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**ADDIS ABABA UNIVERSITY**

**COLLEGE OF BUSINESS AND ECONOMICS**

**DEPARTMENT OF ACCOUNTING AND FINANCE**

**Challenges of International Financial Reporting Standards (IFRS)  
Adoption on Private Limited Companies in Ethiopia: A case of  
selected PLCs in Addis Ababa**

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**A THESIS SUBMITTED TO DEPARTMENT OF ACCOUNTING AND FINANCE IN  
PARTIAL FULFILMENT OF THE REQUIREMENTS FOR MASTER OF SCIENCE  
DEGREE IN ACCOUNTING AND FINANCE**

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## **Statement of Declaration**

I, Emebet Muche, declare that this thesis entitled Challenges of International Financial Reporting Standards (IFRS) Adoption on Private Limited Companies in Ethiopia: A case of selected PLCs in Addis Ababa; is my original work, prepared under the guidance of Tekalign Nega (PhD). All resources used in the thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institution to earn any degree.

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## Certification

This is to certify that Emebet Muche Amare has done a study on the topic **“Challenges of International Financial Reporting Standards (IFRS) Adoption on Private Limited Companies in Ethiopia: A case of selected PLCs in Addis Ababa”**. This study is of her original work and all the sources of materials used for the research project paper had been duly acknowledged.

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**Addis Ababa University**  
**College of Business and Economics**  
**Department of Business Administration**

**Challenges of International Financial Reporting Standards (IFRS) Adoption on Private Limited Companies in Ethiopia: A case of selected PLCs in Addis Ababa**

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## ACRONYMS

AABE.....	Accounting and Auditing Board of Ethiopia
EU.....	European Union
GAAP.....	Generally Accepted Accounting Principles
IAS.....	International Accounting Standards
IASC.....	International Accounting Standards Committee
IASB .....	International Accounting Standards Board
IFAC.....	International Federation of Accountants
IFRS.....	International Financial Reporting Standards
PLCs.....	Private Limited Companies
SAS.....	Statement of Accounting Standards
SMEs.....	Small and Medium Enterprises
SMEGA .....	Small and Medium-sized Entities Guidelines on Accounting
SPSS.....	Statistical Package for the Social Sciences
VIF.....	Variance inflation factor
UNCTAD.....	United Nations Conference on Trade and Development

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## **ABSTRACT**

*International Financial Reporting Standards (IFRS) have become an internationally recognized standard that has been adopted and implemented in many countries throughout the world to standardize financial reporting. This study investigates the challenges of International Financial Reporting Standards(IFRS) Adoption on Private Limited Companies in case of selected PLCs in Addis Ababa. The study deployed quantitative research methods and explanatory research design. the researcherselected48 PLCs which are in Construction and Real estate sector. The questionnaire data were analyzed using descriptive statistics, correlations, and multiple linear regression analysis using SPSS 26 Software. Accordingly ,the result of this study showed that Legal system of the country, availability of Professional Bodies, Company Size, Attitude/Perceptions towards IFRS and Complexity of Standards are the main factors that hinder the adoption process. Finally, the study recommended that Companies must own the transformation process and collaborate closely with professional bodies, the regulatory body shall impose fines and penalties on the preparers and their auditors if there is deficiencies or non-compliance with IFRS. In addition, to reduce IFRS Complexity, the regulatory bodies and AABE should work on translating IFRS into Amharic in a consistent and efficient manner.*

**Key words: IFRS, Challenges of Adoption, PLCs**

## **CHAPTER ONE: INTRODUCTION**

### **1.1 Background of the study**

International Financial Reporting Standards (IFRS) have been adopted by more than 100 countries around the world. The main objective of IFRS is to converge the diverse business language being used by the business communities all over the world. However, its adoption and implementation have brought opportunities and challenges to adopters (Teferi & Pasricha, 2016).

The main vital of financial reporting is to make information presented for decision-making. Historically, there is multiplicity in financial reporting in different countries because of culture, legal or tax systems, and business structures. IFRS harmonizes this diversity by making information more comparable and easier to analyze, facilitating the effective allocation of resources and reducing capital costs of the organizations (Mekonnen, 2016).

Melese (2016) detected several IFRS enforcing difficult situations of establishments that excessive implementation costs, the complexity of economic reporting, lack of implementation agent, lack of implementation guidance, lack of availability of able specialists, excessive stage education requirement, much less knowledge with the IT demanding situations in managing the implementation, lack of right commands from regulatory bodies, and hassle with its implementation right plan and shortage of commitment & right plan of economic establishments and necessities of the prevailing Tax regulation change are spotted as elements that makes to put in force IFRS.

In 2014, the Ethiopian Government issued Financial Reporting Proclamation which has the objectives of establishing a uniform financial reporting law and establishing a body that undertakes regulatory responsibilities in financial reporting (Proclamation 847/2014, Article 4 and Regulation 332/2014). Accordingly, this study aims to investigate the challenges of IFRS adoption on Private Limited Companies in Addis Ababa.

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## 1.2 Statement of the problem

According to Fikiru (2012), IFRS should have been implemented earlier in Ethiopia due to the greater benefits it has compared to the associated problems. The introduction of IFRS in Ethiopia will result in a number of important benefits for a wide range of stakeholders. The main challenges in the process of adopting IFRS include significant cost of adoption of IFRS, need for training, the complex nature of some of the IASB's standards and the lack of adequate implementation guidance. This lack of guidance creates risks for different local or national interpretations of IFRS and increases the risk for manipulation in interpretation of financial statements.

The adoption of IFRS benefit is intended to provide the efficiency and effectiveness of financial reporting, provides reliable and comparable financial statements, makes external financing easier, provides greater reporting transparency and enables greater effectiveness of the internal audit. The adoption of IFRS faces several challenges and obstacles including, high implementation costs, the complexity of financial reporting, lack of IFRS implementation agent, lack of IFRS implementation guidance, lack of availability of competent specialists, high level training requirement, less familiarity with the IT challenges in handling the implementation of IFRS, lack of proper instructions from regulatory bodies, and problem with IFRS implementation proper plan and absence of commitment & proper plan of financial institutions to implement IFRS and requirements of the existing Tax law amendment are identified as factors that makes to implement IFRS.(Eyob, 2017).

Despite the fact that studies on the adoption of IFRS have been performed on challenges in Ethiopia, according to the researcher's knowledge, previous studies have focused primarily on financial institutions and public enterprises. As a result, the aim of this research is to investigate the Challenges of IFRS adoption and factors that could affect the adoption in Selected Private Limited Companies in Addis Ababawhich are in Construction and Real estate sectors.

### **1.3 Research Questions**

1. What are the factors (i.e., Legal System, Professional Bodies, Company Size, Attitude and Complexity) that could affect/challenge IFRS adoption on PLCs?
2. How to manage these challenges of IFRS adoption on PLCs?

### **1.4 Objectives of the study**

#### **1.4.1 General Objective of the study**

The main purpose of the study is to investigate factors that could affect or challenge the adoption process in Private Limited Companies.

#### **1.4.2 Specific objectives of the study**

Under the general objective stated above, the research has the following specific objectives:

- To examine if Legal System of the country has a significant effect on the adoption of IFRS on PLCs
- To examine if Professional Bodies has a significant effect on the adoption of IFRS on PLCs
- To examine if Company Size has a significant effect on the adoption of IFRS on PLCs
- To examine if Complexity has a significant effect on the adoption of IFRS on PLCs
- To examine if Attitude has a significant effect on the adoption of IFRS on PLCs
- To indicate a way to manage the challenges on adopting IFRS for PLCs

## **1.5 Research Hypothesis**

Based on the reviewing of different pieces of literature, the researcher will try to test the below hypothesis.

### **1.5.1 Legal System**

The findings of the studies of Teklemuz (2018) and Solomon (2018) indicated that the legal system is the most important factor for the adoption of IFRS. As a result, the researcher hypothesizes:

**H1:** The legal system of the country has a significant effect on the adoption of IFRS on PLCs

### **1.5.2 Professional Bodies**

Study results indicated that the adoption of IFRS was influenced by Professional Bodies Fikiru (2012) and Mekonnen (2016). On the basis of the evidence, the researcher hypothesizes that:

**H2:** Professional bodies have a significant effect on the adoption of IFRS on PLCs

### **1.5.3 Company Size**

The results of the studies indicated that the adoption of IFRS was influenced by the size of the company Fikiru (2012) and Zehri & Chouaibi (2013). The researcher hypothesizes based on this empirical evidence that:

**H3:** Company size has a significant effect on the adoption of IFRS on PLCs

### **1.5.4 Attitude/Perceptions about IFRS**

The findings of the studies of Fikiru (2012) and Mekonnen (2016) showed that the adoption of IFRS impacted by the attitude or perception of employees and owners of the companies. In this regard, the following hypotheses are advanced in this study.

**H4:** Attitude/Perception by employees and Owners has a significant effect on the adoption of IFRS on PLCs

### **1.5.5 Complexity of IFRS Standards**

Study results indicated that the adoption of IFRS was influenced by Professional Bodies Solomon (2018) and Alemgena (2016). The formation of the following hypothesis has become necessary in order to ascertain the impact on PLCs

**H5:** Complexity of IFRS Standards has a significant effect on the adoption of IFRS on PLCs

### **1.6 Scope of the study**

The general purpose of this study is to investigate factors that could affect IFRS adoption on Private limited Companies. The research was focused on factors such as Legal system of the country, Professional Bodies, Company Size, Attitude and Complexity of IFRS standards. This research is limited to Private Limited Companies and it is geographically confined to Addis Ababa city. The target population for this study is limited to 48 (Forty Eight) which are construction and real estate companies. This is due to time constraint and this sectors were relatively better in implementing IFRS. This research used quantitative research method and explanatory research design to achieve its objectives. In addition, The study is done through the utilization of questionnaire distributed to the respondents.

### **1.7 Limitation of the study**

The regulatory bodies' decision to extend the deadline for mandatory adoption for private limited companies to 2016/2023 made it difficult for the researcher to select a sample from all sectors, resulting in the selection of only construction and real estate companies, as the majority of them were just beginning the adoption process. As a result, it took some time to locate organizations willing to begin the implementation process.

Since the study's population consisted many businesses, another problem was a lack of accurate contact information and addresses. As a result, the data collection process was delayed and did not go as expected.

### **1.8 Significance of the study**

This research paper will have the following significances: the study's findings will assist businesses in correcting any problems encountered during the IFRS adoption process, as well as other companies, especially those planning to adopt IFRS, in understanding the difficulties and preparing for corrective steps before beginning the Adoption Process. The findings of the study can be used by the government to help formulate policies and establish a framework for enhancing the adoption of IFRS practices across the country. The researcher can improve her research skills on the process of conducting this research. Finally, this study provides the basis for future research. The study could also be used as an initiation for those who are interested to conduct a detailed and comprehensive study regarding the implementation of IFRS in Ethiopia. The findings of the study could be used as a guide for scholars who want to undertake similar research in other countries or other sectors in Ethiopia.

### **1.9. Organization of the Paper**

The research report is organized in five chapters, the first chapter deals with background of the study, statement of the problem, research questions, objective of the study, hypothesis of the study, significant of the study, scope and limitation of the study. The second chapter tries to highlight theoretical review and review of empirical literature related to the subject matter under considerations. The third chapter outlines methodology of the study, which comprises research design, target population, sampling technique, sample size, data collection method and instrument, data analysis method and Validity & reliability test used in the study. In the fourth chapter, the data collected analyzed; interpreted and the findings presented accordingly. Finally, in chapter five, after summary of findings and conclusion, the study recommended a kind of action to be taken to overcome the challenges and what opportunities to be used and areas of future research.

## **CHAPTER TWO**

### **RELATED LITERATURE REVIEW**

#### **2. Introduction**

This chapter presents both theoretical, empirical review of related literatures on the International Financial Reporting Standards (IFRS) and Theoretical Framework of the study. The theoretical review incorporates Definition of International Financial Reporting Standards (IFRS), IFRS Adoption and Implementation in Ethiopia, Private Limited Companies in Ethiopia, International Financial Reporting Standards for Small and Medium sized Entities and private limited companies, Challenges of IFRS Adoption. The empirical literature review includes Evidences from Case Studies, Factors affecting IFRS Adoption and IFRS Adoption in the case of Ethiopia.

#### **2.1 Theoretical Literature**

##### **2.1.1. Definition of International Financial Reporting Standards (IFRS)**

The International Financial Reporting Standards (IFRS) are a collection of international accounting standards that specify how specific types of transactions and other activities should be recorded in financial statements. The International Accounting Standards Board issues IFRS. International Financial Reporting Standards (IFRS) are often confused with International Accounting Standards (IAS), which are the older standards that IFRS replaced. The aim of the International Financial Reporting Standards (IFRS) is to make international comparisons as simple as possible. This is difficult because, for the most part, each nation follows its own set of rules. U.S. GAAP, for example, differs from Canadian GAAP. Accounting principles synchronization around the globe is an ongoing task in the international accounting community.

The International Financial Reporting Standards (IFRS) have given a solid base since 1973, when members of the world's professional accounting bodies, including Australia, Canada, France, Germany, the United Kingdom, Ireland, and the United States, formed a committee called the International Accounting Standards Committee (IASC) to abolish political jurisdictions in the accounting field. The IASC issued its first International Accounting Standard in 1975. (IAS). Since then, the IASC has released 41 IAS until it was restructured as the International Accounting Standards Board (IASB) in 2001. As of 2015, the IASB had issued a total of fifteen (15) International Financial Reporting Standards (IFRS). One of the IASB's

primary responsibilities is to collaborate with national accounting standard-setting bodies to achieve global accounting standard harmonization. The IAS and IFRS are now universally recognized and have become one of the most widely used accounting principles worldwide. (Ombati & Shukla, 2017)

### **2.1.2 Private Limited Companies in Ethiopia**

According to Ethiopia's latest Commercial Code Proclamation Number 1243/2013 Articles 495 and 496, a private limited company implies that all of the money has been paid in advance, Divided by shares, as long as shareholders have deposited their contributions. It is a corporate organization in which you are not liable for the association's debts; the shares of the association cannot be sold on the open market; the number of members cannot be less than two and more than fifty; and the capital must be at least 15,000 Birr.

Small and medium-sized enterprises (SMEs) play an important role in most economies, especially in developing countries, according to the World Bank. Small and medium-sized enterprises (SMEs) account for the vast majority of companies worldwide and are critical contributors to job growth and global economic development. They account for roughly 90% of companies and more than 50% of global jobs.

As per the Development Bank of Ethiopia, a Small and Medium Enterprise is one that employs 6(six) to 100(hundred) people, including the owner, his/her family members, and other employees, and has a total capital of birr 500 thousand (birr five hundred thousand) to birr 20 million (Birr twenty million).

### **2.1.3 International Financial Reporting Standards IFRS for Small and Medium Enterprises/Private Limited Companies**

The International Financial Reporting Standards for Small and Medium-Sized Enterprises (IFRS) standard was first published in July 2009. In 2015, the IASB conducted the first systematic review of the IFRS for small and medium-sized enterprises standard. Several IFRSs have been issued since then, including IFRS 9, financial instruments, IFRS 13, fair value calculation, IFRS 15, income from contracts with customers, and IFRS 16, leases. The IASB is in the process of creating a request for information to gather input on whether and how to update the IFRS for

small and medium-sized enterprises standard, as well as amendments not currently incorporated into the IFRS for small and medium-sized enterprises standard. (United Nations Conference on Trade and Development, 2019)

According to the Accounting and Auditing Board of Ethiopia AABE roadmap, IFRS for SMEs will be mandatory in Ethiopia as of July 8, 2018. This means that for the fiscal year ending July 7, 2019, all Small and Medium-sized Entities in Ethiopia will be legally obliged to issue IFRS-based financial statements. Entities that do not meet the IFRS for SME requirements will be encouraged to report using either the United Nations Conference on Trade and Development (UNCTAD) Small and Medium-sized Entities Guidelines on Accounting (SMEGA) Level 3 or the IASB Guide for Micro-sized Entities Applying IFRS for SMES (2009).

#### **2.1.4 Challenges of IFRS Adoption**

According to (UNCTAD, 2018), the key implementation cost is seen as accounting personnel preparation and the use of consultants to develop processes and, theoretically, maintain some different tax-related information. Such preparation raises accounting costs, and SMEs' owners are usually unable to contribute money to it.

Ethiopia's Accounting and Audit Board (AABE) On November 15, 2015, released the five years strategic plan 2015/16 - 2020/21. It stated that the challenges of adopting IFRS in Ethiopia are as follows: (i) the country's number of trained skilled accountants is insufficient to meet national demand in both the private and public sectors, including academia. (ii) There is a difference between what is learned at universities and the international standards expertise needed in practice when it comes to international standards. (iii) The country's IFRS implementation is not standardized and is still in the early stages of transition, which will need a Road Map and implementation support. (iv)The country has few audit firms, and all of them are Small Size Practices with limited technological capability and other resources.

Adoption of IFRS or IFRS for Private Entities is not without risks. To begin, adopting IFRS or IFRS for Private Entities would necessitate an understanding of how these requirements vary from US GAAP, as well as the legal and financial implications of those differences. However, one of the most difficult obstacles for both public and private businesses, as well as the broader financial reporting community, could be cultural in nature. Companies, external auditors, and

consumers will need to adjust to an accounting and financial reporting system that demands more judgment and less emphasis on detailed guidelines and "bright lines" in the use of IFRS or IFRS for Private Entities. Companies would be expected to consider fundamental concepts and goals, as well as how decisions are taken and implemented. Such an accounting approach can necessarily require a change in mindset. (IFRS: What it means for private company reporting, 2009)

## **2.2 Empirical Evidences**

### **2.2.1 Evidences from Case Studies: Lessons Learned from Other Countries' Experience**

Several studies have been carried out in various countries to determine the benefits realized and the challenges encountered when implementing IFRS for the first time.

Tawiah (2019) published a study entitled the state of IFRS in Africa. The aim of this paper was to review current literature on African International Financial Reporting Standards (IFRS). It encompasses all 54 African countries as well as their participation in regional and international accounting organizations. The paper's findings revealed that the success of IFRS implementation is contingent on the availability of accounting bodies to provide oversight and ensure that accountants are well-trained and up-to-date on the requirements. It is not enough to have an accounting body or institution; it is also necessary to have the legal authority and logistics to exert power. Only 42 of Africa's 54 countries have a recognized accounting body, with some of these lacking the legal backing needed to govern the accounting profession. The Ethiopian Professional Association of Accountants and Auditors, for example, does not have the full legal authority to oversee the profession. The findings also revealed that staff quality has always been a problem in most developed countries, including Africa. Just 13 countries offer national qualifications for entry into professional accounting bodies, despite the fact that 42 countries have professional accounting bodies. This means that representatives with international credentials or long years of experience will enter the remaining 29 countries. Since the local institute does not provide national certification, it has no power over what members learn or should learn, and it cannot direct them through the implementation of IFRS.

Financial Reporting in Small and Medium Enterprises (SMEs) in Nigeria was the subject of a study conducted by Ezeagba (2017) in Nigeria. The study concluded that poor credit facilities to SMEs in relation to other private sectors contribute to inadequate accounting records of SMEs in Nigeria. The study discovered that SMEs face difficulties in the preparation and presentation of financial reports due to a lack of or insufficient accounting books and documents, personnel, accounting system, and not using the banking system. The study identified the following measures as ways of improving the financial records of SMEs; maintenance of adequate books of accounts, recruitment of qualified staff, introduction of sound accounting system, running of transactions through the banks, improved grant of credit facilities to SMEs. The study also found that Nigerian SMEs have yet to move to international financial reporting standards, as expected by the National Action Plan for IFRS Implementation in Nigeria.

Abedana& Gayomey (2016) conducted a study in Ghana called "IFRS/IAS Adoption and its Tax Challenges and Management." According to the report, tax problems have arisen as a result of the implementation of IFRS/IAS, and the best way to address these challenges and consequences is through cooperation and professional advice from expert / professional bodies. The perceived complexities and voluminous in disclosure, calculation, and identification of products, increased adjustment from financial accounting to tax accounting, and the absence of general guidance from the Ghana Revenue Authority on tax treatment following IFRS adoption were among the tax challenges enumerated by respondents.

#### **2.2.1.2 According to (UNCTAD, 2008) Practical implementation of international financial reporting standards: Lessons learned**

The country case studies highlight a range of practical problems that these countries face when adopting the International Financial Reporting Standards which can be divided into three categories. Institutional, enforcement, and technical issues.

The case study of Jamaica reveals a large number of regulatory agencies that influence financial reporting standards implementation. When the functions and obligations of various agencies are not clearly established and coordinating structures are not in place, laws and regulations often overlap or become inconsistent with one another. The regulatory system's lack of coherence leads to significant misunderstandings and inefficiency in the application of IFRS.

In Pakistan, the Securities and Exchange Commission of Pakistan's Monitoring and Enforcement Department is in charge of implementing IFRS compliance through routine reviews of quarterly and annual financial statements issued and submitted with the commission by listed companies. It imposes fines and penalties on preparers and their auditors when it discovers defects or non-compliance with IFRS.

The Institute of Certified Public Accountants of Kenya faces challenges in this region, as seen in the case study of Kenya. The problem is caused in countries where training materials on the International Financial Reporting Standards (IFRS) that are currently available in English are not easily accessible due to language barriers. This topic is highlighted in the case studies of Brazil and Turkey. As a result, translating IFRS into Turkish in a consistent and efficient manner is one of the capacity-building criteria in Turkey.

## **2.2.2 Factors Affecting IFRS Adoption**

### **2.2.2.1 Legal System**

According to the study done by Teklemuz (2018), the implementation of IFRS was hindered by tax declarations and regulations, the previous standard's tax-driven existence, and the inconsistency of existing laws and regulatory framework.

A significant problem for the success of IFRS implementation in the banking sector is the regulatory body's lack of capability and strength. (Aytenuw, 2018)

As per Jaggi & Low (2000), the legal system can affect financial statements directly or indirectly. The formulation of Companies Acts or accounting regulations, which prescribe normal principles for measurement and disclosure of accounting information, is a good example of direct control. Tax laws, particularly in code law countries, can have an impact on measurement and disclosure policies.

Furthermore, Zehri & Chouaibi (2013) discovered in their research that the legal system has an important and positive impact on the adoption of IFRS by developed countries. This finding backs up the prediction that developing countries with a common legal framework are more

likely to follow the International Financial Reporting Standards (IFRS). As a result, developed countries with a common law legal framework will find it easier to enforce the IFRS.

#### **2.2.2.2 Professional Bodies**

Professional bodies will also facilitate the creation practice and implementation of good international standards, as well as the provision of planned quality assurance. (Arefainie, 2018)

As cited in Aytenuw, Professional associations with IFAC memberships act as a mediator, reporting any issues that arise during implementation to the country's higher regulatory authority as well as the IASB for clarification. In Ethiopia, however, there is no professional association that is a member of IFAC that may fulfill this job.

The lack of professional bodies in the country would have an effect on the complete adoption of IFRS, as they assist organizations by offering consultant services and IFRS-related training. (Mekonnen, 2016)

Nigeria's trained accountants are unable to satisfy the market's demand for financial reporting. Preparers of financial statements for both public and private companies have been accused of unethical behavior. These issues included (i) a lack of institutional ability, (ii) a lack of national accounting standards, (iii) the establishment of a legal and accounting framework, (iv) the time cost of accounting planning, (v) SAS's lack of updates, (vi) noncompliance with standards, and (vii) the preparers' educational capacity. (Muhammad & Lode, 2014).

#### **2.2.2.3 Company Size**

Large companies are more likely to have a large ownership base, necessitating more detailed and informative reports to satisfy the information needs of various investor groups. Large Firms are typically well-established, and they can afford to provide detailed, reliable information without fear of misinterpretation, which could result in negative investor reaction. (Jaggi & Low, 2000)

According to Fikeru (2012), there is a considerable positive relation between company size and IFRS adoption.

According to Tran et al. (2019), smaller publicly traded firms are not more likely to follow IFRS than larger companies. Similarly, Alexandra (2013) discovered that the larger the business, the

more likely it is to adopt IFRS. This is the variable with statistically significant coefficients as well.

#### **2.2.2.4 Attitude/Perception towards IFRS**

Arefainie (2018) revealed that Employees do not have a positive perception of the new internationally acknowledged standard IFRS because they perceived that this new standard will require them to exert additional effort and changing the local standard they already mastered to the new that they do not know well is challenging.

According to Mekonnen (2016), one of the primary constraints to the successful adoption of IFRS in the country will be a lack of understanding and attitude towards the adoption.

The attitudes of listed companies in Greece toward mandatory adoption of IFRS were investigated by Papadatos & Bellas (2011). They discovered that small and low-income businesses had a hostile attitude toward IFRS. Firms with a higher level of fixed assets were also more positive about the benefits of IFRS to investors, according to the researchers.

According to the study conducted by Horton et al. (2008), there are three distinct classes of companies in the EU who have different attitudes toward IFRS: 'non-adopters,' who take advantage of the exemptions and prefer not to report under IFRS; 'mandatory adopters,' who only adopt when they are compelled to; and 'voluntary adopters,' who choose to comply with IFRS before the regulatory rules required it.

#### **2.2.2.5 Complexity of IFRS Standards**

Fikru (2012) concluded that the complex and less understandable nature of IFRS is particularly true for developing and least developed countries. For finance and accounting professionals, as well as many others, this complexity necessitates a double workload during the transition year.

Kumar (2014) claims that some IFRS are complicated. There are insufficient skills among financial statement preparers and users to submit IFRS. The proper application of such IFRS generally requires rigorous training for preparers.

As per the research done by Solomon (2018), Because of the natural complexity of the accounts to be prepared and the requirements demanded under IFRS, the implementation and

requirements for entities in developing countries are quite complex and difficult to understand and interpret. Those challenging and sophisticated standards implementations necessitate highly qualified professional accountants, yet the number of such accountants in Ethiopia is limited.

International standards are becoming longer, more complex, and rules-based, and the structure and complexity of the standards are influencing both their acceptance and implementation, mostly in a negative way. (Challenges and Successes in implementing international standards, 2004)

### **2.3. IFRS Adoption in the case of Ethiopia**

There were some studies made in regard to the benefits and challenges of IFRS adoption faced in the case of Ethiopia. From those studies made a research made by Solomon (2017), Arefainie (2018), Abebe (2018), Meyad (2019) are presented as follow.

Solomon (2017) aims to define the problems, challenges, and benefits that can be obtained from adopting IFRS for first-phase mandatory adopters of Entities in Ethiopia defined by AABE, as well as to include recommendations that can assist entities that will be adopting IFRS in the second and third phases in accordance with AABE's road map. The findings revealed that adopting IFRS provides companies with more open financial statements, which reduces the agency issue between management and shareholders by causing managers to behave more in the shareholders' best interests. Adoption of IFRS will also lower firms' cost of capital by lowering information costs, reducing bad earnings management, increasing share marketability, and reducing information asymmetry. It also mentions the main challenges for IFRS adoption, a lack of adequate preparation, the complex nature of certain IASB requirements, a lack of board of directors engagement, and a lack of proper risk management prior to implementation as some of the key challenges in the process of implementing IFRS. Due to a lack of appropriate guidelines, there is a possibility of various local or national interpretations of IFRS, which raises the risk of financial statement manipulation.

Arefainie (2018) investigated the Challenges and Prospects of Adopting International Financial Reporting Standards (IFRS) in Ethiopia's Manufacturing Sector. According to the report, conversion costs, legal and compliance mechanisms, employee resistance to reform, and the lack of professional bodies are all obstacles to the adoption of IFRS in Ethiopia's manufacturing

sector. The researcher makes the following recommendations based on the study's findings: Ministry of Trade laws, rules, proclamations, and guidelines should be revised to conform to the requirements of IFRS; training and education should be discussed widely and integrated in academic courses by establishing IFRS curriculum at the college and university levels.

Abebe (2018) examined at the adoption of International Financial Reporting Standards (IFRS), its implementation, benefits, challenges, and factors that could influence its adoption in Ethiopian public enterprises, with a focus on those that have adopted or are planning to adopt this standard. Insufficient time for implementation; shortage of trained professionals; lack of proper IT system; issuance of new laws (amalgamation or separation of enterprises); IFRS need intensive training; some enterprises' accounts are not updated audited; complex nature of enterprises; absence of capital market; and insufficient number of valuers are among the challenges identified by the study. Fair value estimation is one of the other major challenges listed in the study. The use of fair value accounting rather than historical cost accounting under the International Financial Reporting Standards (IFRS) is seen as a difficulty because certain conditions in developing countries, such as Ethiopia, make it difficult to apply fair value accounting due to a lack of measurable commodity prices or reliable estimates of liquid market prices due to less perfect market liquidity.

Meyad (2019) looked at how the International Financial Reporting Standards (IFRS) were implemented in Ethiopia, focusing on the processes, practical challenges, and the way forward. It was concluded that IFRS improve financial reporting transparency, attract foreign direct investment, are used as an input for stock market establishment, improve financial reporting efficiency, retain free labor movements, improve financial statement comparability, and reduce inconsistent financial reports previously available in the country. Furthermore, the practical implementation challenges of IFRS implementation in Ethiopia were established, with the major practical challenges being a lack of qualified human resources with IFRS expertise, a negative attitude of management toward accounting, and a lack of a strong regulatory and compliance institution in the country. According to data gathered from in-depth interviews, IFRS implementation in Ethiopian federal public enterprises was more difficult than in financial institutions.

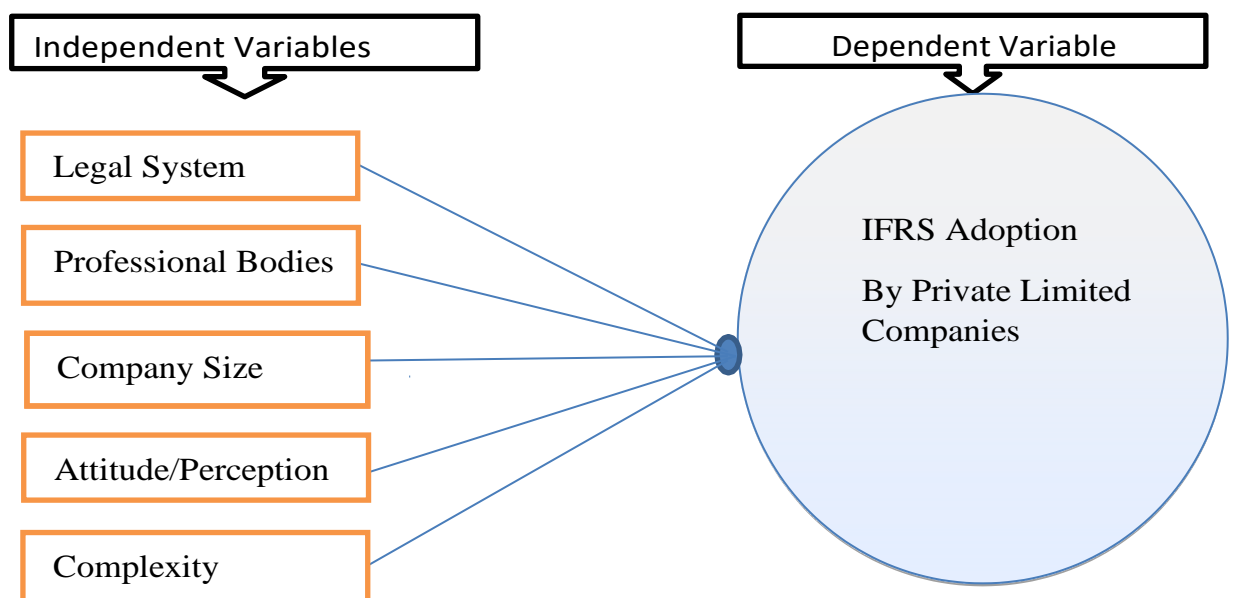
While several survey studies have been conducted to assess the adoption of IFRS in Ethiopia, the majority of them have focused on financial institutions and government entities. As a result, the aim of this study is to fill the gap by investigating the challenges and factors that which influences the adoption of IFRS by private limited companies (PLCs) in Addis Ababa.

## 2.4 Theoretical Framework of the study

The theoretical framework serves as the foundation for the whole dissertation investigation. It serves as a foundation upon which to construct and support your research, as well as a framework for defining how you will approach the dissertation philosophically, epistemologically, methodologically, and analytically. A theoretical framework, according to Eisenhart, is "a structure that guides research by relying on a formal theory...constructed by employing an existing, coherent explanation of certain phenomena and relationships" (Grant & Osanloo, 2014)

The independent variables in this study are the country's legal system, professional bodies, company size, attitude/perception of IFRS, and the complexity of IFRS requirements, with IFRS adoption as the dependent variable.

Figure 1 Factors affecting the adoption of IFRS



**Conceptual Framework**, prepared based on prior researches, Sharif (2010) and Djatej, A., Zhou, D., Gorton, D. & Mcgonigle, W. (2012).

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Research design**

A research design is a blueprint or plan for the collection, measurement, and analysis of data, created to answer your research questions.(Sekaran & Bougie, 2016)

Explanatory research design examines the cause and effect relationship between dependent and independent variables. Therefore, this study examines the cause and effect relationship between the listed variables and IFRS adoption.

#### **3.2 Research Approach**

This research uses quantitative research methods to analyze the data. Quantitative researchers will design studies that allow us to test these hypotheses. Quantitative methods are better at looking at cause and effect (causality, as it is known), qualitative methods are more suited to looking at the meaning of particular events or circumstances. (Muijs, 2004)

##### **3.2.1 Population of the study**

The target population for this study was Private Limited Companies (PLCs) registered in Addis Ababa. The population of corporate taxpayers in large taxpayer's branch office as of January 2021 is totaled 630 and from this 493 of them are PLCs. However, as most of the companies didn't start the mandatory adoption based on AABE roadmap, the researcher couldn't take a sample from all Sectors which lead to choose only construction and real estate companies (relatively better in implementing IFRS). Therefore, the population size is a total number of 48 (Forty Eight).

### **3.2.2 Sample Size and Sampling Technique**

In large taxpayers branch office, the number of PLCs which are working on construction and real estate sectors is forty eight. The researcher used census approach and taken the whole population using census method. This approach is used when the target population is small and it reduces the sampling error because it uses the entire population. Based on this, the researcher conducted the research on 48 PLCs in the Construction and real estate sectors which is the total population of the study. Two Employees that have direct involvement in the adoption process of IFRS to ask their perception about the challenges of adopting IFRS to their companies. Therefore, a total of 96 individuals were chosen as target respondents.

### **3.3 Methods of Data Collection**

According to the objective of the study the researcher used survey data collection methods with questionnaires.

#### **3.3.1 Questionnaire**

For both the independent and dependent variables, the content of questionnaires was developed. The questionnaires were constructed into a five-point scale, with the lowest scale representing strongly disagree and the highest scale reflecting strongly agree, in the form of a Likert-Scale type (demonstrating Respondents agreement or disagreement) (Likert, 1932). The respondents' questionnaires were divided into three sections: the first contained demographic information about the respondents, the second contained items relating to company background, and the third section sought Opinions of IFRS Adoption Challenges.

To distribute questionnaires to the eligible respondents and collect data, the following method was used.

**Step 1:** Questionnaires that are deemed acceptable and examine all variables are prepared and developed based on previous research. Fikru (2012), Mekonnen (2016). And Arefaine (2018)

**Step 2:** The Advisor looked over the questionnaires.

**Step 3:** According to the Advisor's request, a reliability test was carried out using 10% of the sample questionnaires. The advisor then approves the data collection process.

**Step 4:** Questionnaires were distributed in person by the researcher.

### 3.4 Methods of Data Analysis

The responses were sorted, coded, computed, and analyzed using SPSS software version 26 after collecting and sorting the relevant data. According to the goals and definitions, sufficient statistical analysis such as frequencies and descriptive analysis were used and the analyzed data was then presented using tables. Pearson correlation and regression analysis techniques were used to assess the relationship between the variables and to test the research hypothesis.

#### 3.4.1 Multiple Regression Analysis

Multiple regression analysis allows for the objective assessment of the degree and nature of the relationship between the independent variables and the dependent variable: the regression coefficients reflect the relative value of each independent variable in predicting the dependent variable. (Sekaran & Bougie, 2016)

If one variable is dependent on or is a result of another, it is referred to as a dependent variable, and the variable that is antecedent to the dependent variable is referred to as an independent variable. (Kothari, 1990)

The regression model for estimating the Factors that can explain the challenge of International Financial Reporting Standards on PLCs is as follows:

$$\mathbf{IFRS}_i = \beta_0 + \beta_1 \mathbf{LS}_i + \beta_2 \mathbf{PD}_i + \beta_3 \mathbf{CS}_i + \beta_4 \mathbf{AT}_i + \beta_5 \mathbf{CO}_i + u_i$$

Where: **IFRS<sub>i</sub>** = Adoption of IFRS

**LS<sub>i</sub>** = Legal System

**PD<sub>i</sub>** = Professional Bodies

**CS<sub>i</sub>** = Firm Size

**AT<sub>i</sub>** = Attitude / Perception towards the adoption and

$CO_i$  = Complexity

$\beta_0$ : is a constant, which represent Adoption of IFRS when every independent variables are nil.

$\beta_1$  to  $\beta_5$  are the coefficients, in which every marginal change in the independent variables that affect IFRS Adoption.

### 3.5 Validity and Reliability of the Study

Validity is defined as the extent to which a concept is accurately measured in a quantitative study. For example, a survey designed to explore depression but which actually measures anxiety would not be considered valid.

Reliability relates to the consistency of a measure. A participant completing an instrument meant to measure motivation should have approximately the same responses each time the test is completed. Although it is not possible to give an exact calculation of reliability, an estimate of reliability can be achieved through different measures. Cronbach's  $\alpha$  is the most commonly used test to determine the internal consistency of an instrument. In this test, the average of all correlations in every combination of split-halves is determined. Instruments with questions that have more than two responses can be used in this test. The Cronbach's  $\alpha$  result is a number between 0 and 1. An acceptable reliability score is one that is 0.7 and higher. (Heale & Twycross, 2015)

To maintain the validity, the researcher chose representative respondents who are familiar with the problem and experts in the area. The reliability of the study was assessed with Cronbach's Alpha.

### 3.6 Ethical Consideration

One of the most important aspects of the research is its ethical concerns. In this research, Permission from the organizations was obtained prior to data collection. Respondents were told about the intent and benefit of the study, as well as their full right to reject or approve participation, during the distribution of the questionnaire. The respondents were assured that their responses would be kept confidential and that their identities would not be revealed. The researcher kept the information gathered strictly confidential.

## CHAPTER FOUR

### RESEARCH FINDINGS: ANALYSIS AND DISCUSSION

#### 4.1 INTRODUCTION

This chapter of the analysis is concerned with the interpretation and discussion of the questionnaire survey results. The analysis and discussion were conducted with a clear understanding of the research goal in mind.

#### 4.2. Descriptive Statistics of Data Collected through Questionnaire

##### 4.2.1 Response Rate

The questionnaires were distributed to the companies who were included in the sample. The researcher planned to distribute a total of 96 questionnaires to 48 PLCs. Unfortunately, 5 Companies were not started the adoption of IFRS and they were not willing to fill the questionnaires, 2 companies were closed because of Political issues. Therefore, the researcher distributed 82 Questionnaires to 41 Companies. As a result, the questionnaires were filled by Finance Managers, Finance heads, and Accountants. And only 67 questionnaires were filled and returned by 37 companies for analysis representing 81%.

##### 4.2.2 Respondents Profiles

Table 4.1 Gender of Respondents

		Gender			
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Female	18	26.9	26.9	26.9
	Male	49	73.1	73.1	100.0
	Total	67	100.0	100.0	

Source: Questionnaire and SPSS 26 output (2021)

Table 4.1 shows that there were 67 people who responded, with 49 Male and 18 Female. This means that 61.4 percent of the respondents were male, while 38.6 percent of the respondents were female. As a result of the information gathered, it can be assumed that males outnumber females in the employment.

Table 4.2 Educational Background of Respondents

Educational background					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Degree	48	71.6	71.6	71.6
	Masters	19	28.4	28.4	100.0
	Total	67	100.0	100.0	

**Source:** Questionnaire and SPSS 26 output (2021)

Another aspect that was investigated in this analysis was the respondent's educational level. It is very crucial and important to IFRS Adoption. According to Table 4.2, 71.6 percent of respondents had a BA degree and 28.4 percent had a master's degree. This demonstrates that the participants who were assigned to fill the questionnaires of this study had significant knowledge about their occupation and could be able to help by supplying essential information for this research.

Table 4.3 Working Experience of Respondents

Working Experience					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than 5 years	1	1.5	1.5	1.5
	6 to 10 years	21	31.3	31.3	32.8
	11 to 15 years	28	41.8	41.8	74.6
	16 to 20 years	14	20.9	20.9	95.5
	Over 20 years	3	4.5	4.5	100.0
	Total	67	100.0	100.0	

**Source:** Questionnaire and SPSS 26 output (2021)

Experience of accountants plays important role in the IFRS implementation process. According to table 4.3, the majority of the participants (41.8%) had Eleven to Fifteen years of work experience, while 31.3 percent had Six to Ten years of work experience. The remaining 20.9 percent of the participants had 16 to 20 years of work experience and 4.5 percent had over 20 years. The participants who have served less than Five years are 1.5 percent of the respondents. Based on this, as most of the respondents have more than 11 years of work experience, they are knowledgeable and experienced enough to give reliable information on the challenges of IFRS adoption and which is an advantage for adoption of IFRS transition process.

Table 4.4 Summary of whether the Company Adopted IFRS

**Does your company Adopted IFRS?**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	37	100.0	100.0	100.0

**Source:** Questionnaire and SPSS 26 output (2021)

Table 4.5 current status of IFRS adoption

**What is the current status of IFRS adoption in your company?**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Fully Adopted	17	46.00	46.00	46.00
Started the process of the Adoption (Conversion)	20	54.00	54.00	100.0
Total	37	100.0	100.0	

**Source:** Questionnaire and SPSS 26 output (2021)

Table 4.6 the period of time it takes to convert from GAAP to IFRS

**How long did the conversion from GAAPs to IFRS take?**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid One year	6	35.3	35.3	
Two years	8	47.00	47.00	
Over Two years	3	17.7	17.7	
Total	17	100.0	100.0	

**Source:** Questionnaire and SPSS 26 output (2021)

As per table 4.4 and table 4.5, the majority of participants (54 percent) have begun the adoption process, with 53.7 percent having fully adopted IFRS at this time. According to table 4.6, 35.3 percent of organizations that have completely implemented IFRS, needed one year to convert, 47 percent requires 2 years, and 17.7 percent spent more than two years.

Table 4.7 Summary of whether the respondents take trainings on IFRS

**Did you get formal training or seminar on first time adoption of IFRS?**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	34	91.0	91.0	91.0
No	3	9.0	9.0	100.0
Total	37	100.0	100.0	

**Source:** Questionnaire and SPSS 26 output (2021)

The respondents were asked if they get formal training, as seen in table 4.7 above. Almost all, with the exception of 9 percent, got formal training or seminar on the adoption of IFRS, accounting for 91 percent of the total respondents.

Table 4.8 Identify the primary business of your company

<b>Identify the primary business of your company</b>				
Sector	Frequency	Percent	Valid Percent	Cumulative Percent
Construction	26	71.6	71.6	71.6
Real Estate	7	28.4	28.4	100.0
Total	37	100.0	100.0	

**Source:** Questionnaire and SPSS 26 output (2021)

Table 4.8 shows that, as for the business sector of the company majority of them are construction sectors with 71.6 percent and the remaining 28.4 percent are real estate companies.

Table 4.9 Capital of the company

<b>Capital of your firm</b>				
	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Over Birr 1.5 million	37	100.0	100.0	100.0

**Source:** Questionnaire and SPSS 26 output (2021)

As it is shown on the above table 4.9 all the companies that are included in the sample have a capital of Over 1.5 million birr.

### **4.2.3 Factors Affecting IFRS Adoption**

#### **4.2.3.1 Legal System**

In this section, the researcher used four related questions to assess the respondent's degree of agreement on the legal system as a challenge to implementing IFRS in Private Limited Companies.

The average mean values for all questions were 3.5, indicating an agreeable degree of agreement, according to the research findings. This meant that the respondents agreed on legal system is one

critical factor that affect IFRS adoption. As explained by mean scores of each 3.6716, 3.4925, 3.1045 and 3.5672 respectively. Moreover, the standard deviations of (Q11-Q14) were greater than 1.00 which indicates the respondents perceptions were far from one another. (Refer Table 4.10)

This result is supported by Arefainie (2018) that the directives & regulatory laws of ministry of trade requires the manufacturing companies to provide annual financial statement in compliance with requirement of commercial code which will be challenging to comply with IFRS requirements. The finding of this study is consistent with the findings of previous related studies carry out by Aytenew (2018), Jaggi & Low (2000) & Zehri & Chouaibi (2013).

According to ICAEW (2014), A clear division between the obligations of standard-setters and regulators is therefore critical. Regulators may need to clarify the compatibility of IFRS with local law or regulation.

According to Arefainie (2018), the Ministry of Trade's laws, rules, proclamations, and directives should be modified to comply with IFRS requirements. Ethiopia's commercial law should also include a specific accounting standard so that companies can compile financial reports in accordance with IFRS criteria.

Successful implementation of IFRS necessitates extensive and ongoing support from enforcement institutions, the IFRS implementation program must assess the state of readiness of enforcement institutions and ensure that the necessary resources are in place to ensure competent and continuous support from such organizations (UNCTAD, 2008).

Table 4.10 Descriptive analysis on Legal System

<b>Legal System</b>	<b>N</b>	<b>Minimum</b>	<b>Maximum</b>	<b>Mean</b>	<b>Std. Deviation</b>
Lack of proper instructions from regulatory bodies has negative effect on the adoption	67	1.00	5.00	3.6716	1.11990
Hasty government decisions affect adopting IFRS	67	1.00	5.00	3.4925	1.09230

Politics is one of the major barriers to adopt IFRS	67	1.00	5.00	3.1045	1.10281
The country tax, Financial regulation & other legal issues can affect adoption of IFRS	67	1.00	5.00	3.5672	1.20885
<b>TOTAL</b>	<b>67</b>			<b>3.4590</b>	

**Source:** Questionnaire and SPSS 26 output (2021)

#### 4.2.3.2 Professional Bodies

In this section, the researcher used five questions to assess the respondents' level of agreement on the position of professional bodies in implementing IFRS in PLCs.

The research outcome revealed that cumulative mean value for the category was 3.57 which falls on an agree degree of agreement. This implied that effect of Professional Bodies on IFRS Adoption was agreed by the respondents. As explained by mean scores of each 3.6716, 3.6119, 3.6119, 3.5672 and 3.4179 respectively. Furthermore, the standard deviations of (Q15-Q19) were greater than 1.00 which indicates the respondents perceptions were far from one another. (Refer Table 4.11)

The results of this finding is similar with Mekonnen (2016) concluded in his study that lack of professional association in the country to be one of the major factor that will affect adoption of IFRS .According to Aytnew (2018) Lack of strong and independent professional accountancy body is a problem for the success of IFRS implementation by private banks. Moreover, the results of this finding is similar with Muhammad & Lode(2014), Fikeru(2012).

As per UNCTAD (2008),the IFRS implementation program must review the level of preparation of relevant professional accounting organizations and ensure that the necessary resources are available to assure competent and ongoing support from these organizations. Professional accountancy bodies support to technical capacity-building during the early phase of IFRS implementation by providing IFRS training to its members. Furthermore, Integrating IFRS and ISA modules into university accountancy education curricula, as well as connecting university accountancy education programs with professional certification and regulation, could help an economy to implement IFRS smoothly.

Aytenew (2018) advised that a strong professional accounting body assists to the advancement of the accounting profession by providing academic information as well as practical application. Their contribution is particularly significant when international accounting standards like IFRS are implemented; they provide capacity-building trainings, conduct gap assessments that highlight red flags when reporting identities violate the standards, and they even certify accountants with relevant accounting professions, among other things.

Table 4.11 Descriptive analysis on Professional Bodies

<b>Professional Bodies</b>	<b>N</b>	<b>Minimum</b>	<b>Maximum</b>	<b>Mean</b>	<b>Std. Deviation</b>
Lack of qualified and professional accountants can affect adoption of IFRS	67	1.00	5.00	3.6716	1.11990
There is lack of coherence between professional bodies and standard setting bodies thereby making adoption of the standard difficult	67	1.00	5.00	3.6119	1.05823
The engagement & consultation of professional bodies facilitate implementation of IFRS	67	1.00	5.00	3.6119	1.23036
There is delay in IFRS implementation and AABE's roadmap	67	1.00	5.00	3.5672	1.20885
Professional bodies should conduct more affordable awareness workshops on the use of IFRS	67	1.00	5.00	3.4179	1.23275
<b>TOTAL</b>	<b>67</b>			<b>3.5761</b>	

**Source:** Questionnaire and SPSS 26 output (2021)

#### 4.2.3.3 Company Size

In this section to analyze the respondent's level of agreement on Company Size to adopt IFRS in PLCs, the researcher used four questions which supposed to measure their observation. The research outcome revealed that cumulative mean value for the category was 3.23 which falls on an agree degree of agreement. This implied that effect of Company Size on IFRS Adoption was agreed by the respondents. As explained by mean scores of each 3.2836, 3.2687, 3.8209 and 2.5672 respectively. In addition, The Q22 standard deviations were less than 1.00, indicating that the respondents' perceptions were similar. The standard deviations of Q20, Q21, and Q23, on the

other hand, were all greater than 1.00. It implies that the respondents' perceptions differed greatly. (Refer Table 4.12)

Consistent with this result, Alexandra (2013) concluded that the larger the company, the highest odd that the company is an IFRS adopter. Likewise, Fikeru (2012), Tran et al. (2019) and (Jaggi & Low, 2000) concluded that there is a significant positive relationship between company size and adoption of IFRS.

IFRS conversion cost is high for small companies and they do not want to adopt. In reducing the conversion cost of IFRS adoption, Arefainie (2018) suggested that the government and professional organisations should provide training for a large number of professionals so that these experts can share the costs of companies that they should have paid.

Table 4.12 Descriptive analysis on Company Size

Company Size	N	Minimum	Maximum	Mean	Std. Deviation
lack of financial resources within an organization to hinders IFRS adoption	67	1.00	5.00	3.2836	1.05609
Higher level of information disclosure is less costly for larger firms	67	1.00	5.00	3.2687	1.09520
Size of the companies determines early adoption	67	1.00	5.00	3.8209	0.99887
The larger the companies, the easier to adopt IFRS	67	1.00	5.00	2.5672	1.48960
<b>TOTAL</b>	<b>67</b>			<b>3.2351</b>	

Source: Questionnaire and SPSS 26 output (2021)

#### 4.2.3.4 Attitude/Perception towards IFRS Adoption

In this section to analyze the respondent's level of agreement on Attitude/perception of owners and employees to adopt IFRS in PLCs, the researcher used three questions which supposed to assess their opinion. The research outcome revealed that cumulative mean value for the category was 3.64 which falls on an agree degree of agreement. This implied that effect of Attitude on

IFRS Adoption was agreed by the respondents. As shown by their respective mean scores of 3.5970, 3.4030, and 3.9403. Furthermore, the standard deviations for Q24-26 were less than 1.00, implying that the respondents' viewpoints were identical. (See Table 4.13)

In line with this outcome, Arefainie(2018) and Mekonnen (2016) revealed that employees do not have positive perception regarding to the new internationally accepted standard IFRS. Further, Papadatos & Bellas (2011) concluded that smaller firms seem to have a more negative attitude towards IFRS.

Arefainie(2018)recommended thatit is vital for companies to prepare their staff mentally and give them the correct perspective on the IFRS adoption process.Employees should have a positive and correct perspective of the implementation of the International Financial Reporting Standards (IFRS), and they should not feel threatened or unhelpful in the process if they make mistakes.

Table 4.13 Descriptive analysis on Attitude

<b>Attitude</b>	<b>N</b>	<b>Minimum</b>	<b>Maximum</b>	<b>Mean</b>	<b>Std. Deviation</b>
Low level of awareness regarding IFRS have impact on IFRS Adoption	67	1.00	5.00	3.5970	0.93840
IFRS is negatively perceived by employees and owners	67	2.00	5.00	3.4030	0.87143
There is lack of understanding about IFRS standards & requirements	67	1.00	5.00	3.9403	0.81428
<b>TOTAL</b>	<b>67</b>			<b>3.6468</b>	

**Source:** Questionnaire and SPSS 26 output (2021)

#### **4.2.3.5 Complexity of IFRS standards**

In this section to analyze the respondent's level of agreement on Complexity of IFRS itself to adopt IFRS in PLCs, the researcher used three questions which supposed to evaluate their perception.

According to the questionnaire (Q27-Q29) which examines the effect of Complexity on IFRS Adoption, all questions mean score greater than 3.00. The research outcome revealed that cumulative mean value for the category was 3.88 which falls on an agree degree of agreement. This implied that effect of Complexity on IFRS Adoption was agreed by the respondents. As shown by their respective mean scores of 3.4776, 4.2687, and 3.9104. Besides this, the Q28 standard deviations were less than 1.00, showing that the respondents had similar perceptions. Q27 and Q29, on the other hand, both had standard deviations greater than 1.00. It means that the respondents' viewpoints were significantly different. (For more information, see Table 4.14)

In line with this finding, Solomon (2018) found that because of the natural complexity of the accounts to be prepared and the specifications requested under IFRS, the IFRS prepared by IASB are very complex and difficult to understand and interpret. Moreover Kumar (2014) and Fikeru(2012) also strengthen the above idea.

To reduce the complexity of IFRS, Mekonnen (2016) mentioned that the government, as well as other concerned organizations and individuals, must be responsive and play a key role in establishing at least one stock market in the country, which will address fair value issues that arise in connection with IFRS standards, as well as other stock market benefits to the country's economic growth. According to Fikeru(2012), the increased technological advancements in the area of financial reporting might contribute to the International Financial Reporting Standards becoming less Complex.

Table 4.14 Descriptive analysis on Complexity

<b>Complexity</b>	<b>N</b>	<b>Minimum</b>	<b>Maximum</b>	<b>Mean</b>	<b>Std. Deviation</b>
IFRS is complex in nature	67	1.00	5.00	3.4776	1.11950
IFRS can increase the complexity of financial reporting, especially due to fair value measurement & required Accounting disclosures	67	1.00	5.00	4.2687	0.78975
Lack of observable market transaction or market information have influence on IFRS Adoption	67	1.00	5.00	3.9104	1.02590
<b>TOTAL</b>	<b>67</b>			<b>3.8856</b>	

**Source:** Questionnaire and SPSS 26 output (2021)

#### 4.2.3.6 IFRS Adoption

Based on the questionnaire (Q30-Q33) which examines IFRS Adoption, all questions mean score greater than 3.00. The research outcome revealed that cumulative mean value for the category was 3.40 which falls on an agree degree of agreement. As shown by their respective mean scores of 3.2736, 3.2388, 3.6269 and 3.4627. Besides this, the Q32 standard deviations were less than 1.00, showing that the respondents had similar perceptions. Q30, Q31 and Q33, on the other hand, both had standard deviations greater than 1.00. It means that the respondents' viewpoints were significantly different. (see Table 4.15)

In line with this result, Solomon (2018), Arefainie (2018), Abebe (2018) and Fikeru (2012) also pointed out that IFRS is complex, and its adoption is influenced by particularly the required fair value measurement and lack of Observable market.

Table 4.15 Descriptive analysis on IFRS Adoption

<b>IFRS Adoption</b>	<b>N</b>	<b>Minimum</b>	<b>Maximum</b>	<b>Mean</b>	<b>Std. Deviation</b>
Adoption of IFRS is influenced by lack of proper instruction from the government	67	1.00	5.00	3.2736	1.11200
IFRS is clearly affected by lack of expertise	67	1.00	5.00	3.2388	1.11586
IFRS is more implemented by large companies than small companies	67	1.00	5.00	3.6269	0.88482
IFRS can increase complexity of financial reporting and because of this it is negatively perceived	67	1.00	5.00	3.4627	1.19758
<b>TOTAL</b>	<b>67</b>			<b>3.40</b>	

### 4.3 Reliability Analysis

As a result, the Cronbach's Alpha was determined for all variables using SPSS version 26 and found to be greater than 0.700 for each variables. As a result, the data obtained using this scale is reliable to make the analysis.

Table 4.16 Reliability Statistics (Cronbach's Alpha)

Item	Cronbach's Alpha	No. of Items
Legal System	0.723	4
Professional Bodies	0.755	5
Company Size	0.749	4
Attitude	0.728	3
Complexity	0.733	3
IFRS Adoption	0.725	4

Source: SPSS 26 output (2021)

### 4.4. Assessment of Ordinary Least Square Assumptions

#### 4.4.1. Normality Test

**Skewness** assesses the extent to which a variable's distribution is symmetrical. If the distribution of responses for a variable stretches toward the right or left tail of the distribution, then the distribution is referred to as skewed. **Kurtosis** is a measure of whether the distribution is too peaked (a very narrow distribution with most of the responses in the center). "When both skewness and kurtosis are zero (a situation that researchers are very unlikely to ever encounter), the pattern of responses is considered a normal distribution. A general guideline for skewness is that if the number is greater than +1 or lower than -1, this is an indication of a substantially skewed distribution. For kurtosis, the general guideline is that if the number is greater than +1, the distribution is too peaked. Likewise, a kurtosis of less than -1 indicates a distribution that is

too flat. Distributions exhibiting skewness and/or kurtosis that exceed these guidelines are considered nonnormal." (Hair et al.,1998)

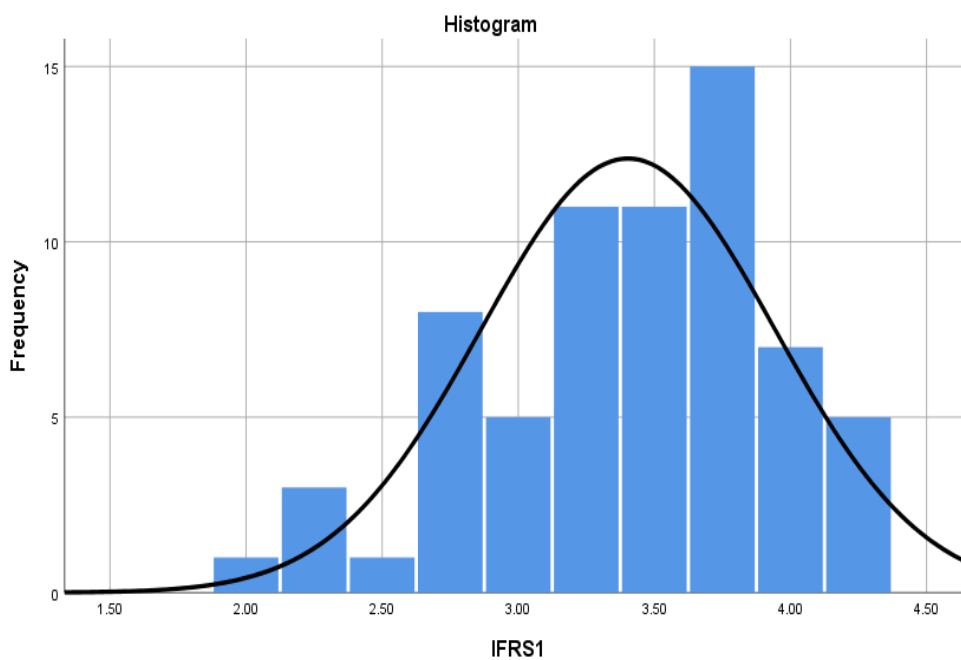
Using Jarque & Bera(1987) test,with the Skewness value of -0.055 and Kurtosis -0.32 showing thatthe data are negatively skewed. (See table 4.17 and normality distribution graph)

Table 4.17 Normality Test

Jarque–Bera test
Skewness -0.055
Kurtosis -0.32

Source: SPSS 26 output (2021)

### Normality Distributions



#### 4.4.2. Heteroskedasticity Test

Homoscedasticity refers to the assumption that dependent variable(s) exhibit equal levels of variance across the range of predictor variable(s). Homoscedasticity is desirable because the variance of the dependent variable being explained in the dependence relationship should not be concentrated in only a limited range of the independent values. In most situations, we have many different values of the dependent variable at each value of the independent variable. For this relationship to be fully captured, the dispersion (variance) of the dependent variable values must be relatively equal at each value of the predictor variable. If this dispersion is unequal across values of the independent variable, the relationship is said to be heteroscedastic. (Hair et al., 1998)

Ordinary Least Squares is based on the assumption that all observations are equally accurate. For the regression performance of the model, the Breusch-Pagan/Cook-Weisberg test for heteroskedasticity was performed on SPSS 26 to test for variance homogeneity, and a P-value greater than 0.05 was considered appropriate. As shown in table 4.18 below, the p value (0.961) for the model is greater than the critical value of 0.05, indicating equal variances across the model.

Table 4.18 Breusch-Pagan Test

<b>Breusch-Pagan Test for Heteroskedasticity</b>		
<b>Chi-Square</b>	<b>Df</b>	<b>Sig.</b>
0.002	1	0.961

Source: SPSS 26 output (2021)

#### 4.4.3. Multicollinearity Test

There are many signs in the analysis for the multicollinearity among which the correlation among predictors is large. In case if the correlation is not calculated the following are signs of having the multicollinearity: i) when the predictor's coefficients vary from one to another model. ii) When applying t-test, the coefficients are not significant but put all together (F test) for the whole model it is significant. When correlation exists among predictor's the standard error of predictors coefficients will increase and consequently the variance of predictor's coefficients is

inflated. The VIF is a tool to measure and quantify how much the variance is inflated.  $VIF > 5$  indicated high collinearity. (Daoud, 2017)

This researcher also noted that Multicollinearity is detected by examining the tolerance for each independent variable. Tolerance is the amount of variability in one independent variable that is not explained by the other independent variables. Tolerance values less than 0.10 indicate collinearity. (Refer Table 4.19)

Table 4.19 Collinearity Statistics

Variables	Collinearity statistics	
	Tolerance	VIF
Legal system	0.502	1.991
Professional Bodies	0.438	2.282
Company Size	0.733	1.364
Attitude/Perception	0.818	1.222
Complexity	0.706	1.417

Source: SPSS 26 output (2021)

A multicollinearity analysis was done with the aim of determining the impact of each independent variable in predicting the dependent variable. As shown in table 4.19 above, the tolerance for all variables is greater than 0.10 and the VIF is less than 5. Therefore, there is no multicollinearity exist between explanatory variables.

#### 4.4.4 PEARSON CORRELATION

Correlation is a measure of a monotonic association between 2 variables. A monotonic relationship between 2 variables is a one in which either (1) as the value of 1 variable increases, so does the value of the other variable; or (2) as the value of 1 variable increases, the other variable value decreases. To facilitate interpretation, a Pearson correlation coefficient is commonly used. This coefficient is a dimensionless measure of the covariance, which is scaled such that it ranges from  $-1$  to  $+1$ . (Schober et al., 2018)

Consequently, the study result indicates, there is a strong correlation between the dependent variable (IFRS Adoption) and all the independent variables, Legal System, Professional Bodies,

Company Size, Attitude and Complexity.(See table 4.20 below to assess the strength of relationship between pairs of variables)

Table 4.20 Pearson Correlations Matrix

Variables	IFRS ADOPTION	LEGAL SYSTEM	PROFISSIONAL BODIES	COMPANY SIZE	ATTITUDE	COMPLEXTIY
IFRS ADOPTION	1					
LEGAL SYSTEM	0.51	1				
PROFISSIONAL BODIES	0.52	0.6	1			
COMPANY SIZE	0.407	0.226	0.476	1		
ATTITUDE	0.399	0.138	0.245	0.036	1	
COMPLEXTIY	0.522	0.379	0.075	0.12	0.302	1

Source: SPSS 26 output (2021)

#### 4.4.5. Autocorrelation

the Durbin-Watson statistic can be used to discover whether the value of your dependent variable at time  $t$  is related to its value at the previous time period, commonly referred to as  $t - 1$ . This situation, known as autocorrelation or serial correlation, is important as it means that the results of your regression analysis are less likely to be reliable. The Durbin-Watson statistic ranges in value from zero to four. A value of two indicates no autocorrelation. A value towards zero indicates positive autocorrelation. Conversely, a value towards four indicates negative autocorrelation. (Saunders, et al., 2009).

As indicated in table 4.21 below, the Durbin-Watson statistics value are 1.903, which is close to 2 suggests that there is no severe autocorrelation among error terms.

Table 4.21 Durbin Watson statistic

Variables	6
N	67
Durbin-Watson d-statistic	1.903

Source: SPSS 26 output (2021)

## 4.5. Multiple Regression Analysis for IFRS

Multiple regression analysis is adopted when the researcher has one dependent variable which is presumed to be a function of two or more independent variables. The objective of this analysis is to make a prediction about the dependent variable based on its covariance with all the concerned independent variables. (Kothari, 1990)

In this section, the results from the regression analysis will be presented.

### 4.5.1. Coefficients of variables

The level of significance for the variables is shown in the table below. The standardized and unstandardized coefficients are also displayed below:

Table 4.22 Coefficients of Variable

Coefficients <sup>a</sup>					
MODEL	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	0.230	0.379		0.605	0.547
Legal system	0.125	0.107	0.140	1.171	0.246
Professional Bodies	0.196	0.094	0.267	2.078	0.042
Company Size	0.136	0.068	0.198	1.992	0.051
Attitude/Perception	0.161	0.077	0.197	2.098	0.040
Complexity	0.260	0.072	0.365	3.615	0.001
<b>a. Dependent Variable: IFRS Adoption</b>					

Source: SPSS 26 output (2021)

Based on the above regression, the resulting regression is as follows:

$$\text{IFRS}_i = 0.230 + 0.125\text{LS}_i + 0.196\text{PDI}_i + 0.136\text{CS}_i + 0.161\text{ATI}_i + 0.260\text{CO}_i + u_i$$

Where,

**IFRS<sub>i</sub>** = Adoption of IFRS, **LS<sub>i</sub>** = Legal System, **PDI<sub>i</sub>** = Professional Bodies, **CS<sub>i</sub>** = Firm Size, **ATI<sub>i</sub>** = Attitude / Perception towards the adoption and, **CO<sub>i</sub>** = Complexity,

**β<sub>0</sub>**: is a constant, which represent Adoption of IFRS when every independent variables are nil.

**β<sub>1</sub> to β<sub>5</sub>** to what degree each predictor affects the outcome IFRS Adoption if the effects of all other predictors are held constant.

Based on the Beta coefficients, we can say all independent variables are positively related and highly significance with dependent variable, which reveals our independent variables increases by one unit the dependent variable, will also increase by the specified coefficients.

As demonstrated in the above table, of the total five explanatory variables tested in this study, Professional Bodies (p-value= 0.042), Company Size (p-value=0.051), Attitude (p-value=0.040), and Complexity (p-value=0.0001) were statistically significant at 5 percent or lower. In this study, there is insignificant positive relationship between Legal System and adoption of IFRS with a regression coefficient of 0.125, and P-value of 0.246.

#### 4.5.2. Coefficient of Determination (R Square)

The coefficient of determination, R<sup>2</sup>, provides information about the goodness of fit of the regression model: it is a statistical measure of how well the regression line approximates the real data points. R<sup>2</sup> is the percentage of variance in the dependent variable that is explained by the variation in the independent variable. If R<sup>2</sup> is 1, the regression model using perceived quality perfectly predicts propensity to buy. In other words, the regression model fits the data perfectly. On the other hand, if R<sup>2</sup> is 0, none of the variation in tendency to buy can be attributed to the independent variable, perceived quality. (Sekran & Bourgie, 2016)

In this case, the R<sup>2</sup> for this regression model is 0.524. This means that almost 52.4% of the variation in tendency to buy is explained by variation in perceived quality. (See the below table 4.23 to assess the strength of a cause-and-effect relationship between variables)

Table 4.23 R-square Determination

<b>Model Summary<sup>b</sup></b>				
<b>Model</b>	<b>R</b>	<b>R Square</b>	<b>Adjusted R Square</b>	<b>Std. Error of the Estimate</b>
1	.748 <sup>a</sup>	0.560	<b>0.524</b>	0.37256

a. Predictors: (Constant), Legal system , Professional Bodies, Company Size, Attitude, Complexity

b. Dependent Variable: IFRS Adoption

**Source:** SPSS 26 output (2021)

#### 4.5.3. ANOVA Statistics

The ANOVA statistics in table 4.24 below discloses that the significance of the model by the value of  $F=15.529$  at a level .000, which implies that there were strong relationship between the independent variables and the outcomes of the regression variables and are the best fit for the model to predict the challenge of IFRS Adoption.

Table 4.24 testing the model through ANOVA (Goodness of fit statistic)

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	10.777	5	2.155	15.529	.000b
Residual	8.467	61	0.139		
Total	19.244	66			

a. Dependent Variable: IFRS Adoption

b. Predictors: (Constant), Complexity, Professional Bodies, Attitude, Company Size, Legal system

**Source:** SPSS 26 output (2021)

#### 4.5.4. Hypothesis Testing and Interpretation of the Result

The following hypotheses test was presented based on the regression output of Challenges of IFRS Adoption on PLCs.

##### 4.5.4.1 Legal System

H1: Legal System has a significant effect on the adoption of IFRS on PLCs.

**Beta:**0.125

**t-value:**1.171

**p:** 0.246

**Status:**Failed to Accept

The regression output for the First hypothesis shows there is a positive relation between IFRS Adoption and Legal system. But the hypothesis were not supported by the regression result since the variable have insignificant value for the dependent variable IFRS Adoption at ( $P < 0.05$ ). The coefficient of the variable ( $\beta = 0.125$ ,  $t=1.171$ ) were positively related but since the P value = 0.246 ( $P > 0.05$ ) wasn't significantly related with legal system. Therefore, according to the result Legal system has insignificant effect on IFRS Adoption.

Despite the fact that, the finding of the descriptive stastics is consistent with the findings of previous related studies carry out by Arefainie(2018), Aytnew (2018),Jaggi & Low (2000)&Zehri & Chouaibi (2013), the regression result shows insignificant effect on the adoption which rejects the hypothesis.

##### 4.5.4.2 Professional bodies

H2: Professional bodies has asignificant effect on the adoption of IFRS on PLCs

**Beta:**0.196

**t-value**2.078

**p:** 0.042

**Status:**Accepted

There is a positive correlation between adoption of IFRS and professional bodies with a Beta value of 0.196, t value of 2.078 and significance at 0.042( $P < 0.05$ ). This indicates that

professional bodies influence the adoption of IFRS and the result is consistent with the hypothesis of the study.

The finding of this study is supported by the conclusions forwarded by Fikru (2012), Mekonnen (2016), Aytenew (2018) and Mekonnen (2016).

#### **4.5.4.3 Company size**

H3: Company size has a significant effect on the adoption of IFRS on PLCs

**Beta:** 0.136

**t-value:** 1.992

**p:** 0.051

**Status:** Accepted

The regression result shows a significant relationship between company size and IFRS adoption, with a regression coefficient of 0.136, t-statistic of 1.992 and P-value of 0.051. As a result of the findings, it can be concluded that Company Size has a positive effect on IFRS adoption. The outcome is also consistent with the previous research work on Fikru (2012), Alexandra (2013), Tran et al. (2019) and (Jaggi et al., 2000). This research results indicate that the smaller listed companies are not more likely to adopt IFRS than larger companies.

#### **4.5.4.4 Attitude/Perception**

H4: Attitude has a significant effect on the adoption of IFRS on PLCs

**Beta:** 0.161

**t-value:** 2.098

**p:** 0.040

**Status:** Accepted

The regression result supported this hypothesis with the positive signs of beta and statistically significant level ( $\beta = 0.161$  and  $t = 2.098$ ) and ( $P = 0.040$ ). The proposed hypothesis is supported by the regression output for this variable. According to the results, Attitude/Perception has a positive impact on IFRS adoption. This conclusion is backed up by the results of Mekonnen (2016), Arefainie (2018), and Papadatos & Bellas (2011).

#### 4.5.4.5 Complexity

H5: Complexity has a significant effect on the adoption of IFRS on PLCs

**Beta:** 0.260

**t-value:** 3.615

**p:** 0.001

**Status:** Accepted

The beta sign and a significant statistical regression result for the independent variable Complexity shows there is a positive and significant relation with IFRS Adoption. The positive beta sign and a statistically significant result of ( $\beta = 0.260$ ,  $t = 3.615$ ,  $P = 0.001$ ) support the proposed hypothesis acceptable. Fikru (2012), Solomon (2018) and Kumar (2014) also concluded complexity has a positive effect on IFRS Adoption.

#### 4.5.5 Summary of Hypothesis Test

The following table shows hypothesis of the study, method used to test the hypothesis and its outcomes.

Table 4.25 summary of hypothesis results

Hypothesis	Description	Analysis Method	Remark
H <sub>1</sub>	Legal System has a significant effect on the adoption of IFRS on PLCs.	Regression	Failed to Accept
H <sub>2</sub>	Professional bodies has a significant effect on the adoption of IFRS on PLCs	Regression	Accepted
H <sub>3</sub>	Company size has a significant effect on the adoption of IFRS on PLCs	Regression	Accepted
H <sub>4</sub>	Attitude has a significant effect on the adoption of IFRS on PLCs	Regression	Accepted
H <sub>5</sub>	Complexity has a significant effect on the adoption of IFRS on PLCs	Regression	Accepted

## **CHAPTER FIVE: SUMMARY OF MAJOR FINDING, CONCLUSION AND RECOMMENDATIONS**

### **5.1. Introduction**

The conclusions and outcomes of the findings are presented in this chapter. It is divided into three parts, the first of which describes the study's findings. The second section discusses the conclusion; the third section discusses recommendation and the fourth section potential future research areas.

#### **5.1.1 Summary of Findings**

The main objective of this study was to assess challenges of IFRS adoption on private limited companies of Ethiopia.

The study used document analysis (proclamations, directives, papers on IFRS and other documents); self-administered questionnaires Finance Managers and accountants are also distributed. Questionnaire data were analyzed using descriptive statistics, correlations, and multiple linear regressions.

The survey found that males dominated the gender group of respondents, accounting for 61.4 percent, and that about 71.6 percent were first-degree holders. According to the findings, the respondents have an average of more than 11 years of work experience, which accounts for 67.2 percent of the total. In addition to this, from 37 PLCs, 71.6 (construction) and 28.4(real-estate), 46% have fully adopted and the remaining 54% have started the process of adoption. In regard to the year the conversion of IFRS takes, most of the companies spend 2 years. As first time adopters need training, 91% of the PLCs confirmed that they get formal training.

Two research questions were developed and tested in this study. The first question is to assess the factors (i.e., Legal System, Professional Bodies, Company Size, Attitude, and Complexity) that could affect the adoption of IFRS. The second question was to find out how to manage this challenges of IFRS adoption on PLCs.

In regard to the challenges the study finding showed that cost of adoption of IFRS, time taking process of the adoption, lack of commitment from the organizations and changing of deadlines for mandatory adoption, no concern about IFRS by the governments, lack of experienced fixed asset evaluators and market information, difference b/n tax law an IFRS reporting procedure and complex nature of some IFRS standards, unavailability of Fixed asset register and current political situation in Ethiopia are the major challenges that hinders the adoption of IFRS.

Interims of the factors that could challenge IFRS Adoption, the findings of the study revealed that Five explaining variables (Legal system, Professional bodies, Company Size, Attitude and Complexity) to determine the effects they have on the dependent variable IFRS Adoption. The coefficients of regression stated that, a unit increase in Legal system, Professional bodies, Company Size, Attitude and Complexity will lead to 0.125, 0.196, 0.136, 0.161 and 0.260 increases in IFRS Adoption respectively. The study also found statistically insignificant relationship between Legal system and adoption of IFRS in Ethiopia. When the above five variables are zero, IFRS adoption will be increased by 0.230. In addition, R square (0.56) is that 56% for the IFRS Adoption is contributed by Legal system, Professional bodies, Company Size, Attitude and Complexity. The remaining 44% is contributed by other independent variables not included in this study.

In relation to management of these challenges, Continuous training on IFRS to create awareness to stakeholders, providing clear guideline on implementation process, coherence between regulatory bodies and AABE will help the process of the adoption.

### **5.1.2 Conclusions**

The regression analysis used five explaining variables (Legal system, Professional bodies, Company Size, Attitude and Complexity) to determine the effects they have on the dependent variable IFRS Adoption.

According to the regression output, the researcher can conclude that

- ✓ Legalsystem of the country have effect on the adoption but it is not significant according to the result of the p value. Politics, hasty government decisions, tax laws and financial regulation affects the process.

- ✓ Lack of well-organized Professional Bodies has a significant effect on the adoption. Also continuous training and preparing awareness have to be prepared by AABE. Also, It is hard to find skilled Accountants in the IFRS
- ✓ The size of the company is one determinant factor to adopt IFRS. As the conversion cost is high, small sized companies tend to not adopt.
- ✓ Low level of awareness and negative perception of IFRS by the owners and employees is the basic challenge. As a human behavior, resistance to accept and try new things and lack of continuous awareness workshops by the regulatory bodies back up this problem.
- ✓ The need for fixed asset evaluators and proper market value information increases the complexity of the financial reporting.
- ✓ It is quite expensive to implement these standards. This is because companies have to train your employees regarding the practical implication of these standards to their work and pay for conversion from GAAP to IFRS.

### **5.1.3 Recommendations**

The following recommendations are made based on the study's findings.

- Government/responsible regulatory body should facilitate to minimize conversion cost by giving training to IFRS consultant and Fixed Asset evaluators by increasing their number in the market.
- Extensive and continuous training and follow up must be given to First time adopters, regulatory bodies must work together with higher education institutions to prepare sufficient training materials. In most companies only one or two Accountants have knowledge about IFRS. Professional accounting bodies must play an organizing role in experience sharing programs among adopters.
- Before beginning the implementation process, an adequate time frame for the next phases of IFRS adoption should be given.
- To have a positive influence on the standard-setting process, organizations must own the transformation process and collaborate closely with professional bodies.

- The regulatory body must ensure proper implementation of IFRS standards. For instances, if there are deficiencies or non-compliance with IFRS, it shall impose fines and penalties on the preparers and their auditors.
- One of the challenges for IFRS is its complexity and hard to understand the terms. Hence, the regulatory bodies and AABE should work on translating IFRS into Amharic in a consistent and efficient manner.

#### **5.1.4 Suggestion for Future studies**

The study focused mainly on Challenges of IFRS Adoption. The study was conducted only on Private limited companies Ethiopia. The results of the study established a significant relationship between IFRS Adoption & its factors on which will influence the successful Adoption. The study outcome suggested that there may also be other factors that will influence the full adoption. A similar research may be conducted in a similar or unrelated industry, allowing the results of such studies to be compared to the findings of this study, as well as determining the other factors that would influence IFRS adoption. In addition, further researches may be conducted on the Post implementation phase on fully adopted companies.

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## APPENDIX

**ADDIS ABABA UNIVERSITY**

**COLLEGE OF BUSINESS AND ECONOMICS**

**DEPARTMENT OF ACCOUNTING AND FINANCE**

Dear Sir/Madam,

My name is Emebet Muche. I am a graduate student in Addis Ababa university, department of accounting and finance. The purpose of the questionnaire is to assess **Challenges of International Financial Reporting Standards (IFRS) Adoption on Private limited Companies in Ethiopia: A Case of selected PLCs in Addis Ababa**. This study is conducted in a partial fulfillment of the requirements for the master's degree in accounting and finance at Addis Ababa university. The Questionnaire will take between 15 and 30 minutes.

Thank you for your cooperation!

With Best Regards,

Emebet Muche

### Part 1: Demographic Background

Please kindly tick (v) your answer in the appropriate boxes.

1. Gender

Female

Male

2. Educational background

Certificate (Diploma)  Bachelor's degree  Master's degree  PHD

If other (specify).....

3. Working Experience:

Less than 5 Years  6 to 10 Years  11 to 15 years  16 to 20 Years

Over 20 Years

4. Your current position in the company.....

5. Does your company adopted IFRS?

Yes  No

If No, why? \_\_\_\_\_

6. If your answer for Q5 is 'Yes', what is the current status of IFRS adoption on your company?

Fully Adopted  started the process of the adoption (conversion)

7. If you answer for Q6 is 'Fully Adopted', how long did the conversion from GAAPs to IFRS take?

- One Year                       Two Years                       over Two years

8. Did you get formal training or seminar on first time adoption of IFRS?

- Yes  No

### **Part II: Company profile**

The following questions seek general information about your company. Please provide your response by ticking (v) or writing.

9. Identify the primary business of your company:

- Construction    Real estate    Service    Import /Export    other, please specify.....

10. Capital of your firm

- Less than Br. 500,000    Br. 500,000 to 1.5 million    Over 1.5 million

### **Part III. Challenges of Adopting IFRS**

In this section the researcher is seeking your specific perceptions toward the adoption of IFRS by Private limited companies. Please kindly indicate the appropriate scale for your opinion by ticking (v) on the spaces that indicate your choice from the options that range from 'Strongly Disagree (SD), Disagree (D), Neutral (N), Agree (A) to Strongly Agree (SA)'.

	SD	D	N	A	SA
<b>Legal System</b>					
11. Lack of proper instructions from regulatory bodies has negative effect on the adoption					
12. Hasty government decisions affect adopting IFRS					
13. Politics is one of the major barriers to adopt IFRS					
14. The country tax, Financial regulation & other legal issues can affect adoption of IFRS					
	SD	D	N	A	SA
<b>Professional bodies</b>					
15. Lack of qualified and professional accountants can affect adoption of IFRS					
16. There is lack of coherence between professional bodies and standard setting bodies thereby making adoption of the standard difficult					
17. The engagement & consultation of professional bodies facilitate implementation of IFRS					
18. There is delay in IFRS implementation and AABE's roadmap					
19. Professional bodies should conduct more affordable awareness workshops on the use of IFRS					

	SD	D	N	A	SA
<b>Company Size</b>					
20.lack of financial resources within an organization to hinders IFRS adoption					
21.Higher level of information disclosure is less costly for larger firms					
22.Size of the companies determines early adoption					
23.The larger the companies, the easier to adopt IFRS					
	SD	D	N	A	SA
<b>Attitude</b>					
24.Low level of awareness regarding IFRS is the basic challenge for the adoption of IFRS					
25.Owners & employees perception towards IFRS Adoption is negative.					
26.There is lack of understanding about IFRS standards & requirements					
	SD	D	N	A	SA
<b>Complexity</b>					
27.the complexity nature of IFRS Standards is a challenge for the adoption.					
28.IFRS can increases the complexity of financial reporting, especially due to fair value measurement & required Accounting disclosures					
29.Lack of observable market transactionormarket					

information is one of the challenges for IFRS Adoption					
	<b>SD</b>	<b>D</b>	<b>N</b>	<b>A</b>	<b>SA</b>
<b>IFRS Adoption</b>					
30.Adoption of IFRS is influenced by lack of proper instruction from the government					
31.IFRS Is clearly affected by lack of expertise					
32.IFRS is more implemented by large companies than small companies					
33.IFRS can increase complexity of financial reporting and because of this it is negatively perceived					

28. is there any other major factor from Your viewpoint that would challenge the adoption of IFRS,other than those mentioned above (if any)?

(I).....

(II).....

(III) .....

29. Measures should be taken to manage Challenges of the adoption of IFRS

(I).....

(II).....

(III) .....

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