.

The other Empirical Result from previous studies was Denis (2016) Canada 2016 on the Advent of IFRS in Canada: Incidence on Value Relevance. The outcome of this study was Less earnings management accompanies IFRS adoption.

Doukakis (2014) conducted a study on European Union 2000- 2010 The effect of mandatory IFRS adoption on real and accrual-based earnings management activities the result of the study was No significant impact of IFRS on earnings management.

The other empirical result contrary to the results found in this study was made specifically on banking industry. R.J.J. van Oosterbosch (2009) done a research on Earnings Management in the Banking Industry; The consequences of IFRS implementation on discretionary use of loan loss provisions by taking a sample of listed and non-listed commercial banks from different countries of Europe and US. As per the results found the adoption of IFRS certainly lead to a decline in the degree of earnings management for the sample of banks taken by the researcher.

4.7 Implication of the Results

The implication of the results indicated in this study displays even though IFRS standards are developed with the intention of coming up with a high-quality Financial report with a higher level of accountability and transparency the study shows the adoption of IFRS has a positive impact on discretionary accruals which implies a rise in earning management which put the reliability of the financial statements questionable in representing the actual figures regarding income.

Whereas with interaction of the IFRS adoption with difference in EBT and higher ROA the study found no significance linked with Earning Management.

Chapter Five

Summary, Conclusion and Recommendation

5.1 Summary of Findings

In the previous chapter, the research has been conducted and the results have been used to determine the value of the different hypothesis and the research questions were addressed. The results above showed that the adoption of IFRS did affect discretionary accruals positively and an increase in discretionary accruals is an indication of an increase in earning management.

Besides with additional controlling variables EBT and ROA the results showed that there is no association with the level of Earning management after the adoption of IFRS with the interaction of a change in EBT from the previous years and an increased ROA. The statistical results computed using Modified Jones Model gave no significance relation between those controlling variables and their link with the adoption of IFRS on the impact of Earning Management.

Among the three-hypothesis tested on this research the first one is supported and the next two is rejected. The summary of the results is presented in the below table.

Hypothesis	Description	Modified Jones Model
H1	Discretionary accruals used to measure Earning Management has been affected positively by the adoption of IFRS	Supported
H2	A higher EBIT, compared to the year before, is associated to an increase of discretionary accruals in the years prior to the adoption of the IFRS compared to the period after the adoption IFRS.	Rejected
H3	A higher ROA has a higher impact on Earning Management in the years prior to the adoption of the IFRS compared to the period during the IFRS.	Rejected

Table 5. 1 Summary of Hypotheses Results

5.2 Conclusion

From the results found on the three tested hypotheses it can be concluded that Earning management measured by discretionary accruals are increased after the adoption of IFRS.

But the controlling variables Change in EBT and ROA interaction with the Dummy variable has no impact on the increase in the Earning management which is also an increase in discretionary accruals.

For the first research question the answer is based on the results found IFRS has a positive relation with the discretionary accruals which means an increase in IFRS results in an increase in discretionary accruals; increase in discretionary accruals results in increase in earning management. Therefore, the adoption of IFRS in selected private commercial banks did not a decreasing impact on the level of Earning management.

For the second research question as per the results found the level EBT does not affect the level of Earning management after the adoption of IFRS. A high level of Change in EBT compared to the prior year is not associated with a high level of discretionary accruals.

And the last question which was what is the influence of ROA after the adoption of IFRS on the level of earning management of selected private commercial banks? The answer is as per the results found measured by the Modified Jones Model the level ROA does not affect the level of Earning management which is reflected on discretionary accruals after the adoption of IFRS. A high level of ROA is not associated with a high level of Discretionary accruals.

5.3 Recommendations

Based on the findings of the result discretionary accruals and IFRS has a positive relationship. IFRS does not eradicate the use of discretionary accruals which led to an increase in earning management which have an impact on less representation of the financial statements to the users. Due to the income smoothing nature earing management is mostly appreciated by commercial banks management and directors. But it does give a fallacious representation of the bank profitability on the eyes of investors, shareholders, and other stakeholders. The researcher has a recommendation for the users of the banks financial statement. The shareholders and other stakeholders can force the management of commercial banks to give due consideration on their decision regarding discretionary accruals which could also increase the level of earning management on its annual auditing and to have a specific Audit other than generally used financial statements audit to detect the level of earning management and to bring the actual figure of the income.

5.4 Recommendation for further Research

Additional study is crucial and could be useful to collect more information about the characteristics that are influencing the level of earnings management in the private commercial banks related with the adoption of IFRS. This research has added to the existing literature involving earning management on selected private commercial banks of Ethiopia. As per the researcher's knowledge there is no research done on the impact of IFRS on the level of Earning management on banking sector by using Modified Jones model therefore it is impossible to compare the results with other empirical results done by other researcher.

But the researcher highly recommends future research to be done on this subject with a larger sample size with multiple models at a time which will brough clearer explanation for interested parties and add a literature about the matter.

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