

**ADDIS ABABA UNIVERSITY**  
**FACULTY OF BUSINESS AND ECONOMICS**  
**DEPARTMENT OF ACCOUNTING AND FINANCE**

**THE PROSPECTIVE OF ADOPTING IFRS**  
**IN THE ETHIOPIAN SMALL AND MEDIUM ENTERPRISES (SME's)**

**Thesis Submitted to the Department of Accounting and Finance of Addis  
Ababa University in Partial Fulfillment of the Requirement for Master of  
Science Degree in Accounting and Finance**

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**Advisor:**

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**April 2021**

## **Signed Declaration**

**I declare that the thesis for the M.Sc. Degree at the University of Addis Ababa, hereby submitted by me, is my own original work and has not previously been submitted for a degree at this or any other university, and that all reference materials contained therein have been duly acknowledged.**

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## **Statements of Certification**

**This id to certify that Mr.Wondwoson Wodebo has carried out his research work on the topic entitled” The Prospective of Adopting International Financial Reporting Standards(IFRS) for Small ands Medium Sized Enterprises in Ethiopia”.**

**The work is original in nature and is suitable for submission for the reward of the MSC Degree in Accounting and Finance.**

**Advisor Degefa Duressa (Dr.) \_\_\_\_\_**

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## **Abstract**

*Even though it is in its early stage of development in Ethiopia, International Financial Reporting Standards for Small and Medium Enterprises (IFRSs for SMEs) have been adopted by more than 100 countries across the world. The main objective of this study is to assess the prospective of adopting International Financial Reporting Standards by Small and Medium Enterprises in Ethiopia (IFRS for SMEs). This was achieved by classifying the respondents in to two groups. These are the reporting and user groups. The reporting are those individuals who will do the financial report. And the user groups are those individuals who use the financial reports to do business valuation and other financial analysis. By using a closed ended five-point Likert scale items questionnaire, the researcher planned to reach 60 respondents. But eventually 52 respondents responded to the questionnaires and of which 35 of them are preparers and 17 are users. A non-probability sampling such as purposive or judgmental sampling was used for the study. Using measure of central tendency (mean) and measure of dispersion (standard deviation) the research data was analyzed; and the study investigated that the prospective of adopting IFRS for SMEs in Ethiopia is constructive. The state and firms are ready to adopt International Financial Reporting Standards for Small and Medium Enterprises (IFRS for SMEs). There is also no doubt about the desirability and suitability of International Financial Reporting Standards for Small and Medium Enterprises in Ethiopia. But the reporting and users are not identical in their level of agreement concerning the availability of IFRS based professional and workers. The researcher believed that since the adoption and development of IFRS for SMEs in Ethiopia, would be impracticable without having IFRS based professionals and workers; it is therefore recommended that the Government of Ethiopia and other concerned entities should exert maximum efforts towards enhancing the availability of IFRS based professional and workers.*

*Keywords: Prospective, IFRS, SMEs, IFRS for SMEs, Reporting, Users, Adopting.*

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## **Acronyms**

<b>ACCA:</b>	Association of Chartered Certified Accountants
<b>AABE:</b>	Accounting and Auditing Board of Ethiopia
<b>SMEs:</b>	Small and Medium Enterprises
<b>IASB:</b>	International Financial Accounting Standards Board
<b>IAS:</b>	International Accounting Standards
<b>ECX:</b>	Ethiopian Commodity Exchange Authority
<b>IASB:</b>	International Accounting Standards Board
<b>EU:</b>	European Union
<b>IASC:</b>	International Accounting Standards Committee
<b>IFRIC:</b>	International Financial Reporting Interpretations Committee
<b>IFRS:</b>	International Financial Reporting Standards
<b>MoFED:</b>	Ministry of Finance and Economic Development
<b>NBA:</b>	National Bank of Ethiopia
<b>PIE:</b>	Public Interest Enterprise
<b>ROSC:</b>	Report on the Observance of Standards and Codes
<b>SIC:</b>	Standing Interpretations Committee
<b>SME:</b>	Small and Medium size Enterprises
<b>SMEGA:</b>	Small and Medium size Enterprises Guidelines Accounting
<b>UNCTAD:</b>	United Nations Conference on Trade and Development
<b>US:</b>	United States

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background of the study

#### **Evolutions of IFRS in Ethiopia**

As per the IASB definition of public interest entities that define the scope and framework of reporting requirements, corporations and many government-owned entities in Ethiopia are launching the preparation and reporting of their financial statements in 2002.

The institutions that launched IFRS report preparation and reporting are Commercial Bank of Ethiopia, Construction and Business Bank, Ethiopian Insurance Corporation and Ethiopian Airlines. In 2002 these enterprises voluntarily launched IFRS report preparation and reporting. This is because during this time in Ethiopia there are no any local law and enforcement which bind them to prepare and report their financial report as per by the IASB.

In 2008, the ministry of council issued Proclamation No. 592/2008, and the National Bank may direct the country's banks to prepare their financial statements in accordance with the IAS, and to this showed that the Government was not ready to adopt IFRS officially even in 2008 (Teferi Deyuu Alemi 2006).

In 2012 the ministry of council issued Proclamation No. 746/2012, this proclamation is was for Insurance companies to prepare their financial statement as per the IAS. The National Bank also entitled to direct insurers to prepare financial reports in accordance with IFRS (Deyuu Alemi 2006).

In 2009, Ethiopian Commodity Exchange Authority through its directive No. 2/2009, the audited report of the ECX member should state that the financial statements are prepared in accordance with IFRS for SME. This directive issued by Commodity Exchange authority in 2009 is the only legal framework that officially requires usage of IFRS for SME in Ethiopia (Deyuu Alemi,2006).

In December 5,2014, Proclamation No.847/2014 was issued by the ministry of council.The government of Ethiopia issued this proclamation to achieve the following objectives as stated in Article 1 of the proclamation(Proclamation No.847/2014 and Regulation 332/2014 issued by the Ethiopian Ministry of Council issued on December 5,2014 and January 14,2015)

- 1.To establish a sound, transparent and understandable financial reporting system applicable to entities in both private and public sectors;
- 2.To have a uniform financial reporting law that enhances transparency and accountability by centralizing the hitherto decentralized financial reporting structures of Ethiopia;
- 3.To support various building blocks of the economy and to reduce the risk of financial crisis, corporate failure and associated negative economic impacts; and
- 4.To ensure that the provision of financial information meets internationally recognized reporting standards

In the same year 2014, as per the proclamation 847/2014-chapter two sub article four the ministry of council established the Accounting and Auditing Board of Ethiopia (AABE). And the Board shall have the powers and duties:

- a) To issue standards and directives relating to financial reporting and auditing and ensure compliance therewith
- b) To conduct inquiry or investigation and impose administrative sanction in accordance with the provisions of this Proclamation where appropriate on public interest entities and public auditors to enforce compliance with financial reporting and auditing standards
- c) To cooperate with, or become a member or an affiliate of, any international body, the objectives or functions of which are similar to or connected with those of the Board
- d) To set criteria to distinguish reporting entities as either public interest entities or small and medium enterprises and register them accordingly
- e) To register and license public auditors
- t) To provide accreditation to local professional accountancy bodies that meet required standards and recognize professional accountancy bodies constituted outside Ethiopia pursuant to the requirement prescribed by it
- g) To receive and register financial statements of reporting entities
- h) To review and monitor the accuracy and fairness of financial statement to enforce compliance with the reporting standards
- i) To establish an independent investigation and disciplinary scheme to investigate complaints for public interest purposes (Proclamation No.847/2014 and Regulation 332/2014 issued by the Ethiopian Ministry of Council issued on December 5,2014 and January 14,2015)
- j) To establish procedures for coordination of disciplinary responsibilities with the Institute

- k) To oversee professional accountancy bodies
- l) To conduct quality assurance reviews of public auditors, audit firms and persons associated with them to determine whether they have complied with the applicable auditing standards
- m) To collect fees for services provided by it at the rate determined by the Government
- n) To impose and collect such penalties as are prescribed in this Proclamation. The regulations issued hereunder and in the directives of the board
- o) To advise the Government on any matter relating to financial reporting, accounting, auditing and corporate governance.
- p) To own property, enter into contracts sue and be sued in its own name
- q) To perform other related functions necessary for the achievement of its objective.

In addition to the above the Board, have the following additional powers and duties which are given under proclamation 332/2014-chapter two sub article six as follows:

- 1/ To establish, publish and review a Code of Professional Conduct and Ethics for certified public accountants and certified auditors, which shall be consistent with that of the International Federation of Accountants or its successors;
- 2/ To issue directives related to professionals including for the acceptance or rejection of application, suspension, cancellation or renewal of certificate and registration;
- 3/ To issue its own examination and quality requirement directives;
- 4/ To confer, consult, maintain contact or co-operate with any relevant authorities, associations, societies, institutions or bodies to enhance the standing of the accounting profession and professionals both nationally and internationally;
- 5/ To cooperate with, or become a member or an affiliate of, any international body, the objectives and functions of which are similar to those of the board;
- 6/ To facilitate arbitration or conciliation to amicably resolve disputes between professionals and their clients
- 7/ To consider and propose for amendment of existing or proposed legislation in Ethiopia affecting the accounting profession (Proclamation No. 847/2014 and Regulation 332/2014 issued by the Ethiopian Ministry of Council issued on December 5, 2014 and January 14, 2015).
- 8/ To conduct or arrange for the conduct of professional qualification examination for the purposes of registering certified public accountants;
- 9/ To represent the accounting and auditing profession in Ethiopia;

10/ To lay down the requirements to register persons who qualify to be certified public accountants or certified auditors and register such persons as professionals and maintain a list of such persons

11/ To establish requirements for, conduct, or arrange for the conduct of continuing professional training programs;

12/ I to inquire into any breach of the Code of Professional Conduct and Ethics of the Board, the provisions of this Regulation or Regulations or directives issued under the proclamation, any certified auditor or certified public accountant, either on its own initiative or at the request or grievance of any person and take disciplinary action where appropriate;

13/ To implement a sound quality assurance mechanism to ensure high quality audit practice;

14/ To conduct or arrange for the conduct of practice review of the auditors of small and medium enterprises;

15/ To engage in the continuous review and dissemination of international and domestic information to professionals and others concerning to professions of accounting and auditing;

16/ To perform such other related functions as are necessary for the achievement of its objectives. (Proclamation No.847/2014 and Regulation 332/2014 issued by the Ethiopian Ministry of Council issued on December 5,2014 and January 14,2015)

Prior to the declaration of this proclamation, there was no any regulatory body responsible for supervising and regulating the accounting and auditing professions, and financial reporting practices in Ethiopia and minor financial and accounting regulations were issued in various separate law (Teferi Deyuu Alemi,2006).

#### Financial Reporting Standards

The financial reporting standards to be used when preparing financial statements shall be:

a) International Financial Reporting Standards; or

b) International Financial reporting Standards for Small and Medium Enterprises; issued by IASB or its replacement; and

c) International Public Sector Accounting Standards Applicable to Charities and Societies issued by International Public sector Accounting Standards Board or its successor as adopted, adapted or amended by the Board.”

As per the power and authority given to AABE under proclamation 847/2014-chapter two sub article 4(2d), it sets the criteria for public interest entity. And as per the proclamation 847/2014

Public interest entity means a reporting entity that is of significant public relevance as the Board may decide from time to time because of the nature of its business, its size or its number of employees, and includes, in particular, a company whose securities are admitted to trading on a regulated capital market, banks, insurance companies and any other financial institutions and public enterprises;

Therefore as per the proclamation 847/2014 chapter two sub article 4(d),AABE determined enterprises who should use full IFRS and IFRS for SMEs. Therefore enterprises which qualifying two of the thresholds listed here below:

1. At least 100 million ETB in total assets
2. At least 100 million ETB in total liabilities
3. At least 50 million ETB annual turnover
4. At least 100 employees

small or medium enterprise" means an enterprise which is a reporting entity and does not fall under the definition given to a public interest entity under sub-article 17 of this article and other than charities and societies qualifying two of thresholds listed here below:

1. At most 100 million ETB in total assets
2. At most 100 million ETB in total liabilities
3. At most 50 million ETB annual turnover
- 4 At most 100 employees

After the issuance of the Proclamation 847/2014 and Regulation 332/2014 by the council of minister and as per the AABE criterion set out above for full IFRS and IFRS for SMEs, only a small number of enterprises have reported their financial report. But still a significant number of enterprises have not responded to the proclamation and could not report accordingly.

Because of this after a few years in August 2020, AABE tried to review these criterions and issued an amendment letter to the time of execution and the revised threshold for full IFRS and IFRS for SMEs. The amending letter of the proclamation (Protooled letter AABE/0956/08/20 dated August 13,2020) says that it has been recalled that as per the proclamation 847/2014 and Regulation 332/2014, the board (AABE) was given the power and duties to establish the applicable financial reporting standards by the council of ministers.

Based on such authority, it establishes the applicable financial reporting standards and the applicable threshold for full IFRS and IFRS for SMEs in Ethiopia. But due to the internal and

external problems arose between the Board and the reporting enterprises, the implementation of the previous threshold was not effective.

As a result of this the board forced to revise the time frame work and the threshold for full IFRS and IFRS for SMEs.

This revised threshold is only applicable for those enterprises which did not report their financial reports as per the previous threshold and the time frame work given previously. This revised time of reporting and threshold are not applicable to enterprises which already reported and which are in the process of reporting as per the previous threshold. Therefore, as per the amending letter AABE instructed full IFRS and IFRS for SMEs implementing enterprises to furnish their reporting with in five years' time as shown here below:

### **Reporting periods**

- I. Until 2023, implementation of full IFRS,  
Significant Public Interest Entities, and other Public Interest Entities.
- II. Until 2024, implementation of IFRS for SMEs,  
Small and Medium Enterprises (SMEs)  
Charities and Societies (Accrual IPSAS)

**The Revised Reporting threshold of other PIEs which report as per the full IFRS standards are those enterprises which qualify in two of the criterions set out here below:**

1. More than 300 million ETB in annual turnover
2. More than 200 million ETB in total assets
3. More than 200 million ETB in total liabilities
4. More than 200 employees

**The Revised Reporting threshold of small and medium enterprises which report as per the IFRS for SMEs standards are enterprises which qualify in two of the criterions set out here below:**

1. From 20 to 300 million ETB in annual turnover
2. From 20 to 200 million ETB in total assets
3. From 20 to 300 million ETB in total liabilities
4. From 20 to 300 200 employees

But entities

- A. whose securities are not admitted to trading on a regulated capital market, or
  - B. which is not publicly accountable would be reported as per the guidelines set out for IFRS for SMEs.
- (Protocolled letter AABE/0956/08/20 dated August 13,2020)

## **1.2 Statement of the problem**

Many literatures narrating about IFRS for SMEs tried to investigate the problem that the IFRS standards are whether suitable or not for specific entities or industry category. More over such entities or industry category have public accountability and do not publish general purpose financial statements for their external or internal users. Therefore, it is at most relevant to investigate this problem in Ethiopia as a country in transition. Additionally, IFRS for SMEs constitute the significant economic contributor even in the world as shown above. Hence studying about them will facilitate the way for the government and any regulatory body for how could they be promoted and cared for future country development Therefore, I ask this question: -Would the IFRS for SMEs as simplified standards be appropriate for the entities in Ethiopia or not?

By filling the gap in finding answer to the research questions, this paper will contribute much for the adoption process that will be held in Ethiopian Small and Medium sized Enterprises (SMEs) in the near future. And the problem of this study is to assess the prospective of adopting IFRS for SME's (Small and Medium Enterprises) in Ethiopia. Hence, this research is expected to seeks and offer answers to questions about the prospective of adopting IFRS for SMEs through an evaluation of opinions collected from two different groups. These groups are the user group and preparers group. Specifically, the study seeks to provide answers to the research questions:

## **1.3 Research Questions**

How the regulatory and monitoring body (AABE) ready to adopt IFRS for SMEs in Ethiopia?

What are the Firms readiness to adopt IFRS for SMEs in Ethiopia?

Whether users and reporting have the same perception or not with regard to the prospective of adopting IFRS for SMEs in Ethiopia?

Whether IFRS for SMEs suitable/and/or desirable in Ethiopia.

Whether users and/or/reporting perceive that Ethiopian SMEs comfortably adopt IFRS for SMEs or not.

Whether the IFRS for SMEs as simplified standards be appropriate for the entities in Ethiopia or not.

## **1.4 Research objectives**

### **1.4.1 General Objective.**

The study investigates the prospective of adopting International Financial Reporting Standards (IFRS) on the Ethiopian small and medium enterprises (SMEs).

### **1.4.2 Specific Objective**

#### **The specific objectives of the study include:**

To evaluate the regulatory and monitoring body (AABE) readiness to adopt IFRS for SMEs in Ethiopia.

To investigate the Ethiopian small and medium enterprise firms' readiness to adopt IFRS for SMEs.

To investigate whether users and reporting have the same perception or not with regard to the prospective of adopting IFRS for SMEs in Ethiopia.

To evaluate whether IFRS for SMEs suitable/and/or desirable in Ethiopia.

To measure whether users and/or/reporting perceive that Ethiopian SMEs comfortably adopt IFRS for SMEs or not.

To show whether the IFRS for SMEs as simplified standards be appropriate for the entities in Ethiopia or not.

## **1.5 Significance of the study**

The study would have many advantages for all practitioners and academicians by providing useful information about International Financial Reporting Standards (IFRS) for small and medium sized enterprises (SMEs) and issues related to its adoption. As a beginning for those who are interested to conduct a detailed and comprehensive study regarding the adoption and implementation of IFRS for SMEs in Ethiopia the contribution of this study would be much.

More over by showing respondents' opinion and views about the prospective of adopting IFRS for SMEs in Ethiopia, it would also be useful for the concerned body in IFRS for SMEs development. This is because the concerned body will identify and characterizes the adoption policies by emanating from users' and preparers' prospective.

### **1.6. Delimitation and limitations of the study**

The areas or scope of the study was those enterprises that have been recognized as small and medium sized entities (SMEs) by the so called the regulatory and monitoring body such as the Accounting and Auditing board of Ethiopia (AABE).

Since the total sample size of the study was 60 organization categorized as representative of the major industries in Ethiopia, it would be possible for me to keep a fair representative of each industry.

It has been known that the quality of one research is highly depends on the genuine information acquired from concerned populations or companies, lack of willingness in participating in research questionnaires was seen by few respondents from selected sample organization and it was the main problem of this study. In addition to this since the respondents are required to have some IFRS exposure and prior International Financial Reporting Standards knowledge, lack of adequate accounting professionals was one of the limitations for the study. Eventually latest adequate reference books which focuses on the Ethiopian small and medium sized enterprises adoption aims and prospects and related literatures were the limitation factors for the study.

### **1.7 Organization of the study**

This thesis work is organized in to five chapters. The first chapter presents the background of the study, statement of the problem, objectives of the study, research question, delimitation & limitations of the study and significance of the study.

Chapter two also presents the review of literature and it captures evidence on the topic as collected from other relevant sources. In addition, the theoretical framework enlightens the various theories which relate to the prospective of adopting IFRS for SMEs in Ethiopia and other parts of the world reviewed by different authors. The third chapter outlines the research

methodology. It includes research design, research approach, data gathering techniques, sampling technics, data gathering instruments and, methods of data analysis.

Chapter four deals about the main findings about the study. It generally presents the result of the preparers(reporting) and the users perception concerning the prospective of adopting international financial reporting standards for small and medium enterprises in Ethiopia.

The last chapter which is chapter five draws conclusions and recommendation and end up the study by highlighting future research areas.

## CHAPTER TWO

### LITERATURE REVIEW

#### 2.1. Small and Medium Enterprises and Their Significance

Even though their name of small seem that they are small, the economic significance and contribution of small and medium enterprises have been very huge. They also hold a larger proportion of employment opportunity and source of income for the nationals of almost all the countries in the world (Mukhisa,2013/15).

Many countries do not define what small and medium enterprises are. Because of this the scope and number of small and medium enterprises economic contribution do not accurately be measured. As a result of this comparisons of small and medium enterprises cannot be made.

##### 2.1.1 Economic significance & Contribution of SMEs in some selected countries

###### **Australia**

99.7% of the enterprises are SMEs  
64% of the employment opportunity and  
11% of the national economy as GDP

###### **Ireland**

99.5% of the enterprises are SMEs  
69% of employment opportunity and  
13% to the national economy as GDP

###### **Pakistan**

90% of the enterprises are SMEs  
78% of employment opportunities  
40% to the national economy as GDP

###### **Canada**

99.8 % of the enterprises are SMEs  
70 % of employment opportunity  
13 % to the national economy as GDP.

###### **Cyprus**

99.9 % of the enterprise are SMEs  
84% of the employment opportunity  
29% of the national economy as GDP

###### **Malaysia**

99.2% of the enterprises are SMEs  
56% of employment opportunity.  
33 % to the national economy as GDP

###### **Hong Kong**

98% of the enterprises are SMEs  
50% of employment opportunity  
19 % to the national economy as GDP.

###### **Ghana**

92 % of the enterprises are SMEs  
16 % of employment opportunity  
43% to the national economy as GDP.

**Kenya**

The age of the enterprises of SMEs are not known  
28 % of employment opportunity  
39 % to the national economy as GDP.

**Mauritius**

90 % of the enterprises are SMEs  
45 % of employment opportunity  
24 % to the national economy as GDP.

**Russian Federation**

94 % of the enterprises are SMEs  
49 % of employment opportunity  
52 % to the national economy as GDP.

**Trinidad & Tobago**

95 % of the enterprises are SMEs  
34 % of employment opportunity  
37 % to the national economy as GDP.

**United Arab Emirates**

99 % of the enterprises are SMEs  
63 % of employment opportunity  
29 % to the national economy as GDP.

**United States of America**

99.9 % of the enterprises are SMEs  
59 % of employment opportunity  
8 % to the national economy as GDP.

(ACCA 2010, [http://www.accaglobal.com/content/dam/acca/global/PDF\\_technical/small-business/Pol.afb;sbaga.pdf](http://www.accaglobal.com/content/dam/acca/global/PDF_technical/small-business/Pol.afb;sbaga.pdf)).

**Nigeria**

87% of the enterprises are SMEs  
75 % of employment opportunity  
63% to the national economy as GDP.

**Poland**

99.8 % of the enterprises are SMEs  
69 % of employment opportunity  
29 % to the national economy as GDP.

**Singapore**

90% of the enterprises are SMEs  
62 % of employment opportunity  
14 % to the national economy as GDP.

**Ukraine**

85 % of the enterprises are SMEs  
24% of employment opportunity  
58 % to the national economy as GDP

**United Kingdom of Great Britain****& Northern Ireland**

99.9 % of the enterprises are SMEs  
59 % of employment opportunity  
11 % to the national economy as GDP

### **2.1.2 IFRS For SMEs and Full IFRS**

The international Accounting standards Board (IASB) the full version of the international financial Reporting Standards to meet the needs of equity investors at the public market and include disclosure which are required for publicly accountable companies. But the users of the international Financially Reporting standards for small and medium enterprises (IFRS for SMEs), do not have the same information needs as public accountable companies. Therefore, the international Accounting Standard Board (IASB) developed a tailored financial reporting standard, called the International Financial Reporting for small and medium sized enterprise (ACCA 2010, <http://www.accaglobal.com/content/dam/acca/global/PDF.technical/small-business/Pol.afb;sbaga.pdf>).

IFRS for SMEs is a standalone financial reporting standard, amid at meeting the needs for users of the IFRS for SMEs financial statements which are emphasized on short term cash flows, liquidity, and solvency. Hence it is advantageous and will be simple for IFRS For SMEs report preparers to comply with IFRS by those SMEs that indicated the cost of preparation of financial statements using IFRS will be greater than the benefits to them. The IASB designation to the development of IFRS for SMEs begun in July 2003 as a project carried from the former International Accounting Standards committee agenda. After a number of drafts and long public debate and discussion, IFRS For SMEs was finally published in July 2009.

### **2.1.3 SMEs criteria in different countries of the world**

#### **Australia**

20 employees in service sector and  
300 employees in manufacturing sector

#### **China**

Employees 200 in the whole sale & retails  
Employees 2000 in manufacturing sector  
Employees 3000 in construction, transport  
and communications.

The turnover threshold of RMB 150 in the  
hospitality sector

A balance sheet threshold of RMB 400  
million applies in construction and  
manufacturing. (Note that in China non-

**independent business can also be classified as SMEs.)**

**Canada**

500 employees

Annual turnover of \$50million

**Ghana**

Employees of at least 100,

A \$100,000.00 in fixed asset

**Kenya**

Employment of 100 employees

Annual turnover of 800 million KSH.

No balance sheet threshold exists for medium sized business

although a KSH of 50 million in plant and machinery investment

or KSH 20 million in equipment investment are threshold for small business.

**Ireland**

Employment of 250 employees,

Euro 50 million turn over,

Balance sheet total of Euro 43 million

**Mauritius**

Employments of 200 employees

A MUR of 10 million investment in equipment  
(manufacturing firm only)

**Cyprus**

250 employees

Annual turnover of Euro 50 million

Balance sheet total of euro 43 million

**Hong Kong**

Employments of 100 employees in

manufacturing ,50 employees in non-

manufacturing Enterprises

**Malaysia**

Employments of 50 full time  
employees,

Turnover of 5 million RM (primary  
agriculture and service) .

150 full time employees

Annual turnover of RM 25 million  
of turn in Manufacturing.

**Nigeria**

Employments of 200 employees

A balance sheet of 500 million  
excluding land and building.

**Pakistan**

Employments of 250 employees  
A turnover of PRs 50 million

A paid-up capital of PRs 50 million  
(harmonized since 2005)

**Russian Federation**

Employments of 250 full time equivalent employees  
A turnover of Rub 1 million (subject to 5 years review),  
25 % share ownership by foreign companies, public sector or charities.

**Singapore**

Employments of 200 employees for non-manufacturing  
An investment of \$ 1 million in fixed asset for manufacturing.

**Trinidad and Tobago**

Employments of 50 employees,  
Asset of TT \$ 5 million and  
An annual turnover of TT\$ 10 million

**Ukraine**

In Ukraine there are no current data for medium sized enterprises. But for small enterprises  
Employments of 50 employees  
An annual turnover of HRV of 70 million;  
But now Ukraine is in the process of transition to European union definition of at least  
employments of 250 employees,  
An annual turnover of Euro 50 million, and balance sheet total of Euro 43 million.

**United Kingdom of Great Britain and Northern Ireland**

Employment of 250 employees,  
Annual turnover of 50 million  
A balance sheet total of Euro 43 million.

But not currently since Great Britain is in the process of withdrawing from European union this  
threshold may not exist now.

**Poland**

Employments of 250 employees  
A turnover of euro 50 million

A Balance sheet total of Euro 43  
million

## **United Arab Emirates**

The threshold varied between employment of 500 employees but varies 50 employees for dealer and 100 employees for whole sealers up to 1500 for oil refineries and pipeline operators, telecommunication, and aircraft manufacturing.

But for services, agriculture, constructions the turnover ranged from \$750,000 for primary agriculture to \$ 35 million for construction and \$ 34million for construction and \$ 34.5 million for some medical services

## **Ethiopia**

### **Meeting two of the four criterion listed below**

An annual turnover of ETB from 20 to 300 million

A total asset of ETB.of from 20 to 200 million

A total liability of ETB. From 20 to 200 million

An employment of from 20 to 200 employees and

(Source: The revised memorandum letter for Proclamation 332/2014 & 847/2020/2014)

### **2.1.4 The Role of accounting & Reporting for SMEs**

SMEs represent the majority of business enterprises around the world and they are significantly drivers of employment and economic contribution specially for developing and emerging markets.

In spite of their importance, SMEs face challenges that deter their growth and expansion. Among the many some of the problems are:

- 1.Poor managerial skill
- 2.The Prevalence of unskilled or unqualified labors.
- 3.Absence of sufficient access to finance; this is due to information asymmetry.
- 4.Higher rate of interest on loan provision

Because of the above factors many SMEs remains small and micro business level and lack proper financial records and unable to uplift themselves into small and medium or higher.

## **Possible Solutions**

Accounting and reporting can have significant role to help the SMEs. Therefore, the government of each country should see the broad nature and contribution of SMEs and try to support them by promoting or creating a means of financial record keeping and regulation of local suitable accounting standards and accounting and reporting financial record keeping soft wares. These will help them to carefully control their financial resources and would enable for their own future growth. Provided that they have got the opportunity of easy access to financial and good managerial skill their respective capabilities in terms of financial and non-financial performance would enhance their contribution to the world economy. Therefore, the provision of short term and long-term credit and loan facilities with the reporting and controlling requirement attached to the use and consumption of loans would possibly promote their contribution to the Economy

ACCA 2010, [http://www.accaglobal.com/content/dam/acca/global/PDF\\_technical/small-business/Pol.afb;sbaga.pdf](http://www.accaglobal.com/content/dam/acca/global/PDF_technical/small-business/Pol.afb;sbaga.pdf)

## **2.2 Marching Toward Convergence**

The prospect of the united states adoption of IFRS did not occur overnight. It is the result of an initiative that began in earnest in the mid-1970s. The prospect of US compliance with IFRS raises pedagogical, research and implementation issues of no small proportion. On the curriculum front, how should schools integrate international reporting standards into the accounting curriculum? Should schools consider a stand-alone course labeled IFRS Reporting? The advantage of this approach is that international standards can be examined in some detail. On the other hand, a working knowledge of IFRS will be limited to a subset of the accounting and general student body. Yet all will have to read financials based on international standards during their working careers. To conclude, the challenge of international reporting standards for US reporting entities involves teaching, research and service dimensions at a minimum (Frederick D S Choi. 2008). The move to international financial reporting standards (IFRS) means a move to new content in the Canadian Institute of Chartered Accountants Accounting handbook. When accounting for insurance contracts, entities will continue to use their existing accounting policies, to the extent they do not conflict with IFRS, pending completion of the current international project on that topic (Mulraine K.,2008).

### **2.3 Fundamental Advantages of Global Convergence of Financial Reporting**

Adopting a single global accounting language will ensure relevance, completeness, understandability, reliability, timeliness, neutrality, verifiability, consistency, comparability and transparency of financial statements and these bring about a qualitative change in the accounting information reports which will strengthen the confidence and empower investors and other users of accounting information around the world(Dr. Naseem A & Professor Nawab A.,2010).

It will also help acquirers to assess the actual worth of the target companies in cross border deals and thereby furthering the economic growth and search and help researcher in deter business expansion globally. For a decade the companies in India have been using both – US GAAPs and more recently International Financial Reporting Standards (IFRS) to raise funds from US and European markets (Dr. Naseem A & Professor Nawab A.,2010).

China's efforts to converge domestic accounting standards with International Financial Reporting Standards (IFRS) over the past 15 years have resulted in the successful convergence of Chinese listed firms evaluated convergence of firms' accounting practices from three perspectives:

- (1) the level of compliance with Chinese GAAP and IFRS,
- (2) the consistency of accounting choices under Chinese GAAP and IFRS, and
- (3) identification of significant differences in the net incomes produced under Chinese GAAP and IFRS (earnings gap). (Songlan Peng, et, al,2008).

Using the 1999 and 2002 annual reports of 79 Chinese listed firms they find improvement in both compliance with IFRS and in the consistency of the accounting methods used in annual reports prepared under Chinese GAAP and IFRS. We also find a reduction in the earnings gap from 1999 to 2002. However, interestingly they observed that Chinese listed firms' compliance with IFRS is significantly lower than their compliance with Chinese GAAP. Overall, they believe that their findings suggest that in China the convergence of accounting standards has been a conduit to the convergence of accounting practices (Songlan Peng, et, al,2008).

The common conjecture that internationally recognized financial reporting standards (IAS/IFRS or USGAAP) reduce the cost of capital for adopting firms. Holger Daske used a set of German firms that have adopted such standards and investigate the potential economic benefits of this

reporting strategy by analyzing their cost of equity capital through the use and customization of available implied estimation methods (Holger Daske,2006).

Evidence from the 1993-2002 periods fails to document lower expected cost of equity capital for firms applying IAS/IFRS or USGAAP. During the transition period he analyzed, the expected cost of equity capital in fact appears to have rather increased under no local accounting standards (Holger Daske,2006).

Peter G investigated a review of the costs and benefits of Australian adoption of IFRS by focusing on the cited costs and benefits of the decision in the lead up to and immediately following the adoption date of 1 January 2005. Based on his investigation it is possible to consider, albeit in a fairly subjective manner, whether in fact the benefits of adoption to both business and the profession are likely to outweigh what appear to be not insignificant costs (Peter G. Gerhardy,2006).

#### **2.4 Challenges of IFRS Preparation**

Approximately forty eight percent of the United States companies surveyed were not made any preparations to adopt the IFRS. Protiviti, a division of Robert Half International that provides business consulting and internal audit, also found that companies making the conversion from United States GAAP to IFRS will face a number of challenges, including the costs of upgrading information technology systems and finding talent to make the transition smooth and efficient. Christopher Wright, managing director at Protiviti and one of the firm's global leaders of IFRS services noted that getting started on a plan can bring a competitive challenge as well as efficiency (Nevius.M.,2008).

The EU recently forced all public companies to publish their financial disclosures with the support of the IFRS, emanated by the IASB, beginning January 1, 2005. Francisco J.F. Silva, Gualter Couto measure the impact of the application of IFRS to financial information of Portuguese public companies belonging to the Euro list by Euro next Lisbon.

The results show that the Balance Sheet and Income Statement structures of the firms studied suffered relevant accounting conversions in the process of compliance. Nevertheless, they did not find a clear pattern for the accounting variations. IFRS implementation conditioned the measure made to the performance and the financial position of the business companies in Portugal (Francisco J.F. Silva, and Gualter C. ,2007).

## **2.5 International Financial Reporting Standards for Small and Medium Enterprises (SMEs) Perspectives from Preparers'**

The pre-2005 Australian financial Reporting Council was the local regulatory and governing organization for issuing and governing local standards that was existed until 2005. There was a long debate on Corporate Law Economic Reform Program (CLERP) which discussed about the relevance of the Australia's switch to International Accounting Standards. And the discussion was mainly about why to switch to international financial reporting standards. In fact, the measurements of the international Accounting standard were mainly in terms of bringing profitability and reporting quality to the country in comparison to the pre-2005 local standard.

Some of the attendants of the program believed that setting an international standard in to the Australian financial reporting system will bring no profitability and the report produced under the International Accounting standards context has no quality of reporting. More importantly setting an international standard may enable them to lose power on the local standards, report quality and profitability as a result they will lose their own local standards and would replace it with the new international standards (Stewart. J and Higgins.D,2006).

More over in their survey for the study entitled "Australia's Switch to International Financial Reporting Standards (IFRS) Perspectives from Account Preparers, Stewart. J and Higgins., got a sufficient and adequate evidences from account preparers respondents about the existence of systematic variation on factors like financial performance of firms, industry back ground, and firm sizes. And the overall finding showed that many respondents had not well prepared for the transition and were generally very unconvinced about the future benefits of the International Financial reporting standards (Stewart. J and Higgins D. 2006).

## **2.6 International Financial Reporting Standards for Small and Medium Enterprises (SMEs) Perspectives from Investors**

Investors are already alert to the new IFRS information reported to them during 2005. They see the change to IFRS as significant and, even at this early stage, it has changed some perceptions of companies' value and had an impact on the investment decisions of over half the fund managers they spoke to. This underlines the significance of the first IFRS year-end accounts that are about to be published. (PricewaterhouseCoopers,2006).

IFRS adoption influences the international investment decision of the Nigerian stock holders and entrepreneurs. Investors in Nigeria, represented by stockholders, were of the opinion that adoption of IFRS influences investment decision because reporting is more transparent and globally standardized under IFRS. And the financial information prepared using IFRS by companies is clear and understandable. IFRS has increased confidence of Nigerian investors in the financial statements of company. It is an international standard applicable anywhere in the world, a company adopting the standard in reporting is automatically doing away with local standards this has added to the confidence of investors in financial statements prepared using IFRS. This study was able to show that major percentage of the Investors in Nigeria understand the IFRS reporting of companies even though some studies have shown that IFRS is more difficult to apply and time consuming. And considering the fact that IFRS is a standard used globally, it is easier for investors to make comparison of financial reports. The adoption of IFRS enables investors to save resources they would have used to try to understand country specific standards (Hope et al,2006).

European IFRS adoption represented a major milestone towards financial reporting convergence yet spurred controversy reaching the highest levels of government. We find a more positive reaction for firms with lower quality pre-adoption information, which is more pronounced in banks, and with higher pre-adoption information asymmetry, consistent with investors expecting net information quality benefits from IFRS adoption. They also find that the reaction is less positive for firms domiciled in code law countries, consistent with investors' concerns over enforcement of IFRS in those countries. Finally, they find a positive reaction to IFRS adoption events for firms with high quality pre-adoption information, consistent with investors expecting net convergence benefits from IFRS adoption. Overall, the findings suggest that investors in European firms perceived net benefits associated with IFRS adoption (Mary E. Barth et.al., 2008). Significant positive (negative) market reactions to events that increased (decreased) the likelihood of IFRS adoption. Investors perceive greater net benefits for firms not presently cross-listed in the US market. Overall, their findings are consistent with European equity investors perceiving net benefits to the adoption of IFRS in Europe (Christopher A.et, al,2006).

## **2.7 Were Countries be Ready for IFRS?**

The adoption of IFRS in the US undoubtedly would mark a significant change for many US companies. It would require a shift to a more principles-based approach, place far greater reliance on management (and auditor) judgment, and spur major changes in company processes and systems. But this change should not be feared. A move to IFRS also presents a tremendous opportunity, moving to an entirely new accounting structure ultimately might enable companies to streamline reporting processes and reduce compliance costs. While there are differences between US GAAP and IFRS, the general principles, conceptual framework and accounting results between them are often the same, or similar, for most commonly-encountered transactions. With IFRS likely to arrive in the near -- rather than distant -- future, affected utilities should consider the implications of IFRS and start planning now. The resources needed and the impact on the organization will be far-reaching. But with proper strategic planning, benefits can be substantial (Hartman S.,2009).

A total of 550 senior executives in Canadian companies were surveyed in March 2008 and all are Chartered Accountants. Just over half surveyed indicated that their company will need to adhere to IFRS. Among those executives only eight per cent have either started or completed the conversion process. Almost 75% either not started to assess the impact or are in the process of assessing the impact (Chartered Accountant of Canada ,2008).

John Sapsford investigated the results of his study on the subject matter-IFRS: are you ready? And he found that by more than 200 chartered Accountants from 13 industries in various organizational roles: 21% controllers, 9% vice president of finance, and the remaining (70%) had differing roles in finance and elsewhere. More than 50% came from five industries: banking (19%), utilities (11%), manufacturing (11%), oil and gas (8%) and government (8%). Of the companies represented, 58% were public and 33% were SEC registered. Although 51% said the new reporting standards will have a very significant impact on shareholders' understanding of financial statements, this concern was topped by five others when respondents were asked to list the biggest challenges in order of difficulty: capacity of staff, e.g. workload (22%); capability of staff, e.g. upgrading skills (20%); reporting (19%) financial processes (14%); financial systems (13%); shareholder understanding (11%). Forty percent think the challenge of IFRS will require about the same level of effort as other accounting standards (John Sapsford,2001).

Citigate D.R. in his study entitled who should lead the way in the adoption of IFRS says that companies need to do more to lead the way in communicating the impact of adopting IFRS (Ciliate Dewe Rogerson, 2006).

## **2.8 Economic consequences of the introduction of mandatory IFRS reporting across the world**

The capital-market benefits exist only in countries with strict enforcement regimes and institutional environments that provide strong reporting incentives. Furthermore, the effects are weaker when local GAAP are closer to IFRS, in countries with an IFRS convergence strategy, and in industries with higher voluntary adoption rates. In terms of magnitude, the capital market effects are most pronounced for firms that voluntarily switch to IFRS, both in the year when they switch and again when IFRS becomes mandatory. While the first result likely reflects selection effects, the latter result, together with their evidence for the sample partitions, cautions to attribute the capital-market effects for first-time adopters solely to the adoption of IFRS (Holger Daske, et.al,2007).

Many countries have made concurrent efforts to improve enforcement and governance regimes, which likely play into our findings. Overall, the results are consistent with the view that reporting quality is shaped by many factors in countries' institutional environments, pointing in particular to the importance of firms' reporting incentives and countries' enforcement regimes. (Holger Daske, et.al,2007).

A company's adoption of IFRS creates strong economic benefits in countries with rigid regulation over financial reporting. These benefits include an increase in the stock 's market value, an increase in market liquidity, and a lower cost of capital. Companies with major differences between GAAP and IFRS standards show the greatest benefit when supported by a strong regulatory environment. Additionally, the researchers found that in firms that adopt early, benefits are not only strong in the year of the change to IFRS, but also in the year that reporting is officially mandated. Results reinforce the view that strong enforcement of reporting standards not only enhances transparency for investors but also increases the market position of adopters. They also investigate possible contributing factors unrelated to IFRS adoption that may have caused these economic benefits to occur (Holger Daske, et.al,2007).

Self-selection appears to be a primary reason; firms voluntarily changing to IFRS had factors unrelated to the accounting standard change that gave them an economic advantage (Holger Daske, et.al,2007).

## **2.9 The Relevance of International Financial Reporting Standards to a Developing Country: Evidence from Kazakhstan**

David Tyrrall, et.al (2007) examine the relevance and implementation of IFRS to the emerging economy of Kazakhstan from independence in 1991 to 2006. They conclude that although a strong case for IFRS relevance cannot be made, even by 2006, Kazakhstan had little choice but to proceed with IFRS and that IFRS relevance is likely to increase as Kazakh economic development continues.

Implementation of IFRS is proving problematic, but is taking place slowly. This, in turn, has implications for the theoretical status of the IFRS relevance argument and the pathways that nations might follow in implementing a national accounting system. If the only choice of accounting system is IFRS, then the IFRS relevance debate is effectively closed and the real issue is the pathway of change that nations might follow as they implement IFRS (Tyrrall D.et.al, 2007).

Firms listed on stock exchanges within the European economic area are required to report consolidated financial statements according to International Financial Reporting Standards (IFRS) since 2005. The firms that adopted IFRS in 2005 were also required to restate their 2004 financial statements from national GAAP to provide comparable accounting figures. These two sets of financial statements for 2004 are thus based on identical underlying economic activities and are fully specified according to two different reporting regimes. Their sample consists of 145 restatements from Norwegian Generally Accepted Accounting Principles (NGAAP) to IFRS for firms listed on the Oslo Stock Exchange in Norway. They test whether the IFRS accounting figures correlate more strongly with stock market values than the corresponding NGAAP figures. They find little evidence of increased value-relevance after adopting IFRS when comparing and evaluating the two regimes unconditionally (Oystein Gjerde.et, al.2008).

On the other hand, when evaluating the change in the accounting figures from NGAAP to IFRS, they find evidence that the reconciliation adjustments to IFRS are marginally value-relevant due

to increased relevance of the balance sheet and the normalized net operating income. By weighting their sample by firm size, intangible asset intensity and profitability, they learn that the increased value-relevance of the net operating income stems from different reporting of intangible assets. Since more intangible assets are capitalized according to IFRS than NGAAP, their finding is consistent with the view that capitalizing intangible assets is more value-relevant than expensing them as incurred or through goodwill amortization (Oystein Gjerde, et. al. 2008).

## **2.10 International Financial Reporting Standard on SMEs: Opportunity to Change National Accounting Legislation**

Jiri Strouhal, investigated the IFRS on SMEs opportunity to change National Accounting legislation. He points out that the new requirements which will be given on the reporting for SMEs and also compares these requirements with the national accounting legislation. The main aim of his investigation is to identify whether it is possible to use IFRS for SMEs as accounting frameworks and also as a national legislature in the European Union countries (Strouhal J., 2007).

Countries with weaker investor protection mechanisms are more likely to adopt IFRS. Their evidence also shows that jurisdictions that are perceived to provide better access to their domestic capital markets are more likely to adopt IFRS. Taken together, these results are consistent with the view that IFRS represent a vehicle through which countries can improve investor protection and make their capital markets more accessible to foreign investors (Hope, Ole-Kristian, et. al, 2006).

## **2.11 IFRS, Institutional Infrastructures and Costs of Equity Capital**

The cost of equity capital is significantly lower for the full IFRS adopters than for the non-adopters, suggesting that the IFRS adopters benefit from greater and better disclosures via IFRS by having a lower cost of raising capital from equity markets. Moreover, this result holds, irrespective of a country's institutional infrastructure. The researcher find that the cost of capital decreases with the efficacy of institutional infrastructure. And more importantly, the study finds that the cost of capital-reducing effect of IFRS adoption is greater when the IFRS adopters are from countries with weak institutional infrastructures as compared to countries with strong infrastructures (Shauna Shi, 2007).

## **2.12 Effect of IFRS Conversion on Earnings Quality**

Thomas Jeanjean and Hervé Stolowy (2008) examined more than 1,100 firms in three countries to determine whether the earnings management appeared to increase or decrease after implementation of IFRS. The authors measured financial reporting quality as a reduction in earnings management. Earnings management was assessed as the frequency of small profits compared to small losses—an established statistical research design used in similar past studies. Australia, France and the U.K. were selected for examination, as these three countries were unable to adopt IFRS before the mandatory transition date, thus eliminating any early adoption benefits. Based on the author 's research, earnings management remained consistent in Australia and the U.K. after IFRS adoption. However, in France, earnings management appeared to increase, suggesting that, overall, earnings quality was not improved by adopting IFRS. The research further discusses the subjectivity of IFRS accounting standards and the necessary use of management discretion for quality reporting. The authors suggest that the efforts of the standard-setting bodies should be focused on enhancing IFRS adoption reporting incentives and strict enforcement as opposed to harmonizing accounting standards. They state that sharing rules is not sufficient in itself to create a common business language (Thomas J.and Hervé S. ,2008).

## **2.13 How Will IFRS Affect Tax Practitioners**

Many companies are in the early stages of considering what impact the transition to International Financial Reporting Standards (IFRS) from US GAAP will have on financial reporting. While practitioners may have focused on the effect that IFRS's elimination of LIFO would have, other tax accounting implications must be considered.

It will be important for tax return preparers to understand any differences between the old book reporting method and the IFRS reporting method to ensure the proper treatment for tax reporting purposes. It is likely that any global accounting standards that the US may transition to in the future will be different from the IFRS that exists today. Ongoing convergence efforts could continue to lessen the differences and may ease some of the anticipated burden (Alistair M N.,2008).

## **2.14 IFRS For SMEs in Nigeria**

Following the introduction of IFRS in Nigeria, SMEs are mandated to adopt the new financial reporting standards starting from January 2014(Onyinye &Ifeanyi,2016). They investigated the Northern Central Nigerian IFRS for SMEs reporting quality with reference to the qualitative measures of reliability, comparability and understandability. According to their investigation the Northern Central Nigerian reporting quality is not only low but also the majority of the business entities do not prepare financial reports according to the guidelines lay down in the IFRS for SMEs (Onyinye &Ifeanyi,2016).

The major challenges of the SMEs in the process of adoption of the IFRS for SMEs were the presence of low attitude towards IFRS, lack of resistance or absence of facilitation for implementation and adoption of IFRS for SMEs, challenges and absence of willingness in the majority of entities in implementation or adoption of IFRS for SMEs, and cost constraints. More apparently cost and the absence of awareness about the importance of IFRS for SMEs, challenges related to the absence of qualified or trained employees on IFRS and willingness of the regional firms to adopt IFRS were the major problems that hinder the success of the IFRS for SMEs in Northern Central Nigeria (solanke etal 20161).

The challenges faced by SMEs in their application to the adoption of IFRS for SMEs should be address urgently with fresh initiatives. The government and concerned authority to the adoption and implementation of IFRS for SMEs in the region should work towards enhancing the level of awareness of the public through strong mandatory regulations, public announcements, media, trainings and publications, raise the access of the education to IFRS through promoting eligible candidates by giving access to IFRS educations or trainings.

More over the government or the regional regulatory body should urge the regional entities and the responsible agencies to the implementation and adoption of IFRS for SMEs as top priority in view to the availability of loan and credit facility from (for instance the World Bank) after fulfilling the reporting requirements of the SMEs. In addition to this the regional government should encourage SME entities to Purchase a good accounting application soft ware to help them preparing accounting records like profit and loss statements, statements of financial position, actual performance to budget, cash flow generated compared to budget, historical accounts receivable and payables analysis.

An enlightenment programs emphasizing the connection among the maintenance of adequate accounting records, business profitability and financial reporting quality. This program should be given at the point of their registration or payments of tax to the government. The importance of special education program to enhance the public awareness about the IFRS for SMEs. Until awareness reach to global level, the adoption of IFRS for SMEs with in the region become doubtful. The regional government should collaborate with bodies of professional accountants and discuss on how to reduce the cost of preparing financial reporting standards for IFRS for SMEs. This low cost of fee for preparing financial report will encourage even other SMEs to adopt the IFRS for SMEs. A wide range of training for improving financial reporting quality targeting all SMEs with in the region should be given in all industries sector.

Onyinye &Ifeanyi, (2016) investigated the challenges of the IFRS adoption in Nigeria. And they found that even though the IFRS advantages of comparability, reduced cost and improved management, the IFRS in Nigeria has been compounded by multiple problems. Some of them are the nonexistence of enlightenment about the adoption of IFRS, the absence of skills required to adopt the IFRS, the absence of effective enforcing regulatory agencies who will make to adopt the IFRS in the country.

### **2.15 Benefits and Prospects of Adopting IFRS in Ethiopia**

Gina et al, (2012) discloses some advantages of adoption of IFRS in developing and less developed countries. among the benefits, attraction of investment and financial support, bridge Communication gap with stakeholders by increasing the level of confidence of global investors and investment analysts, attraction of more foreign direct investments (FDIs) related with more reliable and credible financial statements, uniformity in accounting language by eliminating the unnecessary complexity that exists with multiple reporting languages and the lower susceptibility to political pressures than national standards. In line with these benefits, those countries want to adopt IFRS should emphasis on the following areas; strengthen professional education and training, strengthen capacity of the regulatory body, create awareness to reduce the knowledge gap, provide an adequate resource, and establish an autonomous body to set monitor and enforce accounting and auditing standards and codes.

The study made by Teferi et.al, (2016) focuses on adoption of IFRS progress in Ethiopia; investigate factors that motivate Ethiopia to adopt IFRS and to identify benefits and challenges

ahead of adopting IFRS. The study reveals that reduction of agency problem, accounting diversity and cost of investors for processing financial information, improving financial reporting quality the benefits that the company acquire by adopting IFRS. There are also opportunities stated in the study in the process of adopting IFRS. These are high commitment from the Government, enhance comparability of financial Statement, enhance foreign direct investments, easy access to finance, helps to establish legal backing accounting and auditing system.

Melese, (2016), found that adoption of IFRS provide numerous benefits for Ethiopian financial institutions including to improved comparability & reliability of financial statements, reduce cost of capital of firms through lower cost of information, minimize information asymmetry between stakeholder, greater marketability of shares, and reduced information asymmetry and increase investors' confidence on financial reports and enhances transparency of companies' reports for investors.

## **2.16 Prior studies on the International Financial Reporting Standards for Small and Medium Sized Entities**

A number of country-specific studies have been conducted on the applicability of IFRS for SMEs. Quagli and Paoloni, (2012) evaluated the homogeneity of preparers and users within a European context. Preparers demonstrated a strong opposition to IFRS for SMEs, while users were more in favor of the standard. Abaogye-Otchere and Agbeibor (2012) assessed the suitability of IFRS for SMEs for small businesses in Ghana. It was found that small businesses in Ghana have limited international activities and do not have the need for internationally aligned financial reporting information. The size, legal form and number of owners are factors that influence the suitability of the standard for small businesses in Ghana. This result is in line with the notion that the challenges of not adopting a globally recognized framework such as IFRS for SMEs is the lack of comparability internationally, making cross-border convergence hard to achieve. (Neag et al. 2009). Albu et al. (2013) investigated the perceptions of stakeholders regarding the possible implementation of IFRS for SMEs within four emerging economies – Czech Republic, Hungary, Romania and Turkey – and found differences in opinions among users, preparers, professional bodies and regulators. The results also indicated that research on the suitability of IFRS for SMEs is not conclusive and that country-specific

research should be undertaken in order to determine the suitability of IFRS for SMEs. Within South Africa, Van Wyk and Rossouw (2009) conducted empirical research regarding whether practitioners felt that IFRS for SMEs would reduce the burden of financial reporting. The researchers believed that these results make it important to explore the beliefs of practitioners regarding the application of IFRS for SMEs.

More recently, Stainbank, (2017) has suggested the adoption of IFRS for SMEs by South Africa is based on societal pressure. And so, within this context, the researchers believe it valuable to explore the in-depth perception of South African accounting practitioners regarding IFRS for SMEs.

Schutte and Buys (2011b) carefully identified the sections of the IFRS for SMEs based on different level of significance in terms of South African context. Another study that was done by Schutte and Buys (2011c) request the relevance and suitability of the accounting framework to the SME sector and links disclosure practices of SMEs against IFRS for SMEs' financial statements. The general decision obtained from both studies were that IFRS for SMEs were expected to remain relevant to the reporting requirements of the SME sector in South Africa. The scholars thought that these outcomes make it significant to discover the views of practitioners concerning the adoption of IFRS for SMEs.

Related research has recognized both the pros and cons associated with the implementation of IFRS for SMEs as perceived by those who produce the financial information in the financial statements of various jurisdiction Arsoy & Sipahi (2007); Bartůňková (2013); Kiliçaa et al (2014); Uyar & Güngörmüş (2013). Arsoy and Sipahi (2007) investigated the analysis of the strengths, weaknesses, opportunities and threats involved in the adoption of IFRS for SMEs in Turkey. Uyar and Güngörmüş (2013) investigated the insights of accounting practitioners within a Turkish context and found that the key perceived problems caused by the adoption of IFRS for SMEs are the insufficient training of personnel and the lack of training provided by professional bodies. Evans et al. (2005) contend that the main challenge faced in the effective adoption of the IFRS for SMEs in Europe is the suitable introduction of the training needed to equip practitioners to produce the financial statements. Furthermore, a great challenge faced by practitioner who were not prepared reports in accordance with IFRS for SMEs.

Uyar & Güngörmüş (2013) investigated that the perceived benefits of adopting IFRS for SMEs were the ease in imploring financial sources, comparability of the financial statements of the SMEs, enhancing reliability of the SME financial statements, increase efficiency in auditing, smoothing of rating SMEs by credit assessment agencies, facilitate in transition to full IFRS and promote efficiency of cross border activities.

## **2.17 Conclusion and Research Gap**

In spite of the quite many benefits of International Financial Reporting Standards for Small and medium sized enterprises (IFRS for SMEs) adoption, it is also a difficult task and has many challenges. As evidenced by the global experience, convergence with IFRS for SMEs

Although various survey studies have been conducted to assess the adoption of IFRS for SMEs in different countries of the world, most of the studies have been carried out on IFRS for SMEs adoption challenges and benefits and it is also analyzing the data from member countries of European Union countries (Apostolos et al., 2010; William et al., 2010; Alessandro et al., 2009; Robyn and Graeme, 2009; Albu, et al., 2013; Jermakowicz et al., 2004; Susana et al., 2007; Jermakowicz, 2004).

Comparatively fewer numbers of studies have been carried out on data from other countries (Iyoha and Faboyede, 2011; Ojeka and Mukoro, 2011). Even though IFRS for SMEs seems to be equally important for all countries, there is a shortage of empirical study that examines the data from developing countries and in particular Ethiopia. Therefore, this study tries to fill the gap and will explain and give feedback to the monitoring and regulatory body about the reporting and other users aims of the respondents to see the status of International Financial Reporting Standards (IFRS) for small and medium sized enterprises (SMEs) in Ethiopia. More over any interested party who has an interest to do a further research with regard to the topic here under discussion would be able to identify, the factors that could influence the adoption of IFRS for SMEs in Ethiopia.

## **CHAPTER THREE**

### **METHODOLOGY**

#### **Introduction**

The previous chapter shows review of literatures on IFRS for SMEs adoption challenges and opportunity. It identified the present knowledge gap other important pointes for the study. The purpose of this chapter is to set the methodological approaches adopted in the study. The chapter is organized by eleven sections. These are research design, research approach, types and source of data, data gathering techniques, sample, sampling technique, sample size ,data gathering instrument, methods of data analysis technics and Validity and Reliability.

#### **3.1 Research Design**

It is the blueprint for conducting the study that maximizes control over factors. Designing a study helps the researcher to plan and implement the study in a way that will help the researcher to obtain intended results, thus increasing the chances of obtaining information that could be associated with the real situation (Saunders et al. 2007).

The research design can also be referred to as the overall strategy used by a researcher so as to integrate the different components of the study in a comprehensible and consistent way. In so doing, you will be able to effectively address the problem of the research. The design constitutes the blueprint for collecting, measuring and analyzing data. Remember that it is the research problem that defines the type of design a researcher should use, not the other way around! (Richards and Morse 2007).

The function of designing a research is to make certain that the data attained should aid the researcher to answer the primary problem as explicitly as possible. However, —research design deals with a logical problem and not a logistical problem (Richards and Morse 2007).

The term survey is used most frequently to refer to a way of collecting evidence from individuals. Research based on survey is habitually used to assess opinions, thoughts and feelings. A survey research can be precise as well as limited, or can have goals that are well-known globally (Scheuren 2004).

Saunders et al. (2009) listed not less than thirteen factors that affect the eventual convenience of a survey and also incorporated the effects of the interviewer, nonresponse, method of data collection, processing errors, errors of interpretation and questionnaire imperfections. The survey assisted the researcher to gather firsthand information concerning to the subject under investigation.

The design used in this research was a survey. There are more than a few of research designs that one can adopt. They consist of survey, experiment, observation, action research and case study. However, for the reason that there was a need to gather evidence from companies listed on Accounting and Auditing Board of Ethiopia (AABE) as SMEs, the researcher decided to do a survey. This is due to that complete lists of companies which were identifies as SMEs were not available (Saunders et al. 2009).

## **3.2 Research Approach**

Richards and Morse (2007) states that research approach is the way how the researcher plan to address, perform and undertake the research. It is a crucial activity that before stepping up to any of the step to do a research, the researcher should identify the research approach.

In this research I used mixed research approach(quantitative and qualitative). Qualitative data was collected and summarized. The qualitative data has been analyzed using the number of preparer and user opinions. This is clearly being displayed in chapter four of this paper.

### **3.2.1 Qualitative Research**

Qualitative research discusses concepts, meanings, definitions, metaphors, characteristics, symbols and descriptions of things. It is also a routine system of investigation used in lots of academic disciplines, usually in the social sciences, likewise in market research and others. Researchers who use qualitative method of data collection intent to bring together a detailed understanding of how human behave in addition to explaining the motives that direct such conduct. Qualitative methods of data collection make available a deeper understanding of issues that remains impossible under quantitative method which is mathematically based (Richards and Morse 2007).

Kato (2002) argues that deeper understanding can time after time be achieved once data is collected under the context of qualitative research through approached similar to interview,

document and media analysis and also through observation. This simplifies the understanding of the phenomenon from a number of perspectives. In this research too, different persons' opinions who have direct attachment with IFRS and IFRS development have been collected. They were given questioners to provide or mark their opinions regarding the prospective of adopting IFRS for SMEs in Ethiopia.

### **3.2.2 Quantitative Research**

Saunders et al. (2009) defines quantitative research as explaining phenomena by gathering numerical data that are analyzed using mathematically centered techniques. Also, according to Thornhill (2004) quantitative research is a social research that employs pragmatic techniques and declarations. He states that an empirical statement is defined as a descriptive statement about what is the case in the real world rather than what ought to be the case. To produce solid facts and statistics you need to ask people for their opinions in a well-thought out manner. To achieve a dependable arithmetical result and in ensuring that they are a symbolic sample of your target population, it is vital to objectively survey large numbers of people. Quantitative methods emphasize objective measurements and the statistical, mathematical, or numerical analysis of data collected through polls, questionnaires, and surveys, or by manipulating pre-existing statistical data using computational techniques. Quantitative research emphasizes on collecting numerical data and generalizing it across groups of people or to explain a particular phenomenon. The overarching purpose of a quantitative research study is to catalogue characteristics, count them, and construct statistical models in an attempt to explain what is observed.

Therefore, in this study quantitative data such as numbers of agreements and disagreement were numerically being analyzed. This will enable me and other users of the study to understand and measure exactly opinions of the respondents about the prospective of adopting IFRS for SMEs in Ethiopia.

### **3.2.3 Mixed-methods approach**

To see the broad nature of this study, a mixed method design is used. It is selected as the model, when a research uses two different methods in an attempt to confirm, cross-validate, or corroborate findings within a single study (Creswell, 2009). In this case, the quantitative and qualitative data collection is concurrent, happening in one phase of the research.

Therefore, this research adopts a mixed-methods approach to allow for a better elaboration of the study under investigation.

### **3.3 Types and Source of Data**

Primary data refers to the first-hand data gathered by the researcher himself. Some of the sources of primary data are surveys, observations, questionnaires, and interviews. (Douglas 2015).

In this study the researcher used primary data. And the primary data was collected from the concerned individuals at different institutions/organizations by using a pre-designed a five-point Likert scale questioner.

### **3.4 Data Gathering Techniques**

The questionnaires were distributed to SME operators and/or owners for firsthand information for processing towards answering the research questions. Other than the Bio data of the respondents, the questionnaire was divided into five parts.

Part I concerned on the Regulatory and Monitory body (AABE) readiness to adopt IFRS for SMEs, part II deals about firm's readiness to adopt IFRS for SMEs, part III about desirability of IFRS for SMEs in Ethiopia, part IV deals about suitability of IFRS for SMEs in Ethiopia and lastly part V about the availability of IFRS based professional and workers for SMEs in Ethiopia.

The state readiness part of the questionnaire consisted of various questions geared towards answering the objective of the study. These questions are designed to identify whether the Government of Ethiopia be ready to adopt IFRS for SMEs.

The firm readiness part of the questionnaire consisted of various questions deal about answering the objective of the study. These questions are designed to identify if the Ethiopian small and medium enterprise be ready to adopt IFRS for SMEs.

The desirability of IFRS for SMEs in Ethiopia part of the questionnaire consisted of various questions deal about answering the objective of the study. These questions are about to identify if the Ethiopian small and medium enterprise be ready to adopt IFRS for SMEs.

The suitability of IFRS for SMEs in Ethiopia part of the questionnaire contained various questions deal about answering the objective of the study. These questions are designed to identify if IFRS for SMEs is suitable in Ethiopia.

Lastly the availability of IFRS based professional and workers for SMEs in Ethiopia part of the questionnaire consisted of various questions deal about answering the objective of the study. These questions are designed to identify if there are qualified IFRS based professionals in Ethiopia to adopt IFRS for SMEs

### **3.5 Population**

Bryman and Bell (2007) described that population is the aggregate or totality of all the objects, subjects or members that conform to a set of specifications. A research population is generally a large collection of individuals or objects that is the main focus of a scientific query. It is for the benefit of the population that researches are done.

The population can be in two categories, the target and the accessible population. Target population refers to the entire group of individuals or objects to which researchers are interested in generalizing the conclusions. The target population also is identified as theoretical population for the reason that it generally has unpredictable characteristics. The accessible population which is broadly known as the study population in research is the population to which the researchers can apply their conclusions. However, the population is a subset of the target population, the researchers draw their samples from the accessible population. The target population of this study is companies listed on Accounting and Auditing Board of Ethiopia (AABE) small and medium sized entities in Ethiopia.

### **3.6 Sample**

Bryman and Bell (2007). a sample is a subset of the population simply put. As a result of researchers lack of ability to test all the individuals in a given population, there arouse the concept of sampling. The sample must have respectable scope to merit statistical analysis and must be representative of the population drawn from. In a wide-ranging context, survey

researchers are concerned in finding some kind of information aimed at some population of importance. The sampling frame may perhaps be alike to the population, or it may be only part of it and is consequently subject to some under coverage. The design of the sample makes available the simple strategy and procedure for choosing the sample. The design of a sample can be simple or complex. The key purpose of the sample is to permit the researcher to go ahead with the study by applying it to the population so that the results of the study can be generalized to the whole population. It is more of a give-and take process. The population —gives the sample, and then it —takes conclusions from the results attained from the sample.

### **3.7 Sampling Techniques**

Purposive or judgmental sampling is a strategy in which particular settings persons or events are selected deliberately in order to provide important information that cannot be obtained from other choices (Maxwell 1996).

In this study the method of non-probability sampling such judgmental or purposive sampling was employed in arriving at the 60 SMEs samples. This is due to that the researchers believe that those samples will be a good representative of the population.

### **3.8 Sample Size**

The sample sizes of the study consider the number of staffs working with the IFRS and giving training on IFRS for different institutions. Considering the number of staffs, the study sample took 60 participants selected from each industry.

A breakdown of industry and industry sector of small and medium enterprises (SMEs) in Ethiopian are presented in table 3.1 for this sample. This is comprising of Agriculture and Agri business, Education, Services and Health, Manufacturing, transport, merchandising, construction firms and Business and financial consulting Firms.

**Table 3.1: Breakdown of industry**

<b>Industry</b>	<b>Population (n=60)</b>
Agriculture and Agri Business	7(11.67%)
Training and Education	10(16.67%)
Health	6(10%)
Manufacturing	10(15%)
Transport	6(10%)
Merchandising	8(13.33%)
Construction	7(11.67%)
Business and Financial Consultants	7(11.67%)

### **3.9 Data Gathering Instrument**

A five-point closed ended Likert scale questionnaires were distributed to finance officers, finance managers, finance directors, business and financial consultants, internal and external auditors. These respondents were selected as respondents because they are deemed to be knowledgeable about IFRS for SMEs and could provide important prospective on its adoption. The response is expected to help understand the factors that could identify prospective of the adoption of IFRS for Small and Medium Enterprises (SMEs) by Ethiopian companies.

The questionnaires were structured based on those used by Iyoha and Faboyede,2011.With regard to the close- ended questions, the respondents were asked to indicate their level of agreement on a five-point Likert scale with the following ratings. Strongly agree (SA; or 5), agree (A; or 4), neutral (N; or 3), disagree (D; or 2), and strongly disagree (SD; or 1). On this scale a score of 5 or 4 indicates that the item is perceived to be essential while a score of 3 or 2 indicates that the item is perceived to be fairly important, but not essential, while a score of 1 indicates that the item could be disregarded for being unimportant. Similar scales have been used (Iyoha and Faboyede,2011) were found suitable.

### **3.10 Methods of Data Analysis Techniques**

Different exploration approaches and procedures were required as a result of the unique nature of the qualitative and quantitative data captured by the survey (Bryman and Bell 2007).

Discussed below is the approaches used to produce the results in Chapter 4, and in this chapter to analyze the features of the sample and population of the research.

So as to analyses the Likert data, a measure of central tendency and measure of dispersion such as the mean and standard deviation respectively were used. This will enable the researcher and other users of this study to be certain on the result obtained from the research.

### **3.11 Validity**

Kotharin (2004) shows that research instruments should be valid and reliable. To measure what an instrument is expected to measure and perform as is planned to perform is known as validity. Validation is a process that consist of a collection and analysis of data that assesses the accurateness of an instrument. Validity can be measured base on construct validity and content validity. Validity construct centers on the structure of the survey. The researcher ensured that the entire questions of the survey were clear and brief. Furthermore, closed ended questions were used to make it easier for participants to complete questionnaires. Content validity is also defined as the appropriateness of what an instrument entail. The measures, that is, questions or observation logs cover the purpose of the study. Kotharin (2004) describes techniques used in collecting data as measures taken in overseeing instruments and data collections from topics under study. Arrangements were made with research participants through telephone and personal visits to the organizations.

Validity refers to the extent to which a test measures what we actually wish to measure. To raise the validity of the researcher undertaken the following.

- Date was collected using developed questionnaire from different papers with slight adjustment with the existing situation of the study.
- Questionnaire was distributed and collected by the researcher himself

The questioner was pre-tested with 15 employees to test the content validity of the instrument and also check the clarity, word ambiguity and structure and their suggestion were incorporated before the final distribution of the questionnaires.

## **CHAPTER FOUR**

### **RESULTS AND DISCUSSIONS**

#### **4.1 Introduction**

The questions are associated with the perspectives of adopting International Financial Reporting Standards (IFRS) for small and medium enterprises (SMEs) in Ethiopia. The data was collected from two groups. These two groups of respondents have been assessed for the study. These are the user group and the reporting group.

The user group represent investors, banks senior officers, Accounting and Auditing Board of Ethiopia (AABE) officials, senior officers from Ministry of trade, senior officer from the Ethiopian ministry of revenue etc. On the other hand, the reporting group include chief finance officers, finance managers, finance directors, business advisors and financial consultants, auditors etc.

In this classification the researcher belief that he will enable to collect data which will assess the perception of the group. And the central point is whether the perceptions vary between the two groups of the respondents or not.

In order to assess the perception between the respondents the whole questionnaires have been categorized in to five parts. These are regulatory and monitoring body readiness to adopt international financial reporting standards (IFRS) for SMEs, firms' readiness to adopt international financial reporting standards, suitability of IFRS for small and medium enterprise in Ethiopia (SMEs), desirability of IFRS for small and medium enterprise in Ethiopia, and lastly the availability of IFRS based professionals.

So as to analyses the questioners the researcher uses five-point Likert scale data analysis method. This ranges from strongly agree to strongly disagree. A total of 60 questionnaires were distributed and with the remaining of 8, all questionnaires have been administered and collected.

From the table one can easily understand that a response rate of 86.7% was achieved. This is a good response rate as compared with other similar research such as the study made by (Son et al. 2006; Al-Shammari et al2008).

**Table 4.1 shows the percentage of questionnaires distributed and collected**

<b>Questionnaire</b>	<b>Numbers</b>	<b>of Percent</b>
Completed	52	86.7%
Not completed	8	13.3%
Total	<b><u>60</u></b>	<b><u>100%</u></b>

**Source: Researcher data**

## **4.2. General Information**

### **4.2.1. Respondent Gender**

**Table 4.2 Demographic profile of respondents based on gender**

<b>Gender</b>	<b>Frequency</b>	<b>Percent</b>	<b>cumulative</b>
Male	37	72%	72%
Female	15	28%	100%

Source: Researcher data

From Table 4.2, the data obtained from the questioner, reveals that out of 52 respondents 37 (72%) of them are males the remaining 15(28%) of respondents were females. This implies that the number of male respondents were greater than that of female in this study.

## 4.2.2. Respondents Age

**Table 4.3: Age Brackets of Respondent**

Age bracket	Frequency	Percent	Cumulative percent
<25 Years	0	0	0%
25-34 Years	18	34.6%	34.6%
35-44 Year	23	44.2%	78.8%
45-54 Years	9	17.3%	96.2%
54Years	<u>2</u>	<u>3.8%</u>	<u>100%</u>
<b>Total</b>	<b><u>52</u></b>	<b><u>100%</u></b>	

Source: Researcher data

From Table 4.3, out of 52 respondents 18 of them or 34.6% were found at the age bracket 25-34 Years, 23 or 44.2% of respondents were found at the age bracket 35-44 Years, and 9 or 17.3% of respondents were found at the age bracket 45-54 years and the remaining 2 (3.8%) were above the age group of 54 years. This indicates that most of the respondents were matured enough. And therefore, they were well versed with relevant information on international financial reporting standards which is very crucial for this study.

## 4.2.3. Educational Background of respondents

**Table 4.4: Respondents Education Status**

Educational back ground	Frequency	%	Cumulative
BA/BSC	33	63.5%	63.5%
MA/MSc	16	30.8%	94.3%
PHD	3	5.8%	100%
<b>Total</b>	<b><u>52</u></b>	<b><u>100%</u></b>	

Source: Researcher data

The education level of the participants varied widely from a total of 52 respondents 33 or 63.5 % of respondents have 1st degrees (BA/BSc Degree), and 16 respondent or 30.8% have 2nd degrees (MSc/MA Degree). The remaining which are 3 or 5.8% have PHD. This indicates that most of the respondents have good educational back ground. This shows that the respondents gave relevant and valuable information needed for the study.

#### 4.2.4. Respondents position

**Table 4.5: Position in Organization/institution**

Position	Frequency	Percent	Cumulative
Finance Managers	11	21.2%	21.2%
Finance Directors	8	15.4%	36.6%
Auditors	12	23.1%	59.7%
Business Advisor and Financial Consultants	10	19.2%	78.9%
Other officers	11	21.2%	100%
<b>Total</b>	<b><u>52</u></b>	<b><u>100%</u></b>	

Source: Researcher data

Out of 52 respondents 17 of them are users and 35 of them are prepares. And from the table 4.2.4 one can understand that out of the 52 respondents 11 or 21.2% of them are Finance Manager, 8 or 15.4% of them are finance directors, 12 or 23.1% of respondent were Auditors, 10 or 19.2% of respondents were business advisors and financial consultants and the remaining 11 or 21.2% of the respondents were others different officers. This implies that the information gathered for this study was collected from the concerned bodies.

### 4.3 Survey response rate

Presented in table 4.6 below is the response rates achieved for the survey. The usable responses in total yield a 80.77% usable response rate. Nevertheless this, the response rates attained by the survey is very good. In scheming the usable response rates to the survey, the applicable population were adjusted for companies which:

1. Could not be contacted due to companies’ own problems: companies who could not be contacted encompassed those who were contacted after two attempts using contact details gathered from diverse sources.
2. Companies who are unable to participate: Because of policy of some firms’ prospective participants were not capable to take part and also because of time constraints prospective participants were unable to partake. For instance, a prospective participant indicated that they —regret to state that it is our policy not to participate in surveys.

**Table 4.6: Determination of usable survey response rates**

Usable responses	42
Full population	60
Less: uncontactable participants	2
Less: companies not intended to adopted IFRS yet	4
Less: companies unable to participate	<u>2</u>
Adjusted population	<u>52</u>
<b>Usable response rate</b>	<b><u>80.77</u></b>

## 4.4 Result and Discussion

The first part sought to ascertain the perception of the reporting and user group with respect to the regulatory and monitory body (the Accounting and Auditing Board of Ethiopia (AABE) readiness to adopt IFRS for SMEs. And twelve factors which could potentially lead the researcher to identify whether the regulatory and monitory body is ready or not in the adoption of international financial reporting standards (IFRS) for small and medium enterprises (SMEs) in Ethiopia.

**Table 4.7 State readiness to adopt IFRS for SMEs  
PART-I**

	<u>Reporting (n = 35)</u>		<u>Users (n = 17)</u>	
	<i>Mean</i>	<i>Std.Dev</i>	<i>Mean</i>	<i>Std.Dev.</i>
1.I think the Government of Ethiopia aware SMEs to adopt IFRS for SMEs	4.11	2.71	4.18	1.52
2.I know the Ethiopian Government enforces SMEs to adopt IFRS for SMEs'	2.40	2.28	2.71	1.86
3.I see that the Ethiopian Government facilitates infrastructures so as firms to adopt IFRS for SMEs'	4.11	2.62	4.12	1.20
4.I believe that the Government of Ethiopia encourage firms to adopt IFRS for SMEs	4.31	2.68	4.06	1.51
5.I know that the Ethiopian Government has a great motivation and interest to adopt IFRS for SMEs	3.40	2.30	3.24	1.12
6.A tailored financial reporting (like IFRS for SMEs') will not be relevant for small and medium enterprises				

in Ethiopia	3.14	2.30	3.29	0.95
7.The Monitoring and Enforcement of reporting requirement will not align with the IFRS for SMEs system	3.49	1.97	3.18	0.57
8 I think there are no legal mandate to support the accounting practice	4.14	2.49	2.88	1.38
9.I see that there exist no competent oversight bodies for IFRS for SMEs	2.77	2.22	3.59	0.71
10.I understand that there exists no quality of accounting education which will supports IFRS for SMEs	3.91	3.03	3.71	0.48
11.I believed that there exists no sound ethical environment.	4.57	3.50	4.41	1.32

In this part the researcher takes eleven questions which will determine the state readiness to adopt International Financial Reporting Standards (IFRS) for Small and Medium Enterprises (SMEs). And also asked for response by the statements with a 5-point Likert scale and indicate the extent they agree with the statements that is: 1 = Strongly disagree, 2 = disagree, 3 = Neutral, 4 = agree 5 = Strongly agree. A mean (M) score of 0-1 means that the respondents strongly disagreed, between 1 to 2 means they disagreed, 2 to 3 means the respondents were neutral or undecided, 3-4 means they agreed, and a mean above 4 means the respondents strongly agreed.

Based on the findings on Table 4.7 (M=4.11; SD=2.71), the respondents in the reporting group could strongly agree that the regulatory and monitory body make to aware small and medium enterprises to adopt international financial reporting standards (IFRS) for SMEs. In the same questionnaire the respondents in the user group (M=4.18; SD=1.52), could similarly strongly agree with the question. With (M=2.40; SD=2.28), and (M=2.71; SD=1.86), the respondents in the reporting and user group respectively, couldn't willing to give their opinions regarding the question that if the Ethiopian Government enforces SMEs to adopt IFRS for SMEs'.

The respondents in the reporting group (M=4.11; SD=2.62), and user group (M=4.12; SD=1.20), could strongly agree with the statement that the Ethiopia Government facilitates infrastructures so as firms to adopt IFRS for SMEs'. With (M=4.31; SD=2.68), and (M=4.06; SD=1.51), the

respondents in the reporting and user group respectively could strongly agree with the statement that the Government of Ethiopia encourage firms to adopt IFRS for SMEs. The respondents in the reporting group (M=3.40; SD=2.30) and user group (M=3.24; SD=1.12), could agree that the Ethiopian Government has a great motivation and interest to adopt IFRS for SMEs.

The respondent in the reporting and user group (M=3.14; SD=2.30), and (M=3.29; SD=0.95) respectively, could agree with the statement that a tailored financial reporting (like IFRS for SMEs') will not be relevant for small and medium enterprises in Ethiopia. With (M=3.49; SD=1.97), and (M=3.18; SD=0.57), the respondents in the reporting and user group respectively, could agree with the statement that the monitoring and enforcement of reporting requirement will not align with the IFRS for SMEs system.

The respondents in the reporting group (M=4.14; SD=2.49) could strongly agree with the statement that there is no legal mandate to support the accounting practice. But the user group (M=2.88; SD=1.38) refrain from giving their opinion.

The respondent in the reporting group (M=2.77; SD=2.22), refrain from giving their opinion with the statement that there exist no competent oversight bodies for IFRS for SMEs. But the respondent in the user group with (M=3.59; SD=0.71), could agree with the statement that there exist no competent oversight bodies for IFRS. Both the reporting (M=3.91; SD=3.03), and user group (M=3.71; SD=0.48), equivalently agree with the statement that there exists no quality of accounting education. Lastly with (M=4.57; SD=3.50), and (M=4.41; SD=1.31), the reporting and user group respectively, could strongly agree with the statement that there exists no sound ethical environment. In general table 4.7. commonly shows that most respondents in the reporting and user group strongly agree or agree with all statements except in Q2, Q8 and Q10. Or, the mean of regulatory and monitory body readiness to adopt IFRS for SMEs for each statement is more than 4.00 for Q1, Q3, Q4, and Q11 and above 3.14 for Q5-Q7 and Q10; it could therefore be argued that all the respondents agree with these statements. The average mean for the reporting is 3.91 and for that of the user is 3.76 which means that the regulatory and monitory body is ready to adopt international financial reporting standards for small and medium enterprises in Ethiopia. This result is consistent with previous studies found that regulatory and monitory body readiness determines the adoption of IFRSs by Son et al. (2006) and Al-Shammari et al. (2008).

**Table 4.8. Firms readiness to adopt IFRS for SMEs**

**PART-II**

	<u>Reporting (n = 35)</u>		<u>Users (n = 17)</u>	
	<u>Mean</u>	<u>Std.Dev.</u>	<u>Mean</u>	<u>Std.Dev.</u>
1.I think IFRS for SMEs’ in Ethiopia is not relevant	2.31	2.75	2.47	1.17
2.The quality of financial information contained in IFRS for SMEs in Ethiopia will be against the interests of shareholders and investors of firms.	3.74	2.10	3.35	0.88
3.The adoption of IFRS for SMEs’ reduce management confusion as IFRS will no longer need to deal with situations in which your firm reports results under different sets of accounting standards	4.09	2.72	3.06	0.58
4.I think IFRS for SMEs’ improve the quality of your financial reporting.	4.26	2.47	4.24	1.83
5.I understand that IFRS for SMEs’ significantly improve yc effectively establish and coordinate business partnerships with foreign companies.	4.34	2.99	3.47	0.73
6.I guess IFRS for SMEs’ results in significant negative impact on your firm’s financial statement	2.20	2.83	3.12	0.75
7. I know IFRS for SMEs’ results in significant time and money being devoted to accounting information system upgrades	4.11	2.73	4.06	1.05

8.I know IFRS for SMEs' results in significant time and money being devoted to staff training and development	4.29	2.98	4.29	1.51
9.IFRS for SMEs' results in a decline in financial reporting	2.20	2.83	2.41	1.14
10.I know IFRS for SMEs' results in improved management information for decision making	4.23	2.82	3.53	1.31
11.I hope IFRS for SMEs' results in better access to capital including from foreign sources	4.40	2.90	4.06	1.52
12.I am sure that IFRS for SMEs' reduce cost of capital and enhanced competitiveness	4.09	3.14	3.88	0.95
13.I think IFRS for SMEs' enable better risk management	4.51	3.08	3.00	0.59

In this second part the researcher takes thirteen questions which will determine firm readiness to adopt International Financial Reporting Standards (IFRS) for Small and Medium Enterprises (SMEs). And also asked for response by the statements with a 5-point Likert scale and indicate the extent to which they agree with the statements that is: 1 = Strongly disagree, 2 = disagree, 3 = Neutral, 4 = agree 5 = Strongly agree.

A mean (M) score of 0-1 means that the respondents strongly disagreed, between 1 to 2 means they disagreed, 2 to 3 means the respondents were neutral or undecided, 3-4 means they agreed, and a mean above 4 means the respondents strongly agreed.

Based on the findings on Table 4.8. (M=2.31; SD=2.75), the respondents in the reporting group and (M=2.47; SD=1.17), the respondents in the user group respectively become neutral or not decided for the statement that IFRS for SMEs' in Ethiopia is not relevant.

The respondents in the reporting and user group (M=3.74; SD=2.10) and (M=3.35; SD=0.88) respectively, could agree that the quality of financial information contained in IFRS for SME in Ethiopia will be against the interests of shareholders and investors of firms.

The respondents in the reporting group (M=4.09; SD=2.72) could strongly agree with the statement that the adoption of IFRS for SMEs' reduce management confusion as IFRS will no longer need to deal with situations in which your firm reports results under different sets of accounting standards. And the user group (M=3.06; SD=0.58) agree with the statement.

The respondent in the reporting group (M=4.26; SD=2.47), and user group (M=4.24; SD=1.83), could strongly agree with the statement that that IFRS for SMEs' improve the quality of your financial reporting.

The respondents in the reporting group (M=4.34; SD=2.99) could strongly agree with the statement that IFRS for SMEs' significantly improve your ability to effectively establish and coordinate business partnerships with foreign companies. And the user group (M=3.47; SD=0.73) agree with the statement.

The respondents in the reporting group (M=2.20; SD=2.83) could refrain from giving their opinion for the statement that IFRS for SMEs' results in significant negative impact on your firm's financial statement. But the user group with (M=3.12; SD=0.75). simply agree with the statement.

The respondents in the reporting group (M=4.11; SD=2.73) and user group (M=4.06; SD=1.05), could strongly agree for the statement that IFRS for SMEs' results in significant time and money being devoted to accounting information system upgrades.

The respondents in the reporting group (M=4.29; SD=2.98) and user group (M=4.29; SD=1.51), could strongly agree for the statement that IFRS for SMEs' results in significant time and money being devoted to staff training and development. With (M=2.20; SD=2.83), and (M=2.41; SD=1.14), the respondents in the reporting and user group respectively could refrain from giving their opinion for the statement that IFRS for SMEs' results in a decline in financial reporting.

The respondents in the reporting group (M=4.23; SD=2.82) could strongly agree with the statement that IFRS for SMEs' results in improved management information for decision making. And the user group (M=3.53; SD=1.31) agree with the statement.

With (M=4.40; SD=2.90), and (M=4.06; SD=1.52), the respondents in the reporting and user group respectively, could strongly agree with the statement that IFRS for SMEs' results in better access to capital including from foreign sources. The respondents in the reporting group (M=4.09; SD=3.14) could strongly agree with the statement that IFRS for SMEs' reduce cost of

capital and enhanced competitiveness. And the user group (M=3.88; SD=0.95) agree with the statement. The respondents in the reporting group (M=4.51; SD=3.08) could strongly agree with the statement that IFRS for SMEs' enable better risk management. But the user group (M=3.00; SD=0.59) could refrain from giving their opinion for this statement.

In general table 4.8. commonly shows that almost all respondents in the reporting and user group strongly agree or agree with the majority of the statements except in Q1 and Q9. Or more specifically the mean of firms' readiness to adopt IFRS for SMEs for each statement is commonly more than 4.06 for Q4, Q7, Q8 and Q11. And above 3.06 for Q2, Q3, Q5, Q10 and Q12. It could therefore be argued that almost the majority of the respondents agree with the statements that presents to test whether firms are ready to adopt IFRS for SMEs.

The average mean for the reporting is 4.22 and for that of the user is 3.65 which means that the firms are ready to adopt international financial reporting standards for small and medium enterprises in Ethiopia. This result is consistent with previous studies found that firm's readiness determines the adoption of IFRS for SMEs in Ethiopia by Son et al. (2006) and Al-Shammari et al. (2008).

**Table 4.9. Desirability of IFRS for SMEs in Ethiopia**

**PART-III**

	<u>Reporting (n = 35)</u>		<u>Users (n = 17)</u>	
	<u>Mean</u>	<u>Std.Dev.</u>	<u>Mean</u>	<u>Std.Dev.</u>
1.I guess IFRS for SME's is not desirable for small and medium enterprise (SME) in Ethiopia	2.14	2.75	3.59	0.71
2.I think Firms' corporate governance of SMEs' in Ethiopia will not let them to adopt IFRS for SMEs'	3.69	2.48	3.06	1.02
3.There should be something else to be considered for SMEs' regarding the accounting work in Ethiopia rather than IFRS for SMEs'	1.97	3.16	4.12	1.21
4.A tailored financial reporting (like IFRS for SMEs') be desirable for small and medium enterprises in Ethiopia	3.83	2.03	3.47	1.48
5.I hope IFRS is desirable for better information and decision making	4.57	3.18	4.12	1.23
6.IFRS is desirable for more confidence in the information presented	4.26	2.97	4.12	1.39
7. I am sure that IFRS is desirable for more communication international	4.46	3.14	4.18	1.66
8.I think IFRS for SMEs never be used for financial Reporting	3.69	2.56	4.18	1.62
9.I am sure that IFRS is desirable for easier access to financial reporting	3.80	1.87	4.35	1.53
10.IFRS is desirable for improved regulatory oversight and enforcement				
11.IFRS is desirable for better information for market participants	3.66	2.10	3.76	0.67
12.IFRS is desirable for better ability to attract and monitor listing by foreign companies	4.14	2.45	4.41	1.49
13.IFRS is desirable for promotion of cross border investment	3.80	2.05	4.12	0.84
14. IFRS is desirable for a higher standard of financial disclosure	3.97	2.73	4.41	1.48
	3.86	0.95	3.82	0.95

In this third part the researcher takes fourteen questions which will determine the desirability of IFRS for SMEs in Ethiopia. And also asked for response by the statements with a 5-point Likert scale and indicate the extent to which they agree with the statements that is: 1 = Strongly disagree, 2 = disagree, 3 = Neutral, 4 = agree 5 = Strongly agree.

A mean (M) score of 0-1 means that the respondents strongly disagreed, between 1 to 2 means they disagreed, 2 to 3 means the respondents were neutral or undecided, 3-4 means they agreed, and a mean above 4 means the respondents strongly agreed.

Based on the findings on Table 4.9. (M=2.14; SD=2.75), the respondents in the reporting group become neutral or not decided for the statement that IFRS for SME's is not desirable for small and medium enterprise (SME) in Ethiopia. But with (M=3.59; SD=0.71), the respondents in the user group could agree with this statement.

The respondents in the reporting and user group (M=3.69; SD=2.48) and (M=3.06; SD=1.02) respectively, could agree that firms' corporate governance of SMEs' in Ethiopia will not let them to adopt IFRS for SMEs'.

The respondents in the reporting group (M=1.97; SD=3.16) could disagree with the statement that there should be something else to be considered for SMEs' regarding the accounting work in Ethiopia rather than IFRS for SMEs. But the user group with (M=4.12; SD=1.21) could strongly agree with this statement.

With (M=3.83; SD=2.03), and (M=3.47; SD=1.48), the respondents in the reporting and user group respectively could agree with the statement that a tailored financial reporting (like IFRS for SMEs') be desirable for small and medium enterprises in Ethiopia. The respondents in the reporting group (M=4.57; SD=3.18) and user group (M=4.12; SD=1.23), could strongly agree for the statement that IFRS is desirable for better information and decision making.

The respondent in the reporting and user group (M=4.26; SD=2.97), and (M=4.12; SD=1.39) respectively, could strongly agree with the statement that IFRS is desirable for more confidence in the information presented.

With (M=4.46; SD=3.14), and (M=4.18; SD=1.66), the respondents in the reporting and user group respectively, could strongly agree with the statement that IFRS is desirable for more communication internationally. With (M=3.69; SD=2.56), and (M=4.18; SD=1.62), respondents

in the reporting group agreed that IFRS should not be used for financial reporting. And respondents in the user group could strongly agree that IFRS should not be used for financial reporting.

The respondents in the reporting group (M=3.80; SD=1.87) could agree with the statement that IFRS is desirable for easier access to financial reporting. And the user group (M=4.35; SD=1.53) could strongly agree with the statement. The respondents in the reporting group (M=3.66; SD=2.10) and user group (M=3.76; SD=0.67), could agree for the statement IFRS is desirable for improved regulatory oversight and enforcement

Both respondents in the reporting group (M=4.14; SD=2.45) and user group (M=4.41; SD=1.49), could strongly agree for the statement that IFRS is desirable for better information for market participants. The respondents in the reporting group (M=3.80; SD=2.05) could agree with the statement that IFRS is desirable for better ability to attract and monitor listing by foreign companies. And the user group (M=4.12; SD=0.84) could strongly agree with this statement.

The respondents in the reporting group (M=3.97; SD=2.73) could agree with the statement that IFRS is desirable for promotion of cross border investment. And the user group (M=4.41; SD=1.48) could strongly agree with the statement. And lastly the respondents in the reporting group (M=3.86; SD=0.95) and the respondents in the user group (M=3.82; SD=0.95) could agree with the statement that IFRS is desirable for a higher standard of financial disclosure.

In general table 4.9 commonly shows that almost all respondents in the reporting and user group strongly agree or agree with the majority of the statements except in Q1 and Q3. Or more specifically the mean of desirability of IFRS for SMEs in Ethiopia for each statement is more than 4.12 for Q5- Q7, and Q11 and above 3.06 for Q2, Q4, Q8-Q10, Q12-14. It could therefore be argued that almost all the respondents agree with these statements. The average mean for the reporting is 3.98 and for that of the user is 4.68 which means that IFRS for SMEs in Ethiopia is desirable. This result is consistent with previous studies found that firms readiness determines the adoption of IFRSs by Son et al. (2006) and Al-Shammari et al. (2008).

**Table 4.10. Suitability of IFRS for SMEs in Ethiopia****PART-IV**

	<u>Reporting (n = 35)</u>		<u>Users (n =17)</u>	
	<u>Mean</u>	<u>Std.Dev.</u>	<u>Mean</u>	<u>Std.Dev.</u>
1.I think the socio-economic factors in Ethiopia will not be suitable for SMEs’ to adopt IFRS	1.94	2.92	4.06	1.52
2. The current financial reporting requirement in Ethiopia may not be suitable for SMEs to adopt IFRS	4.31	2.87	3.35	0.88
3.I think the Ministry of Revenue’s reporting requirement will not be suitable for SMEs’ to adopt IFRS	3.66	1.90	3.94	0.89
4.The legal requirements of the Ethiopian Government will be against the reporting requirements of SMEs’ in Ethiopia. Hence IFRS is not suitable for SMEs’ in Ethiopia	2.94	1.93	3.76	1.23
5.I know IFRS will be suitable for companies for comparison to a peer group of companies	4.09	2.45	4.18	1.35
6.I am sure that IFRS will be suitable for better information for control and decision-making process	4.34	2.81	4.06	1.51
7.I think IFRS will be more suitable for more realistic planning experiences	4.03	2.73	3.76	1.23
8.I think IFRS will be suitable for strengthening and more effective Capital market	4.17	3.13	4.12	1.39
9.I am sure that IFRS will be suitable for more timely financial reports	4.20	2.43	4.18	1.35

In this fourth part the researcher takes ten questions which will determine the suitability of IFRS for SMEs in Ethiopia. And also asked for response by the statements with a 5-point Likert scale

and indicate the extent to which they agree with the statements that is: 1 = Strongly disagree, 2 = disagree, 3 = Neutral, 4 = agree 5 = Strongly agree.

A mean (M) score of 0-1 means that the respondents strongly disagreed, between 1 to 2 means they disagreed, 2 to 3 means the respondents were neutral or undecided, 3-4 means they agreed, and a mean above 4 means the respondents strongly agreed.

Based on the findings on Table 4.2.8 with (M=1.94; SD=2.92), the respondents in the reporting group disagree for the statement that the socio-economic factors in Ethiopia will not be suitable for SMEs' to adopt IFRS. But with (M=4.06; SD=1.52), the respondents in the user group could strongly agree with this statement.

The respondents in the reporting group (M=4.31; SD=2.87) could strongly agree with the statement that the current Financial reporting requirement in Ethiopia may not be suitable for SMEs to adopt IFRS. But the user group with (M=3.35; SD=0.88) could simply agree with this statement.

With (M=3.66; SD=1.90), and (M=3.94; SD=0.89), the respondents in the reporting and user group respectively could agree with the statement that the Ethiopian Revenue and Custom Authority reporting requirement will not be suitable for SMEs' to adopt IFRS.

The respondents in the reporting group (M=2.94; SD=1.93) could not decide with the statement the legal requirements of the Ethiopian Government will be against the reporting requirements of SMEs' in Ethiopia. Hence IFRS is not suitable for SMEs' in Ethiopia.

But the user group (M=3.76; SD=1.23) could agree with the statement. The respondents in the reporting group (M=4.09; SD=2.45) and user group (M=4.18; SD=1.35), could strongly agree for the statement that IFRS will be suitable for companies for comparison to a peer group of companies.

The respondents in the reporting group (M=4.34; SD=2.81) and user group (M=4.06; SD=1.51), could strongly agree for the statement that IFRS will be suitable for better information for control and decision-making process. The respondents in the reporting group (M=4.03; SD=2.73) could strongly agree with the statement that IFRS will be more suitable for more realistic planning experiences. But the user group (M=3.76; SD=1.23) could agree with this statement.

The respondents in the reporting group (M=4.17; SD=3.13) and the respondents in the user group (M=4.12; SD=1.39) could strongly agree with the statement that IFRS will be suitable for strengthening and more effective capital market. With (M=4.20; SD=2.43), and (M=4.18; SD=1.35), the respondents in the reporting and user group respectively could agree with the statement that IFRS will be suitable for more timely financial reports.

In general table 4.10. shows that the almost the majority of the respondents in the reporting and user group strongly agree or agree with statements that exist in Q2-Q3 and Q5-Q9. Or more specifically the mean of suitability of IFRS for SMEs in Ethiopia for each statement is more than 4.03 for Q5Q6, Q8 and Q9 and above 3.35 for Q2, Q3, Q7. But only in Q1, and Q4 the reporting and the user are opposing opinion and could not anonymous. It could therefore be argued that the majority of the respondents agree with these statements. The average mean for the reporting is 4.12 and for that of the user is 4.93 which means that IFRS for SMEs in Ethiopia is suitable. This result is consistent with previous studies found that suitability of IFRS for SMEs determines the adoption of IFRSs by Son et al. (2006) and Al-Shammari et al. (2008).

**Table 4.11. Availability of IFRS based professional and workers for SMEs in Ethiopia****PART-V**

	<u>Reporting (n = 35)</u>		<u>Users (n = 17)</u>	
	<u>Mean</u>	<u>Std.Dev.</u>	<u>Mean</u>	<u>Std.Dev.</u>
1.I know the Ethiopians academics institution have been giving IFRS based education	2.06	3.02	1.82	1.81
2.I think Ethiopians academics institution have sufficient and competent qualified IFRS based professionals	2.66	2.24	3.71	0.48
3.I guess Ethiopians academics institution have sufficient tailored IFRS based training manuals	2.26	2.39	2.47	1.96
4.I understand Ethiopians educational curriculum have included IFRS focused education in its national education systems	2.03	2.81	2.47	1.32
5.I believe significant contributions have been made for the past years from Ethiopian Accounting and Auditing Board of Ethiopia concerning IFRS	3.40	1.68	2.12	1.35

In this fifth part the researcher takes five questions which will determine the availability of IFRS based professional and workers for SMEs in Ethiopia. And also asked for response by the statements with a 5-point Likert scale and indicate the extent to which they agree with the

statements that is: 1 = Strongly disagree, 2 = disagree, 3 = Neutral, 4 = agree 5 = Strongly agree. A mean (M) score of 0-1 means that the respondents strongly disagreed, between 1 to 2 means they disagreed, 2 to 3 means the respondents were neutral or undecided, 3-4 means they agreed, and a mean above 4 means the respondents strongly agreed.

Based on the findings on Table 4.2.9 the respondents in the reporting group ( $M=2.06$ ;  $SD=3.02$ ) become neutral or refrain from giving their opinion for the statement that Ethiopians academics institution have been giving IFRS based education. But the user group with ( $M=1.82$ ;  $SD=1.81$ ) disagreed with this statement. With ( $M=2.66$ ;  $SD=2.24$ ), the respondents in the reporting group become neutral for the statement that the Ethiopians academics institution have sufficient and competent qualified IFRS based professionals. But with ( $M=3.71$ ;  $SD=0.48$ ), the respondents in the user group could strongly agree with this statement.

With ( $M=2.26$ ;  $SD=2.39$ ), and ( $M=2.47$ ;  $SD=1.98$ ), the respondents in the reporting and user group respectively could become neutral with the statement that the Ethiopians academics institution have sufficient tailored IFRS based training manuals.

The respondents in the reporting group ( $M=2.03$ ;  $SD=2.81$ ) and user group ( $M=2.47$ ;  $SD=1.32$ ), could not decide or neutral for the statement that the Ethiopians educational curriculum have included IFRS focused education in its national education systems. The respondents in the reporting group ( $M=3.40$ ;  $SD=1.68$ ) could agree with the statement that significant contributions have been made in the past years from Ethiopian Accounting and Auditing Board of Ethiopia concerning IFRS. But the user group ( $M=2.12$ ;  $SD=1.35$ ) could become neutral for this statement.

In general table 4.11 shows that some of the respondents in the reporting and user group commonly become neutral or could not give their opinion in Q3 and Q4 with statements that whether the availability of IFRS based professional and workers for SMEs in Ethiopia determine the perspective of adopting IFRS for SMEs. But become in opposing view in Q1, Q2 and Q5. Or more specifically the mean of availability of IFRS based professional and workers for SMEs in Ethiopia for each statement is less than 2.50 for Q3 and Q4. But in Q1, Q2 and Q5 the reporting and the user give opposing opinion and could not anonymous with the given statements. It could therefore be recommended that that further studies should be conducted to identify if availability of IFRS based professional and workers for SMEs in Ethiopia could impact the perception of adopting IFRS for SMEs in Ethiopia.

The average mean for the reporting is 2.71 and for that of the user is 2.55 which means that there is no conclusive ideas with regard to the availability of IFRS based professional and

workers for SMEs in Ethiopia determine the perspective of adopting IFRS for SMEs. This result is not consistent with previous studies found that availability of IFRS based professional determines the adoption of IFRSs by Son et al. (2006) and Al-Shammari et al. (2008).

## CHAPTER FIVE

### CONCLUSIONS AND RECOMMENDATIONS

#### 5.1 Introduction

The thesis has been done based on the prospective of adopting international financial reporting standard (IFRS) for small and medium enterprises (SMEs) in Ethiopia. As recognized in the literature review conducted in chapter two, the prospective to adopt IFRS for SMEs was actually an impactful transformation in relation to the number of companies affected and changes in financial reporting required.

The study conducted on the subject matter under discussion that is the prospective of IFRS adoption for SMEs in Ethiopia signified that the Regulatory and Monitoring body, called the Auditing and Accounting Board of Ethiopia (AABE) and firms are ready for the adoption. And if Ethiopia successfully do it, she will be one of the over 100 countries to have adopted IFRS for SMEs. The Ethiopia regulatory officials' intentions in pursuing IFRS for SMEs adoption were to realize some practical benefits for companies. Improved financial statement comparability internationally and improved financial reporting in terms of quality.

The characteristics of the respondents to the survey represented the broader population notwithstanding the response rate. Also, all the respondents within their individual companies occupied senior positions. Regarding the prospective of adopting IFRS for SMEs, procedures used to analyze the data were qualitative and quantitative.

In this section, key results of data analysis drawn in previous chapters are synthesized. So as to analyses the data the researcher uses measure of central tendency such as the mean and measure of dispersion such as the standard deviation. Moreover, the research questions recognized in chapter one is further expanded. And also identified in this section is the contributions of the study and suggested further studies.

Overall, the prospective of adopting IFRS for SMEs in Ethiopia has been constructive with respect to the number of respondents for which adoption aims has been assessed. As discussed in Chapter 3, 80.77% usable response rate signifies that the majority of the respondent who

provided their responses agree with the adoption and showed their attitude by marking on the score of agreed or strongly agreed.

### **5.1.1 Results of research question Part 1: Is the State ready to adopt IFRS for SMEs in Ethiopia?**

Respondents largely seemed satisfied towards the regulatory body readiness with that the majority of the respondents agreeing that the regulatory body is ready to adopt international financial reporting standards (IFRS) for small and medium enterprises (SMEs) in Ethiopia.

Most significant in relation to the questions that the Government of Ethiopia aware firms to adopt IFRS for SMEs, facilitates infrastructures so as firms to adopt IFRS for SMEs, encourage firms

to adopt IFRS for SMEs, and the absence of sound ethical environment. These were questions on which both the reporting and users strongly agreed with.

But with reference to the regulatory body readiness to adopt the international financial reporting standards (IFRS) for SMEs, a very few of the respondents to the survey restricted their agreement to the adoption of it in Ethiopia.

### **5.1.2 Results of research question 2: Are Firms ready to adopt IFRS for SMEs in Ethiopia?**

Most respondents in the reporting and users group agreed that firms are ready to adopt international financial reporting standards for small and medium sized enterprises in Ethiopia. But for a few questions respondents responds differently. This means that while reporting agreed with the questions, users disagreed with it and vice versa. More over in some questions some of the respondents become restricted in giving their opinions. Most significant in these questions that the quality of financial information contained in IFRS for SME will be against the interests of shareholders and investors, the adoption of IFRS for SMEs significantly improve ability to effectively compare and evaluate foreign company financial statement, and in many more both respondents become common and largely agreed in their opinion with regard to the factor or questions presented to ascertain firms readiness to adopt IFRS for SMEs.

All in all, the result shows that firms are ready to adopt IFRS for SMEs locally and has been viewed as being a process that is necessitating substantial resources dedicated to training of staff and upgrades of systems and requiring external expertise.

With the difficult nature of IFRS for SMEs in Ethiopia, virtually all the respondents to the survey reinforced that the transformation would generate further financial reporting advancement in the coming years. In summary, IFRS for SMEs adoption would seem not just for transition but rather unlimited advantage and opportunities.

Also, respondents' attitudes concerning quality of financial reporting and about the primary capability of IFRS for SMEs to provide users of financial statements with information that is dependable and relevant. The majority of the respondents attested to the fact that adopting IFRS for SMEs in Ethiopia would be beneficial for their companies. Indeed, respondents looked at it on the basis of benefits relating to financial statement improvement in comparability.

## **5.2 Suggested avenues for further studies**

Primarily, the consequences of the research given, the methodology applied by the researcher should be regarded as credible facts to be lay open to future falsification by interested researchers. Possible areas of specific research might take account of:

- IFRS resistance and costs and benefits of adopting should constantly be explored, both with companies listed on Ethiopian SMEs and other companies. IFRS adoption challenges and contribution to the macro economy.
- perceptions is possible to change over time as it is continuously applied and later be established. Few countries have been studied in depth regardless of the large number of countries that have transitioned to IFRS for SMEs adoption;
- Qualitative research concerning Ethiopia's regulatory officials and other patrons involved in IFRS adoption pronouncement, to additionally explore the institutional drivers behind

IFRS for SMEs adoption;

- Investigations into the impact of adopting IFRS for SMEs on upcoming capital markets research on diverse alternatives for quality and examine financial reporting comparability internationally.

### **5.3 Recommendation to Potential users of this findings**

Future researchers and the Government of Ethiopia for IFRS for SMEs' development might use this study's finding to deepen understanding of the respondents as well as the local community views, opinions and understanding of the status of knowledge, gap, and drawbacks, to get a feedbacks and other pertinent information for policy development and other regulatory issues at various stages of their process. This is because various addressed and non-addressed environmental as well as social factors may influence regulators.

Fortunately, many advantages of IFRS for SMEs' adoption were deemed by interviewees and attentions should be given by the Ethiopian Government to enhance its development at the level set out in the standards.

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## Appendices

### Survey Instrument

Faculty of Business and Public Administration  
Addis Abeba University  
Addis Abeba  
Aug. ,2019

Dear Sir/Madam:

You are invited to participate in a survey that constitutes part of my Master thesis in Accounting and Finance at Addis Abeba University. This is part of my research project entitled *The Prospective of Adopting International Financial Reporting Standards (IFRS): Evidence from Ethiopian Small and Medium Enterprises (SME's). These questioners contain five parts.*

The purpose of this research is to investigate the prospective of International Financial Reporting Standards (IFRS) on SME's in Ethiopia.

Participation in the research is voluntary and you are free to decide not to participate in the research by returning the incomplete questionnaire. However, if you complete the questionnaire and return it to me, it will be understood that you are 18 years of age or older and have consented to participate in this survey and consent to publication of the results of this research with the understanding that anonymity will be preserved.

Your participation is of great assistance to this research. This survey will take a maximum of 35 minutes to complete. I would be grateful if you would complete the questionnaire and return it to me once you have finished.

Complete anonymity is assured in this survey, as the questionnaire is anonymous. No questions are asked which would identify you as an individual. Returning the questionnaire is completely anonymous and you do not need to include your name or details in any part of the questionnaire. All responses will be aggregated for analysis only, and the findings will not be reported in any way that could lead to the identification of individuals.

Please return your completed questionnaire within one (01) week from the date of receipt and not later than September 30, 2019.

Thank you for your kind co-operation and assistance.

Yours sincerely,

Wondwoson Wodebo

## Survey Instrument

Your Name (Optional) \_\_\_\_\_

Which is your age group?

18-30 years [ ] 30-40 years [ ] 40-50 years [ ] 50-70 years [ ] 70-80 years [ ]

What is your highest accounting education or professional qualification?

No formal education [ ] Certificate [ ] Diploma [ ] Bachelor degree [ ] Master [ ] PhD [ ]

Other(s) (Please specify) \_\_\_\_\_

Which institution granted your qualification? (Tick all that apply)

Domestic institution [ ] Foreign institution [ ] No formal qualification [ ]

What is your job title?

Finance Manager [ ] Chief Finance Officer [ ] Finance Director [ ] other (please specify)

\_\_\_\_\_  
*Your participation in this survey is greatly appreciated. Thank you for your time and effort. If you have further comments about the prospective of IFRS for SMEs adoption, please feel free to write these in any space or with additional papers.*

*Once again, we assure you that your identity will remain **STRICTLY CONFIDENTIAL**.*

**The Prospective of IFRS Adoption by Small and Medium Enterprises in Ethiopia**

### **Instruction**

For each question with answer, please tick the reply that most closely matches your own. Otherwise, please follow the instructions given to respond to the questions. Only summary measures and conclusions from this survey will be reported. Your participation is voluntary and anonymous; all of your answers will be kept strictly confidential.

**PAET-I**

**The state Readiness to adopt IFRS for SMEs**

In this part you are given eleven (11) questions. As per the instruction given above please give your opinion for each question. And please **CIRCLE** how strongly you agree or disagree with each of the following statements on a scale of 1 to 5, with

**1 = strongly disagree    2= Disagree    3=Neutral    4= Agree    5 = strongly agree**

	<b>Strongly Disagree</b>	<b>Disagree</b>	<b>Neutral</b>	<b>Agree</b>	<b>Strongly Agree</b>
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- |  |          |          |          |          |          |
|--|----------|----------|----------|----------|----------|
| <b>1.I think the Government of Ethiopia aware SMEs to adopt IFRS for SMEs</b>  | <b>1</b> | <b>2</b> | <b>3</b> | <b>4</b> | <b>5</b> |
| <b>2.I know the Ethiopian Government enforces SMEs to adopt IFRS for SMEs’</b>   | <b>1</b> | <b>2</b> | <b>3</b> | <b>4</b> | <b>5</b> |
| <b>3. I see that the Ethiopia Government facilitates infrastructures so as firms to adopt IFRS for SMEs’</b>                     | <b>1</b> | <b>2</b> | <b>3</b> | <b>4</b> | <b>5</b> |
| <b>4. I believe that the Government of Ethiopia encourage firms to adopt IFRS for SMEs</b>                                       | <b>1</b> | <b>2</b> | <b>3</b> | <b>4</b> | <b>5</b> |
| <b>5. The Ethiopian Government has a great motivation and interest to adopt IFRS for SMEs</b>                                    | <b>1</b> | <b>2</b> | <b>3</b> | <b>4</b> | <b>5</b> |
| <b>6. A tailored financial reporting (like IFRS for SMEs’) will not be relevant for small and medium enterprises in Ethiopia</b> | <b>1</b> | <b>2</b> | <b>3</b> | <b>4</b> | <b>5</b> |
| <b>7.The Monitoring and Enforcement of reporting requirement will not align with the IFRS for SMEs system</b>                    | <b>1</b> | <b>2</b> | <b>3</b> | <b>4</b> | <b>5</b> |
| <b>8.There are no legal mandate to support the accounting practice</b>   | <b>1</b> | <b>2</b> | <b>3</b> | <b>4</b> | <b>5</b> |
| <b>9. I see that there exist no competent oversight bodies for IFRS for SMEs</b>   | <b>1</b> | <b>2</b> | <b>3</b> | <b>4</b> | <b>5</b> |
| <b>10. I understand that there exists no quality of accounting education</b>   | <b>1</b> | <b>2</b> | <b>3</b> | <b>4</b> | <b>5</b> |
| <b>12.I believed that there exists no sound ethical environment</b>  | <b>1</b> | <b>2</b> | <b>3</b> | <b>4</b> | <b>5</b> |

## PAET-II

### Firms' readiness to adopt IFRS for SMEs

In this part you are given thirteen (13) questions. As per the instruction given above please give your opinion for each question. And please **CIRCLE** how strongly you agree or disagree with each of the following statements on a scale of 1 to 5, with

**1 = strongly disagree    2= Disagree    3=Neutral    4= Agree    5 = strongly agree**

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
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**1.I think IFRS for SMEs' in Ethiopia is not relevant**

1                      2                      3                      4                      5

**2.The quality of financial information contained in IFRS for SME in Ethiopia will be against the interests of shareholders and investors of your firm.**

1                      2                      3                      4                      5

**3.The adoption of IFRS for SMEs' reduce management confusion as IFRS will no longer need to deal with situations in which your firm reports results under different sets of accounting standards**

1                      2                      3                      4                      5

**4.I think IFRS for SMEs' improve the quality of your financial reporting.**

1                      2                      3                      4                      5

**5.I understand that IFRS for SMEs' significantly improve your ability to effectively establish and coordinate business partnerships with foreign companies.**

1                      2                      3                      4                      5

**6.I guess IFRS for SMEs' results in significant negative impact on your firm's financial statement**

1                      2                      3                      4                      5

**7.I know IFRS for SMEs' results in significant time and money being devoted to accounting information system upgrades**

1                      2                      3                      4                      5

**8.I know IFRS for SMEs' results in significant time and money being devoted to staff training and Development**

1                      2                      3                      4                      5

**9.I think IFRS for SMEs' results in a decline in your financial reporting**

1                      2                      3                      4                      5

**10.I hope IFRS for SMEs' results in improved management information for decision making**

1                      2                      3                      4                      5

**PAET-II(CONTINUED)**

In this part you are given thirteen (13) questions. As per the instruction given above please give your opinion for each question. And please **CIRCLE** how strongly you agree or disagree with each of the following statements on a scale of 1 to 5, with

**1 = strongly disagree    2= Disagree    3=Neutral    4= Agree    5 = strongly agree**

<b>Strongly Disagree</b>	<b>Disagree</b>	<b>Neutral</b>	<b>Agree</b>	<b>Strongly Agree</b>
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**11.I am sure that IFRS for SMEs’ results in better access to capital including from foreign sources**

**1                      2                      3                      4                      5**

**12.I know IFRS for SMEs’ reduce cost of capital and enhanced competitiveness**

**1                      2                      3                      4                      5**

**13. I think IFRS for SMEs’ enable better risk management**

**1                      2                      3                      4                      5**

### PART-III

#### Desirability of IFRS for SMEs in Ethiopia

In this part you are given fourteen (14) questions. As per the instruction given above please give your opinion for each question. And please **CIRCLE** how strongly you agree or disagree with each of the following statements on a scale of 1 to 5, with 1

1 = strongly disagree 2= Disagree 3=Neutral 4= Agree 5 = strongly agree

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
--	----------------------	----------	---------	-------	-------------------

**1.I guess IFRS for SME’s is not desirable for small and medium enterprise (SME) in Ethiopia**

1                      2                      3                      4                      5

**2.I think Firms’ corporate governance of SMEs’ in Ethiopia will not let them to adopt IFRS for SMEs’**

1                      2                      3                      4                      5

**3. I think there should be something else to be considered for SMEs’ regarding the accounting work in Ethiopia rather than IFRS for SMEs’**

1                      2                      3                      4                      5

**4.A tailored financial reporting (like IFRS for SMEs’) be desirable for small and medium enterprises in Ethiopia**

1                      2                      3                      4                      5

**5.I hope IFRS for SMEs is desirable for better information and decision making**

1                      2                      3                      4                      5

**6.I think IFRS for SMEs is desirable for more confidence in the information Presented**

1                      2                      3                      4                      5

**7. I am sure that IFRS for SMEs is desirable for more communication internally**

1                      2                      3                      4                      5

**8.I think IFRS for SMEs never be used for financial reporting**

1                      2                      3                      4                      5

**9.I am sure that IFRS for SMEs is desirable for easier access to financial reporting**

1                      2                      3                      4                      5

**10.I believe that IFRS for SMEs is desirable for improved regulatory oversight and enforcement**

1                      2                      3                      4                      5

**PART-III(CONTINUED)**

**Desirability of IFRS for SMEs in Ethiopia**

**In this part you are given fourteen (14) questions. As per the instruction given above please give your opinion for each question. And please CIRCLE how strongly you agree or disagree with each of the following statements on a scale of 1 to 5, with 1**

**1 = strongly disagree 2= Disagree 3=Neutral 4= Agree 5 = strongly agree**

	<b>Strongly Disagree</b>	<b>Disagree</b>	<b>Neutral</b>	<b>Agree</b>	<b>Strongly Agree</b>
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**11. I believe IFRS for SMEs is desirable for better information for market participants.**

**1                      2                      3                      4                      5**

**12.I know FRS for SMEs is desirable for better ability to attract and monitor listing by foreign companies**

**1                      2                      3                      4                      5**

**13.I believe IFRS for SMEs is desirable for promotion of cross border investment**

**1                      2                      3                      4                      5**

**14.I think IFRS for SMEs is desirable for a higher standard of financial disclosure**

**1                      2                      3                      4                      5**

## PART-IV

### Suitability of IFRS for SMEs in Ethiopia

In this part you are given nine (9) questions. As per the instruction given above please give your opinion for each question. And please **CIRCLE** how strongly you agree or disagree with each of the following statements on a scale of 1 to 5, with 1

1 = strongly disagree 2= Disagree 3=Neutral 4= Agree 5 = strongly agree

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
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**1.I think the socio-economic factors in Ethiopia will not be suitable for SMEs' to adopt IFRS in Ethiopia.**

1                      2                      3                      4                      5

**2.The current reporting requirement in Ethiopia may not be suitable for SMEs to adopt IFRS**

1                      2                      3                      4                      5

**3. I guess that the Ministry of Revenue reporting requirement will not be suitable for SMEs' to adopt IFRS for SMEs**

1                      2                      3                      4                      5

**4.The legal requirements of the Ethiopian Government will be against the reporting requirements of the SMEs' in Ethiopia. Hence IFRS is not suitable for SMEs' in Ethiopia**

1                      2                      3                      4                      5

**5.I know IFRS for SMEs will be suitable for companies for comparison to a peer group of companies**

1                      2                      3                      4                      5

**6.I am sure that IFRS for SMEs will be suitable for better information for control and decision-making process**

1                      2                      3                      4                      5

**7.I think IFRS for SMEs will be more suitable for more realistic planning experiences**

1                      2                      3                      4                      5

**8.I think IFRS for SMEs will be suitable for strengthening and more effective capital market**

1                      2                      3                      4                      5

**9. I am sure that IFRS for SMEs will be suitable for more timely financial reports**

1                      2                      3                      4                      5

## PART-V

### Availability of IFRS based professional and workers for SMEs in Ethiopia

In this part you are given five (5) questions. As per the instruction given above please give your opinion for each question. And please **CIRCLE** how strongly you agree or disagree with each of the following statements on a scale of 1 to 5, with 1

1 = strongly disagree 2= Disagree 3=Neutral 4= Agree 5 = strongly agree

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
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**1.I know the Ethiopians academics institution have been giving IFRS for SMEs based education**

1                      2                      3                      4                      5

**2.I think the Ethiopians academics institution have sufficient and competent qualified IFRS for SMEs based professionals**

1                      2                      3                      4                      5

**3.I guess Ethiopians academics institution have sufficient tailored IFRS for SMEs based training manuals**

1                      2                      3                      4                      5

**4.I understand the Ethiopians educational curriculum have included IFRS for SMEs focused education in its national education systems.**

1                      2                      3                      4                      5

**5.I believe that significant contributions have been made for the past years from Ethiopian Accounting and Auditing Board of Ethiopia concerning IFRS for SMEs.**

1                      2                      3                      4                      5