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The Adoption of International Financial Reporting Standards (IFRS) in Ethiopia: Benefits and Key Challenges

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This is to certify that the thesis prepared by Fikru Fantahun, entitled: *The Adoption of International Financial Reporting Standards (IFRS) in Ethiopia: Benefits and Key Challenges* and submitted in Partial Fulfillment of the Requirements for the Degree of Masters of Science in Accounting and Finance complies with the regulations of the University and meets the accepted standards with respect to originality and quality.

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ABSTRACT

The Adoption of International Financial Reporting Standards (IFRS) in Ethiopia: Benefits and Key Challenges

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Addis Ababa University, 2012

This study aims to examine the adoption of International Financial Reporting Standards (IFRS) in Ethiopia. The study focuses on examining the benefits and challenges of IFRS including the factors that could influence its adoption. To answer research questions and test the hypotheses the study adopted the mixed research approach. The questionnaire data were analyzed using descriptive statistics, correlations, and multiple linear regression analysis and data from interview and document reviews were interpreted qualitatively. The results show that IFRS adoption in Ethiopia will result in a number of important benefits to a wide range of stakeholders. High cost of adopting, the complex nature, lack of proper instructions from regulatory bodies for implementing IFRS, as well as IFRS's emphasis on fair value accounting, are listed among the most important challenges of IFRS adoption. The study also find that with the exception of government policy the other four variables which are professional bodies, capital market, educational level and company size significantly influence the adoption of IFRS in Ethiopia. Finally, the thesis displayed practical implications for the government of Ethiopia and regulatory bodies in setting a firm deadline for the IFRS adoption and in following the proper application of all the adopted standards. The findings also suggest that a rigorous IFRS capacity building program should be embarked by the government, all regulatory bodies, firms and training institutions in order to provide the needed manpower for IFRS implementation.

Keywords: Adoption, International Financial Reporting Standards, Ethiopia

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This thesis is dedicated to the memory of my late grandfather Tesfu Damtew

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Acronyms

ACCA	Association of Chartered Certified Accountants
ASC	Audit Service Corporation
EAFA	Ethiopian Accounting and Finance Association
ECX	Ethiopian Commodities Exchange Authority
EU	European Union
EPAAA	Ethiopian Professional Association of Accountants and Auditors
GAAP	Generally Accepted Accounting Principles
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
MoFED	Ministry of Finance and Economic Development
NBA	National Bank of Ethiopia
OAG	Office of the Auditor General
ROSC	Report on the Observance of Standards and Codes
SIC	Standing Interpretations Committee
SME	Small and Medium size Enterprises

Chapter 1: Introduction

1.1. General Background of the Study

The process of financial reporting of business activities underwent a great change over the last few decades. In this regard most countries in the world have revolutionized their accounting practices especially during the last few decades of the 21st century (Nobes, 2004; Hoyle, et al., 2009). Such revolutions encompass the adoption and adaptation of local accounting practices and harmonizing it with that of the International Financial Reporting Standards (IFRS) formerly International Accounting Standards (IAS). This revolution is started in 2002 when European Union made it mandatory for publicly traded companies to present consolidated financial statements in conformity with International Financial Reporting Standards starting from January 01, 2005 (Jermakowicz, 2004; Susana et al., 2007; Apostolos et al., 2010).

It is in recognition of the need to have quality financial reports and other benefits such as its ability to significantly improve the comparability of entities, giving better access to global capital markets and reduced cost of capital, and provision of impetus to cross border acquisitions that the adoption of International Financial Reporting Standards is becoming trend among countries (Larsen E. 2008; Baker et al., 2009; Apostolos et al., 2010; Iyoha and Faboyede, 2011). Although there are significant benefits of adopting international financial reporting standards, it is not also without problems. According Jermakowicz,

(2004) IFRS conversion has many challenges such as increased volatility of earnings, high cost of implementation, Complex nature of IFRS and problems related to the implementation guidance.

Various survey studies have been conducted to assess the adoption of International Financial Reporting Standards in different countries of the world. A set of studies have been conducted in relation to the importance (Apostolos et al., 2010; Iyoha and Faboyede, 2011) and the challenges of adopting IFRS (Alessandro et al., 2009; Robyn and Graeme, 2009). The other set of studies have been conducted on the effect IFRS has on companies and countries at large (Jermakowicz, 2004; Alicja et al., 2007; Susana et al., 2007; William et al., 2010).

Most of the above studies have been carried out on IFRS analyzing the data from member countries of EU. Comparatively fewer numbers of studies have been carried out on data from other countries. Until now, as per knowledge of the researcher very little empirical research on the adoption of IFRS has been conducted in Ethiopia. This study makes an attempt to bridge this gap and tries to study the Ethiopian data with reference to IFRS adoption, benefits of IFRS for Ethiopia, challenges faced by the stakeholders in the process of adoption of IFRS, and the factors that affect the adoption.

In this regard Ethiopia has expressed an initiative to integrate its financial statements with international standards. According to World Bank on the Report on the Observance of Standards and Codes, there is no specific set of accounting regulations in Ethiopia and therefore accounting practices vary across institutions (ROSC, 2007). National bank of Ethiopia, Ministry of finance and economic development and other government institutions are working together towards the adoption of this international standard in Ethiopia. The National Bank of Ethiopia has already required the banks to prepare their financial statements in accordance with IFRS. In 2011 Ministry of Finance and Economic Development (MoFED) issued a draft proclamation called Financial Reporting Proclamation of Ethiopia to provide for the financial reporting of Ethiopia. The proclamation requires reporting entities in Ethiopia to follow IFRS.

By utilizing an analytical framework from the extant literature and empirical evidence from other countries context, the research elaborated in more detail the benefits, challenges and factors that could affect the adoption of IFRS in Ethiopia. It also draws inferences regarding the adoption of International Financial Reporting Standards in Ethiopia by using questionnaires distributed to finance officers and accountants of selected companies, interviews and review of some documents.

1.2. Statement of the Problem

In recent years, the development of international accounting standards and adoption by such industrialized countries as: Britain, Germany, United States of America, Canada and the members of the European Union have been a major of concern among accounting professionals. In spite of the numerous studies about the Adoption of International Financial Reporting Standards by developed and industrialized countries around the world, less attention has been given to developing countries. Virtually, no articles and books about the adoption of accounting standards by developing countries and in particular Ethiopia exist (Zeghal and Mhedhbi, 2006). Moreover, the few that are in existence primarily focuses on whether it is necessary for developing countries to adopt international accounting standards (Tyrrall et al 2007).

Various survey studies have been conducted to assess the adoption of International Financial Reporting Standards in different countries of the world. A set of studies have been conducted in relation to the importance (Apostolos et al., 2010; Iyoha and Faboyede, 2011) and the challenges of adopting IFRS (Alessandro et al., 2009; Robyn and Graeme, 2009). The other set of studies have been conducted on the effect IFRS has on companies and countries at large (Jermakowicz, 2004; Alicja et al., 2007; Susana et al., 2007; William et al., 2010).

The aforementioned and other studies have been conducted to assess the adoption of International Financial Reporting Standards in different countries.

Since European Union (EU) was the first to adopt IFRS across the globe, most of the research has been carried out on IFRS analyzing the data from member countries of EU. Comparatively fewer numbers of studies have been carried out on data from other countries. This study makes an attempt to bridge this gap and tries to study the Ethiopian data with reference to IFRS adoption, benefits of IFRS for Ethiopia, challenges faced by the stakeholders in the process of adoption of IFRS, and the factors that might affect the adoption.

This study is therefore motivated because of the absence of studies in the area of IFRS adoption, its benefits, challenges and factors that could explain its adoption in Ethiopia. Moreover, it is important to notice that the Ethiopian environment is different from the developed countries environment where the accounting profession is more developed and where there is specific set of accounting regulation and an independent standard setting body. Therefore it is better to see the problem in developing countries context to enrich and extend the understanding of International Financial Reporting Standards and the issues related to its first time adoption in Ethiopian context.

1.3. Purpose Statement

The general objective of this study is to investigate the adoption of International Financial Reporting Standards (IFRS) in Ethiopia including the factors that could influence its adoption, with particular reference to companies which adopted this standard. In order to achieve the above intended objective this study tried to answer the following specific research questions.

RQ1. What are the practical benefits of adopting IFRS for companies and other stakeholders?

RQ2. What are the problems faced by the stakeholders in the process of adoption of IFRS?

RQ3. What are the underlying factors (i.e., Government Policy, Professional Bodies, Company Size, Capital Market, and Educational Level) that could affect the level of adoption of IFRS?

1.4. Scope and Limitation

The general aim of the study is to assess the adoption of IFRS in Ethiopia limiting its scope to companies adopting this standard. Owing to the broad and the complex nature of International Financial Reporting Standards, this study focused on the factors that could explain the adoption of IFRS by Ethiopian companies, the economic benefits of the adoption of IFRS and the challenges as well.

In light of the limited research that exists on International Financial Reporting Standards and its adoption within the Ethiopian context, the study is built on the current body of knowledge and studies conducted in other countries context.

1.5. Significance of the Study

The study would have many advantages for all practitioners and academicians by providing useful information about International Financial Reporting Standards and issues related to its adoption. It would also be useful for organization's management by providing information about the theoretical and actual benefits and challenges of adopting IFRS. It will be also very important for academic purpose by providing information in regard to statement of the problem.

The study could also be used as an initiation for those who are interested to conduct a detailed and comprehensive study regarding the adoption of IFRS in Ethiopia. And it would enable the governing body, specifically the higher responsible body, and the managements of companies to be aware of the perceived and actual benefits of International Financial Reporting Standards and give insight on how to adopt these international standards most efficiently.

1.6. Organization of the Paper

This study is organized in to five chapters. The first chapter states the general introduction of the study. Chapter two presents the literature review regarding the research area of International Financial Reporting Standards and its adoption and therefore will set out the theoretical foundations for the research. The third chapter outlines the research methodology. The research results are presented in chapter four. The last chapter draws conclusions and implications and wind up the report by highlighting future research areas.

Chapter 2: Literature Review

2.1. Introduction

This section presents a review of related literature to International Financial Reporting Standards and its adoption. It consists of general overview about International Financial Reporting Standards, benefits and challenges of adopting IFRS, factors affecting the adoption and development of accounting in Ethiopia. In general, this chapter synthesized existing empirical research in the area of international accounting standards and ends by summarizing the review and identifying the gap in the existing literature.

2.2. The Concept of IFRS

IFRS stands for International Financial Reporting Standards and they are standards for reporting financial results and are applicable to general purpose financial statements and other financial reporting of all profit oriented entities. The term IFRS comprises IFRS issued by IASB; IAS issued by IASC; and interpretations issued by the Standing Interpretations Committee (SIC) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB (Hoyle B., et al., 2009, Baker E. et al., 2009 and Larsen E. 2008).

Alistair (2010 cited in Ojeka and Mukoro, 2011, p.14) defined International Financial Reporting Standards (IFRS) as

> *A series of accounting pronouncements published by the International Accounting Standards Board (IASB) to help preparers of financial*

statements, throughout the world, produce and present high quality, transparent and comparable financial information.

Since 2001 International Financial Reporting Standards (IFRS) are being developed and approved by the International Accounting Standards Board (IASB). The IASB is a stand-alone, privately funded accounting standard setting body established to develop global standards for financial reporting. It is the successor to the International Accounting Standards Committee (IASC), which was created in 1973 to develop International Accounting Standards (IAS). Based in London the IASB assumed accounting standard setting responsibilities from the IASC in 2001 (Hoyle B., et al., 2009, Baker E. et al., 2009 and Larsen E. 2008).

One of the basic features of IFRS is that it is a principle based standard and seeks to avoid a rule based mentality (Hlacuc et. al., 2009). Instead, the application of IFRS requires exercise of judgment by the preparer and the auditor in applying principles of accounting on the basis of the economic substance of transactions. The IASB framework establishes a general requirement to account for transactions in accordance with their substance, rather than only their legal form. This principle comes through very vividly in many IFRS. The ISAB intends not to permit choices in accounting treatment, as its objective is to require like transactions and events to be accounted for and reported in a like way, and unlike transactions and events to be accounted for differently.

According to IASB (2009), the IASB achieves its objectives primarily by developing and publishing IFRS and promoting the use of those standards in general purpose financial statements and other financial reporting. Other financial reporting comprises information provided outside financial statements that assists in the interpretation of a complete set of financial statements or improves users' ability to make efficient economic decisions. The term 'financial reporting' encompasses general purpose financial statements plus other financial reporting.

IFRS set out recognition, measurement, presentation and disclosure requirements dealing with transactions and other events and conditions that are important in general purpose financial statements. They may also set out such requirements for transactions, events and conditions that arise mainly in specific industries. IFRS are based on the Framework, which addresses the concepts underlying the information presented in general purpose financial statements. The objective of the Framework is to facilitate the consistent and logical formulation of IFRS. It also provides a basis for the use of judgment in resolving accounting issues (IASB, 2009).

2.3. International Accounting Standards

Attempts to reduce accounting differences across countries have been ongoing for more than three decades, because of the problems associated with worldwide accounting diversity. The ultimate goal of reducing accounting diversity is to have all companies around the world follow one set of international accounting standards (Hoyle B., et al., 2009, Baker E. et al., 2009). With growing international markets and international investing opportunities, the advantages of uniform worldwide accounting standards as a global language of financial information have become more and more apparent (Apostolos et al., 2010).

Adoption of International Financial Reporting Standards is becoming trend among countries because of the wide array of advantages it provides for countries and multinational companies. As of February, 2012 approximately 120 nations and reporting jurisdictions permit or require IFRS for domestic listed companies of which 90 countries have fully conformed with IFRS as promulgated by the IASB and included a statement acknowledging such conformity in audit reports (AICPA, 2012).

According to the proponents of accounting harmonization, worldwide comparability of financial statement is necessary for the globalization of capital markets. It would be easy for investors to evaluate potential investments in foreign securities and it would also simplify multinational companies' evaluation of possible foreign takeover targets. International Financial Reporting Standards would reduce the cost of preparing worldwide consolidated financial statements. Multinational companies would also find it easier to transfer accounting staff to other countries (Apostolos et al., 2010; Iyoha and Faboyede, 2011; Jermakowicz, 2004; Alicja et al., 2007; Susana et al., 2007; William et al., 2010).

To meet the needs of international capital markets and their participants, companies must supply current and potential investors with accurate and useful information that provides the necessary data to make investment decisions. Paul Volker, chairman of the International Accounting Committee Foundation Board of Trustee in 2001, said:

> *If markets are to function properly and capital is to be allocated efficiently, investors require transparency and must have confidence that financial information accurately reflects economic performance. Investors should be able to make comparisons among companies in order make rational investment decision. In a rapidly globalizing world, it only makes sense that the same economic transactions are accounted for in the same manner across various jurisdictions.*

According to Jermakowicz and Gornik-Tomaszewski (2006) IFRS are not only relevant to external parties but are useful to management decision making as well. Caramanis and Papadakis (2008) found that accounting information provided by financial statements prepared according to IFRS is reliable, relevant, understandable and comparable. In general, they believe that the quality of financial information has improved as a consequence of the introduction of IFRS.

On the other hand some scholars argue against harmonization. Opponents of harmonization argue that it is unnecessary to force all companies worldwide to follow a common set of rules. For example Richard (1991, p.85-86) stated that:

> *Full harmonization of international accounting standards is probably neither practical nor truly valuable....It is not clear whether significant benefits would be derived in fact. A well-developed global capital market exists already. It has evolved without uniform accounting standards.*

Opponents of accounting harmonization also argue that because of different environmental influences, differences in accounting might be appropriate and necessary. For example, countries at different stages of economic development should have differently oriented accounting systems. Another argument against using international financial reporting standards is that the magnitude of the differences between countries and the political cost of eliminating those differences could be quite high (Richard, 1991).

Recently, a number of academics have questioned the quality of financial reporting using IFRS. As an example, Jeanjean and Stolowy (2008) analyzed the effect of the mandatory introduction of IFRS on earnings management in Australia, France and the UK. Their conclusion is that earnings management did not decline after the introduction of IFRS and in fact, in France it increased.

According to Jermakowicz (2004) the adoption of IFRS will increase comparability of consolidated accounts as well as levels of transparency for many companies, e.g. through expanded segment disclosures, reporting unfunded pension obligations and the recognition of derivatives on balance sheets at fair value. Even though IFRS has the aforementioned benefits the preparation of the financial statements becomes time-consuming due to the amount of information that is required which in turn leads to an increase in the accounting activities (Apostolos et al., 2010).

Iyoha, and Faboyede, (2011), conducted a research on the adoption of International Financial Reporting Standards in Nigeria. The results of the study show that the introduction of IFRS in Nigeria will result in a number of important benefits for a wide range of stakeholders. The benefits of ease of using one consistent reporting standard in subsidiaries from different countries will accrue to companies while investors will benefit, amongst others, more confidence in the information presented in financial statements which they can understand and use. For policy makers (management), the adoption of IFRS will create better access to the global capital markets and a higher standard of financial disclosure for national regulatory bodies. Similarly, other stakeholders would benefit from overall better reporting and information on new and different aspects of the business.

2.4. IFRS for SMEs

Since Small and Medium Enterprises are seen today as the backbone of every economy throughout the world, in July 2009, International Accounting Standard Board (IASB) published IFRS for SMEs (Ojeka and Dickson, 2011).The IFRS for SMEs is a self-contained standard of 230 pages, designed to meet the needs and capabilities of Small and Medium sized Entities (SMEs), which are estimated to account for over 95 per cent of all companies around the world. Compared with full IFRSs (and many national GAAPs), the IFRS for SMEs is less complex in a number of ways (IASB, 2009).

It was in 2001 when IASB formally started to develop accounting standards for the suitability of SMEs while keeping the emerging economies in focus. For this purpose a discussion paper was formulated in 2004 with the title of Preliminary Views on Accounting Standards for Small and Medium-sized Entities and the comments were invited on this discussion paper from around the world. Emphasis and recommendation were directed to the core elements of any accounting standards which are recognition, measurement, presentation and disclosure of financial statements. The first exposure draft of IFRS for SMEs was published by IASB in February 2007, with the aim to provide simple and self-explanatory set of accounting principles for non-listed companies based on full IFRS. Based on this exposure draft field tests were conducted by IASB on a sample of 116 small entities from 20 different countries. On the basis of comments and reviews of exposure draft, and results from field tests eased the job for IASB in further enhancing and simplifying the accounting standards for SMEs, and finally launching the official and final version of IFRS for SMEs on 9th July, 2009 (IASB, 2009).

IASB in their publication of IFRS for SMEs describe the SMEs as those entities which are not publically accountable and thus publish financial statements with general purpose for its external users. These external users refer to the non-managerial owners, current and prospective creditors and credit-rating agencies. IFRS for SMEs cannot be used by publicly accountable enterprises because of its limited application designed only for small and medium-sized entities. Subsidiaries of a big company are not prohibited from using IFRS for SMEs, if they themselves are not publicly accountable to anyone. Financial statements of SMEs provide their intended users with the information about the firm's financial position, its performance and cash-flows of the firm. Variety of users of these financial statements relies on the information provided in these statements for their future economic decisions (IASB, 2009).

The adoption of IFRSs would provide the following benefits to SMEs: (IASB, 2007, Ojeka and Dickson, 2011)

1. Adoption of IFRS for SMEs will improve the comparability of financial information of SMEs at either national or international levels.
2. Adoption of IFRS for SMEs will make easier to implement planned cross-border acquisitions and to initiate proposed partnerships or cooperation agreements with foreign entities.
3. Adopting IFRS for SMEs can help SMEs to reach international markets.
4. Adoption of IFRS for SMEs will have a positive effect on the credit rating scores of enterprises, this will strength SMEs' relationships with credit institutions.
5. Vendors want to evaluate the financial health of buyers before they sell goods or services on credit. The adoption of IFRSs will enhance the financial health of the SMEs.

2.5. Factors Affecting the Adoption of IFRS

According to Iyoha and Faboyede, (2011), the adoption of International Financial Reporting Standards is largely driven by a number of factors which include among others professional support with IFRS experience and self-enforcement by companies. Similarly Mir and Rahman, (2005), examined the factors that influence the recent decision of the Bangladeshi government and accounting profession to adopt IASs. The results of their study revealed that institutional legitimization is found to be the main factor that influences the decision of adoption of IASs. They argued that this was due to pressure on the Bangladeshi government exerted by key international institutions and professional accounting bodies.

Chamisa (2000) evaluated the contradiction of the relevance of IASs to developing countries and used the particular case of Zimbabwe. The study reported that there is a significant increase in the number of professional bodies in developing countries. These professional bodies have supported the adoption of IASs which suggests that these standards are relevant and not harmful to developing countries. The results showed that the adoption of IASs and their impact on the reporting practices of the listed Zimbabwe companies appeared to be significant and relevant to the country as well as similar developing countries where shareholder/fair view is important.

Baker and Barbu (2007) in their review of international accounting harmonization research state that:

> *Before 1990, two factors were identified as being the primary explanatory factors for differences in accounting practices: the cultural and economic. After 1989, other factors began to be considered and researchers argued that the diversity of accounting practices was caused by factors beyond the cultural and economic, including: the historical development of a nation's*

economy and its capital markets; differences in legal systems; differences in the nature of property rights; the size and complexity of companies within a country; the social climate; the degree of currency stability; the existence of accounting laws; and the educational system (P.286).

According to Cooke and Wallace (1990), as cited in Zeghal and Mhedhbi (2006, p. 356), the factors affecting the choice of accounting systems could be internal as well as external. They could include factors such as economic growth and the level of wealth, the level of inflation, the education level, the legal system, the country's history and geography, the financial system, the size and complexity of business enterprises, the notoriety of the accounting profession, the development of financial market, sources of investment and financing and the predominant culture and language.

In this study to answer the question of factors that could affect the adoption of IFRS by Ethiopian companies, factors such as Government Policy, Professional Bodies, Company Size, Capital Market, and Educational Level were considered responsible for a radical, paradigmatic shift in the accounting practice.

2.6. Challenges of Adopting IFRS

Accounting Professionals across the world have listed various benefits of adopting IFRS. In spite of these benefits, adoption of IFRS is a difficult task and has many challenges. For example Iyoha and Faboyede (2011) identified ethical environment and the ability to protect qualified and competent employees from being poached by other companies as main challenges facing Nigerian companies. Wong (2004) said that education and training are considered as major challenges militating against the adoption of IFRS.

As evidenced by the global experience, convergence with IFRS would have significant challenges common to all countries and companies. Additionally, there are also certain specific challenges that are unique to particular countries (Robyn and Graeme, 2009). With the adoption of the IAS Regulation, requiring all EU listed companies to prepare their consolidated accounts in conformity with IFRS, EU publicly listed companies are facing many challenges, including fair value measurements to be considered to a greater extent (Jermakowicz ,2004; Alexander, 2003). IFRS would also present a challenge by way of more complex financial reporting requirements and resultant increase in costs; and availability of resources with expertise in IFRS. Similarly from an overall perspective, amendments to regulatory requirements and tax laws would be required; and impact on IT systems and compensation structures would need to be evaluated (Apostolos et al., 2010; Jermakowicz, 2004; Alexander, 2003).

Jermakowicz et al. (2007) examine the challenges and benefits, including value relevance, of the adoption of IFRS by DAX-30 companies in Germany based on a questionnaire sent to company executives. They find that most companies agree that implementing IFRS should improve the comparability of financial statements while the complex nature, high cost of adopting and lack of guidance for implementing IFRS, as well as increased volatility of earnings after adopting IFRS, are listed among the most important challenges of conversion to IFRS.

2.7. Historical Background of Accounting in Ethiopia

The evolution of accounting can be seen from international perspective and from national point of view. While the development of accounting internationally has generally been well documented, studies that examine this process in developing countries appear relatively limited (Mihret, 2009). The development of accounting in Ethiopia could be better understood if examined in a range of decades beginning from pre-1970s to date.

Ethiopia has had alternating political orders: from a developing market economy (pre 1974) to a communist economy (1974 through to 1991), and then back to a market oriented economy (1991 onwards) (Mihret, 2009). The development of accounting in Ethiopia seems to exhibit distinct patterns during the three chronological periods: Pre-1974, 1974 to 1991, and post-1991. These patterns are described below in terms of stakeholders' efforts to promote the development of accounting and the outcomes of such efforts.

According to Kinfu (1990) the establishment of the commercial school in 1943 provided an important only venue for training of would be office clericals in commercial subjects such as banking, secretarial and finance. These graduates in the area of banking, secretarial and finance did try to form some type of association with a view to establish a link among them. Another development in the 1940s was the start of public accounting in Ethiopia. This is traced to events when British accounting firms, like Price Waterhouse and Peat, opened branches in the country (Mihret, 2009).

Two significant developments in the history of accounting in Ethiopia took place in the 1960s. In 1960 the Commercial Code of Ethiopia was proclaimed (Government of Ethiopia 1960) which was followed by the formation of the Office of the Auditor General (OAG) in 1961 by Proclamation 199/1961 (Government of Ethiopia, 1961). The commercial Code contains accounting and external auditing provisions, which serve as the legal basis for financial reporting and external audit of companies (Argaw, 2000; Kinfu, 1990; ROSC, 2007).

The early seventies saw the creation of many professional associations in Ethiopia (Mengistu, 2008). An effort to establish indigenous professional accounting associations in Ethiopia occurred in 1973 when the Ethiopian Professional Association of Accountants and Auditors (EPAAA) was established (Argaw, 2000; Kinfu, 1990; Mihret, n.d). According to Mihret (2009), the EPAAA was aspiring to develop to a level where it would certify and license public accountants to practice in Ethiopia. Composition of members to the association included mainly accounting and auditing practitioners.

In 1974, a military government came into power in Ethiopia and declared a communist ideology. Most people agree that this period (up to 1991) was a time when the development of accounting appears to have been held back (Argaw, 2000; Blake, 1997; Kinfu, 2005). Nonetheless, an important landmark in the history of accounting and auditing in this period was the formation of the Audit Service Corporation (ASC) by Proclamation 126/1977 (Government of Ethiopia, 1977) (Mihret, 2009).

According to Seal, Sucher and Zelenka, (1996 as cited in Mihret, 2009), after 1991, when the country shifted back to a free-market economic order, a number of public enterprises were privatized, which resulted in a new corporate governance structure that would be expected to enhance the importance of financial reports. Change of government and the type of government are important influences on the development of the accounting profession. During this period the establishment of People's Democratic Republic of Ethiopia (PDRE) the power and functions of The Auditor General were reformulated and revised by proclamation 13/1988. In addition to this, the EPAAA has been re-activated and three other professional associations, i.e. the Ethiopian Accounting and Finance Association (EAFA), the Ethiopian chapter of the Institute of Internal Auditors (IIA), and the Accounting Society in Ethiopia (ASE) have been established (Mihret, 2009).

Thought there are a number of developments in accounting after the coming in to power of PDRE, there is no specific set of accounting regulations in Ethiopia (ROSC, 2007). Problems related to accounting regulations and financial reporting are now being recognized and appreciated in Ethiopia. For instance, the recent proclamation on banking business has set a direction for banks to use international standards when reporting their results. In addition, the newly established Ethiopian Commodities Exchange Authority (ECEA) has issued a draft directive on independent auditors to require members of the Exchange to use International Financial Reporting Standards in preparing financial statements and for the auditors to use International Standards on Auditing (Gizaw, n.d).

Though IFRS was developed in 1973 by professional accountants in different countries, its transition to Europe came in 2005. It has been evolving over the years. Currently, Ethiopia is in the progress of adopting it. Even though IFRS is required for a certain type of institution, Ethiopia lacks resources to implement IFRS properly and it also does not have an authoritative body for accounting which can guide and dictate the implementation of IFRS (Alemayehu, 2009; Minney, 2011). However, National Bank of Ethiopia (NBE) has already developed a guideline for standard financial reporting; it has trained its staff in that regard (Alemayehu, 2009). Ethiopian Commodities Exchange Authority (ECEA) has also issued a draft directive to require members of the Exchange to use international financial reporting standards in preparing financial statements (Gizaw, n.d).In 2011 Ministry of Finance and Economic Development (MoFED) issued a draft proclamation called Financial Reporting Proclamation of Ethiopia to provide for the financial reporting of Ethiopia. This proclamation requires reporting entities in Ethiopia to follow IFRS.

Proclamation no.592/2008, part six, article 23 of the banking business proclamation states about the Financial Records and External Audit Inspection of banks. According to article 23 sub article 1 of the proclamation, the National Bank of Ethiopia directs banks to prepare financial statements in accordance with the International Financial Statements Standards whether their designation changes or they are replaced, from time to time.

Similar to many developing countries, Ethiopia's financial reporting practices are driven by its tax laws and fragmented accounting practices acquired from the country's institutions of higher learning. Adopting IFRS as a national standard will have significant benefits for countries to improve corporate transparency that is required by investors and the public. Many countries are currently migrating to IFRS by abandoning their national accounting standards. This is an opportunity for countries like Ethiopia, which do not have national accounting standards even if transiting to international standards with weak financial reporting practices in the country may pose many challenges that must be overcome through time (Gizaw, n.d).

2.8. Empirical Evidence

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

Nadia et al., (2011) in their paper about IAS/IFRS implementation in Romania; they tried to see the implementation of IFRS in Romania. The purpose of the study was to investigate in-depth, and explain the issues related to, the implementation of IAS/IFRS in an emergent country that recently adhered to the European Union, i.e. Romania. An institutional and structuration theory perspective is used to discuss two stages of IAS/IFRS implementation in Romania. Both primary (11 in-depth semi-structured interviews conducted with key actors involved in financial reporting) and secondary data (accounting regulations after the fall of communism, with respect to the implementation of IAS/IFRS) were collected. According to the findings of the study the two stages of IAS/IFRS implementation had different outcomes, with a more profound and qualitative impact of the second phase. The first step was a result of coercive external forces, that is, the influence of the World Bank. Given the lack of other factors to favor the change process, it is argued that the actual implementation of IAS in that period was very limited. Even though the second step meant a reduction in scope to only listed companies in consolidated accounts and financial institutions, it is argued that it was accompanied by a change process more significant than in the previous period.

Vrentzou E. (2011), attempted to see the effects of International Financial Reporting Standards on the notes of auditors. The study tries to combine the developments in the accounting area with those in the auditing area. More specifically, it presents the effects of International Accounting Standards (IAS) on the auditor findings and report. International Standards on Auditing (ISA) are revised in order to be accepted by the European Union as the common and formal auditing standards of the member states. The introduction of IAS has been one of the most significant developments in the history of the financial statements preparation and presentation. The effects of the application of these standards are present both on the valuation of the firm and on the presentation of its "true and fair view". An extended analysis of the financial statements and the auditor reports is conducted. The effects of International Financial Reporting Standards (IFRS) on the auditor reports and notes, for the first two years of their formal application, are analyzed. According to the findings of the study it is realized that the auditor notes and the equity adjustments they propose are positively related to the notes that accompany financial statements before the application of IFRS, whereas they are negatively related to the explanatory notes imposed by IFRS. The different role of the company's notes before and after the application of IFRS and the relevant change of the auditor notes are further examined.

Ioannis Tsalavoutas and Lisa Evans (2010) investigated the transition to IFRS in Greece: financial statement effects and auditor size. The paper aims to explore the impact of the transition to International Financial Reporting Standards (IFRS) on Greek listed companies' financial statements with a focus on net profit, shareholders' equity, gearing and liquidity. It also seeks to examine any differences in the impact across the sub-samples of companies with Big 4 and non-Big 4 auditors. In line with the literature, the paper employs Gray's comparability index. The sample consists of 238 Greek companies, representing 75 per cent of the companies listed on the Athens Stock Exchange at the end of March 2006. Findings of the study shows that implementation of IFRS had a significant impact on financial position and reported performance as well as on gearing and liquidity ratios. On average, impact on shareholders' equity and net income was positive while impact on gearing and liquidity was negative. Only companies with non-Big 4 auditors faced significant impact on net profit and liquidity. They also faced a significantly greater impact on gearing than companies with Big 4 auditors. A large number of companies with material negative changes are identified, suggesting that transition to IFRS and the fair value option does not necessarily result in higher shareholders' equity figures. Many companies provided inadequate transitional disclosures. This is significantly related to auditor size. The findings of the study also suggest that reporting quality has improved under the new accounting regime, especially for companies with non-Big four auditors.

Apostolos A. Ballas, Despina Skoutela and Christos A. Tzovas (2010) conducted a research on the relevance IFRS to an emerging market by taking evidence from Greece. The paper aims to examine the relevance of International Financial Reporting Standards (IFRS) in emerging markets, with special reference to the case of Greece. The paper also adopts a mixed methodology relying primarily on secondary sources such as the relevant legislation, published annual reports and reports on the effects of the application of IFRS by Greek firms as well as the results of a postal survey addressed to the finance managers of the top 100 Greek firms. For the postal survey, a modified version of the questionnaire used by Tyrall et al. was adopted. Although the Greek environment was not appropriate for IFRS application, participants in the survey believe that their adoption improved the quality of financial reporting. The introduction of IFRS increased the reliability, transparency and comparability of the financial statements. This study provides insights regarding the extent to which the introduction of IFRS influenced the accounting information supplied by firms operating within the European Union.

Robyn Pilcher and Graeme Dean (2009) conducted a study on the implementation of IFRS in local governments: adding value or additional pain. The aim of this paper was to determine the impact financial reporting obligations and, in particular, the International Financial Reporting Standards (IFRS) have on local government management decision making. In turn, this will lead to observations and conclusions regarding the research question: "Does reporting under the IFRS regime add value to the management of local government?" Following analysis of a survey instrument distributed to all local governments in all states of Australia, this research reports on interviews within Australia's largest state New South Wales (NSW). In general, findings suggest that for smaller councils and those situated away from the major cities, the time spent on complying with IFRS and various other legislative demands results in management accounting issues often being downplayed. According to the researchers a further paper needs to be conducted in order to determine in the second year of implementation the impact of IFRS both in Australia and, in the future, in other countries where local government is implementing IFRS.

Stella Fearnley and Tony Hines (2007) investigated how IFRS has destabilized financial reporting for UK non-listed entities. The paper aims to trace the development of attitudes towards financial reporting solutions for entities not subject to the European Union (EU) Regulation. This Regulation mandated application of IFRS for the group accounts of listed companies for financial years beginning 1 January 2005. It seeks to evaluate the alternatives in the light of changing attitudes to IFRS, and the accounting model being adopted, particularly focusing on the problems facing smaller companies. The paper employs qualitative analysis of data from two main sources: first, a series of interviews with financially literate individuals before IFRS was implemented in the UK; and second, from responses to ASB's consultations on the future of financial reporting for non-listed entities. According to the findings of the study the increasing perception is that IFRS is overly complex and is complicating the search for appropriate form of financial reporting for entities not covered by the EU Regulation. In particular, there is a difficulty in knowing the correct dividing point between large and small company accounting, and views on this have evolved over time. The needs of small and medium enterprises appear to have been ignored in the debates dominated by the requirements of global players. The research implications are that further, possibly more radical policy options need to be considered for smaller companies to ensure that the costs of financial reporting remain in proportion to the benefits.

Monir Z. Mir and Abu S. Rahaman (2005) conducted a research on the adoption of International Accounting Standards in Bangladesh. The aim of the paper was to evaluate the decision of the Bangladesh Government and accounting profession to adopt international accounting standards (IASs). The paper uses a variety of archival data and interviews with key actors, including preparers and users of annual reports, members of the Securities and Exchange Commission, and members of the professional accounting bodies. Findings of the paper shows that institutional legitimization is a major factor that drives the decision to adopt IASs because of the pressure exerted by key international donor/lending institutions on the Bangladeshi Government and professional accounting bodies. Such pressure results from not only the need to provide credibility to foreign investors but also the need for strong accountability arrangements with lending/donor agencies. However, the perceived undemocratic nature of the adoption process appears to be creating and enhancing conflict among various constituencies, resulting in very low compliance with these standards.

2.9. Summary and Gap in the Existing Literature

Because of the problems associated with worldwide accounting diversity, attempts to reduce accounting differences across countries have been ongoing for decades (Nobes, 2004). Because of the advantages it provides for countries and multinational companies, many countries adopt International Financial Reporting Standards. Adoption of IFRS has a number of important benefits for a wide range of stakeholders such as, increased comparability of consolidated accounts, increased levels of transparency, better access to the global capital markets and other stakeholders would benefit from overall better reporting and information (Iyoha and Faboyede, 2011; Apostolos et al., 2010; William et al., 2010; Jermakowicz et al. 2007; Alicja et al., 2007; Susana et al., 2007; Jermakowicz, 2004).

In spite of the quite many benefits of IFRS adoption, it is also a difficult task and has many challenges. As evidenced by the global experience, convergence with IFRS has significant challenges common to all countries and companies and there are also certain specific challenges that are unique to particular countries and companies. Growing bodies of literature revealed that more complex financial reporting requirements; resultant increase in costs; availability of resources with expertise in IFRS; ethical environment, the ability to protect qualified and competent employees from being poached by other companies and from an overall perspective, amendments to regulatory requirements and tax laws; and impact on IT systems and compensation structures are the main challenges of IFRS (Iyoha and Faboyede, 2011; Apostolos et al., 2010; Jermakowicz et al., 2007; Jermakowicz, 2004; Wong, 2004; Alexander, 2003).

Although various survey studies have been conducted to assess the adoption of IFRS in different countries of the world, most of the studies have been carried out on IFRS analyzing the data from member countries of EU (Apostolos et al., 2010;

William et al., 2010; Alessandro et al., 2009; Robyn and Graeme, 2009; Alicja et al., 2007; Jermakowicz et al., 2007; Susana et al., 2007; Jermakowicz, 2004). Comparatively fewer numbers of studies have been carried out on data from other countries (Iyoha and Faboyede, 2011; Ojeka and Mukoro, 2011). Even though IFRS seems to be equally important for all countries, there is a dearth of empirical study that examines the data from developing countries and in particular Ethiopia. Therefore, this study makes an attempt to bridge this gap and elaborated the benefits, challenges, and the factors that could influence the adoption of IFRS in Ethiopia.

Chapter 3: Methodology

3.1. Introduction

This chapter describes the methodology used in order to conduct the study. It describes the types of methods selected for data collection and analysis and the reasons for why these methods were chosen in comparison to the other alternative methods. The chapter consists of seven sections. The first two sections present the research approach and the survey design of the study. The third and fourth sections outline the theoretical frame work adopted for this study and development of hypotheses respectively. The fifth section presents the regression model and measurement of the variables. The sixth section is about data analysis methods and the final section outlines the validity of the study.

3.2. Research Approach

As per Creswell (2003) there are three approaches that are used in conducting a given research. These are quantitative, qualitative and mixed research approach. Quantitative research approach focuses primarily on the construction of quantitative data, and quantitative data is a systematic record that consists of numbers constructed by researcher utilizing the process of measurement and imposing structure (Kent, 2007). The quantitative research approach employ measurement that can be quantifiable while qualitative cannot be measured (Bryman & Bell, 2007). In mixed research approach inquirers draw liberally from both qualitative and quantitative assumptions (Creswell, 2009).

In this paper the researcher used mixed research approach; the rationale for combining both quantitative and qualitative data is to better understand a research problem by combining both numeric values from quantitative research and the detail of qualitative research and to neutralize limitations of applying any of a single approach. According to Creswell (2009) the mixed research approach uses separate quantitative and qualitative methods as a means to offset the weaknesses inherent within one method with the strengths of the other method.

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

3.3. Survey Design

This study has intent to assess the adoption of International Financial Reporting Standards in Ethiopia. To do this, the methods employed are survey design. Survey research according to Fowler (1993) is a means of gathering information, usually through self-report using questionnaires or interviews. Its purpose is to generalize from a sample to a population so that inferences can be made and it is also economical and rapid turnaround in data collection (Creswell, 2003). This survey was conducted by means of self-administered questionnaire which was distributed to finance officers (CFO, Controllers or Accounting Directors) and accountants of companies which adopt IFRS. Questionnaire is a common place instrument for observing data beyond the physical reach of the observer (Leedy, 1989).

3.3.1. Sample Selection

Survey sampling is the process of choosing, from a much large population, a group about which the researcher wish to make statements so that the selected part will represent the total group (Leedy, 1989). The population considered in this study is the number of companies in Ethiopia which adopt IFRS and randomly draw a sample from the total to get rich evidence. According to the register of National Bank of Ethiopia (NBE) and Ethiopian Commodities Exchange Authority (ECX), as of December, 2011, the total numbers of companies which adopt IFRS in the country are 103, of which 89 are member companies of ECX. Therefore, out of the total number of companies in Ethiopia which adopt IFRS 21 sample companies are selected. According to Cohen et al., (2005), covering the entire companies in the study makes the study difficult. Therefore, the researcher decided to draw 20 percent of the whole population for investigation. For a homogenous population this much sample size is believed to be representative (See for example Cohen et al., 2005).

The sampling design for this population is simple random sampling. In random sampling each individual in the population has an equal probability of being selected which is important for the external validity of the study (Creswell, 2009). Since the aim of the study is to make theoretical inferences from the results of the study that are suitable for further empirical investigation in any other context, this random sampling is the most appropriate method. The number of finance officers and accountants in the headquarters of the respective companies were collected from human resource of each organization and all of them were included in the sample. And the researcher distributed up to 105 questionnaires.

3.3.2. Data and Collection Instruments

This study used both primary and secondary data. Primary sources of data include interview and questionnaire, whereas secondary sources data was generated through a review of relevant documents.

3.3.2.1. Questionnaire

Questionnaires were distributed to finance officers and accountants of the selected companies. Finance officers and accountants were selected as respondents because they are deemed to be knowledgeable about IFRS and could provide important perspective on its adoption. The response is expected to help understand the factors that could explain the adoption IFRS by Ethiopian companies, the perceived and actual benefits and challenges of International Financial Reporting Standards both for companies and for the country at large.

The research evidence was gathered by using both close-ended and open-ended questionnaires. Mixed questionnaires have many merits; the most important of this advantage is its considerable flexibility (McNabb, 2005).

The questionnaires were structured based on those used by Iyoha and Faboyede (2011), and Sharif (2010).With regard to the close- ended questions, the respondents were asked to indicate their level of agreement on a five point Likert scale with the following ratings. Strongly agree (SA; or 5), agree (A; or 4), neutral (N; or 3), disagree (D; or 2), and strongly disagree (SD; or 1). On this scale a score of 5 or 4 indicates that the item is perceived to be essential while a score of 3 or 2 indicates that the item is perceived to be fairly important, but not essential, while a score of 1 indicates that the item could be disregarded for being unimportant. Similar scales have been used by Courtis (1992) and Iyoha and Faboyede (2011) and were found suitable. With respect to the open ended questionnaires the respondents were asked to provide open ended responses to the questions that require opinion and if they have opinions they feel the researcher would find useful.

3.3.2.2. Interview

Semi structured interview with financial managers and audit directors of the selected companies were conducted. It allowed the investigator some degree of flexibility at the time of interviewing for the pursuit of unexpected line of inquiry which was arising at the study progresses. Questions in the interview checklist were constructed based on the review of literature.

In the process of preparing, testing and using the instruments, the following procedures have been followed.

i. The questionnaires and the interview guides were developed based on literature review relevant to the issue and the specific objectives.
ii. Both tools were judged for their validity using professionals in the area.
iii. In the final study, the questionnaires and interview were administered both by the researcher and assistants.

3.3.2.3. Document Review

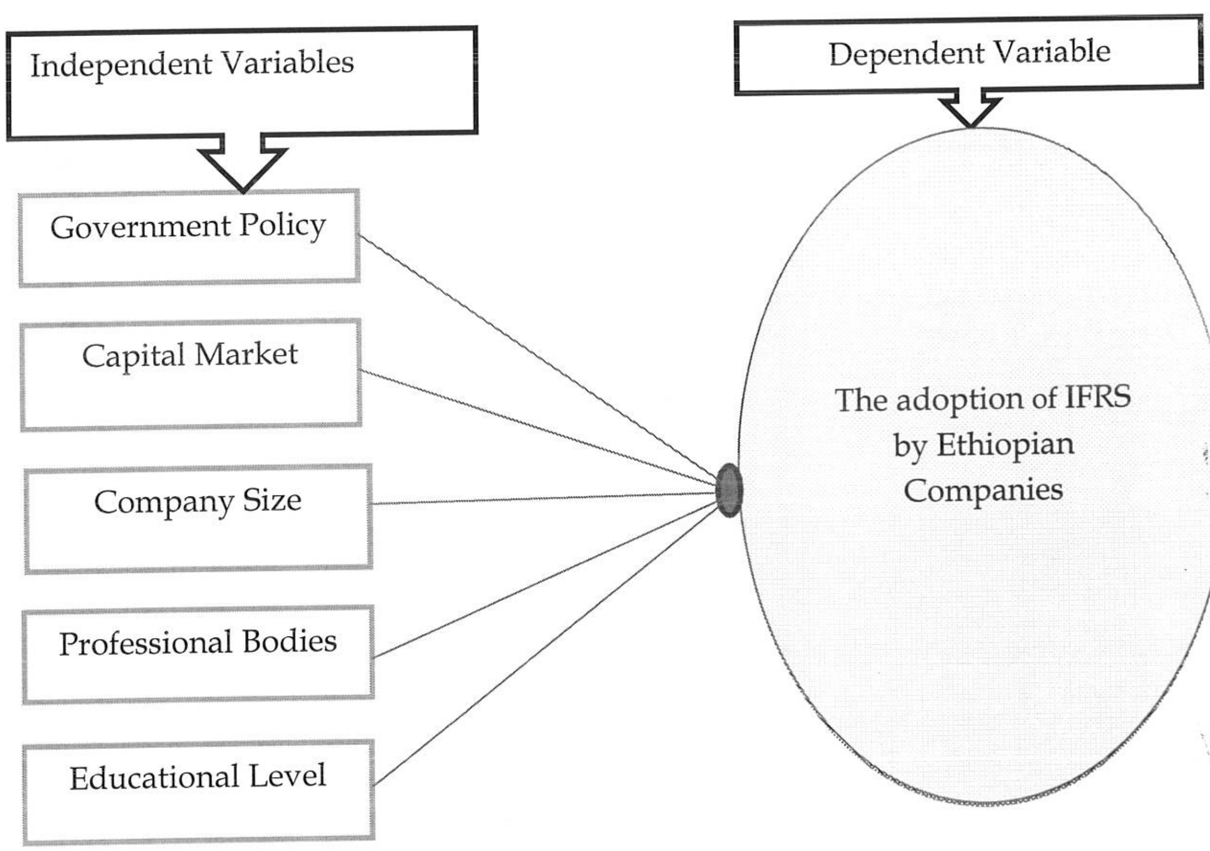
The review of documents helped the researcher to understand the key facts of the organizations. The documents were reviewed by referring most recent information from authorized documents and different reports. Annual reports, legislations, directives and other documents related to the adoption and use of IFRS were used. The document reviews were used to triangulate the data collected by the questionnaires and interviews.

3.4. Theoretical Framework

Theoretical framework explores, describes, explains, analyzes and presents fact, principle and provisions of phenomena for better and background understanding of such phenomena (Frank, 1979). To achieve part of the research objective and to test the research hypotheses, this study used the theoretical framework developed by Sharif, (2010) with some minor modifications.

In this study the dependent variable is the adoption of IFRS, while the independent variables are Government Policy, Professional Bodies, Company Size, Capital Market, and Educational Level. The study is interested in testing the variability of these variables. Do these variables truly in any way affect the adoption of IFRS by Ethiopia or not.

Figure 1; Factors affecting the adoption of IFRS



Source: Sharif, (2010), Pp.23 (with minor modifications)

3.5. Hypotheses Development

According to Frank (1979) a hypothesis is the tentative statement of fact that is yet to be verified by the researcher. In this study in order to address the third research question which is about factors that could explain IFRS adoption one dependent variable against five independent variables were investigated. Variables examined and their measurements are formulated from the existing literature (e.g. Sharif (2010), Jermakawicz (2007), Chamisa (2000)) with some adjustments to suit this study. The dependent variable is the adoption of IFRS, while the independent variables are Government Policy, Professional Bodies, Company Size, Capital Market, and Educational Level.

The description of both dependent and independent variables with related hypothesis is discussed below;

3.5.1. Dependent Variable

The dependent variable is the variable that is the effect or is the result or outcome of other (independent) variables (Neumann, 2007). In this study the dependent variable is the adoption of IFRS as explained below.

3.5.1.1. IFRS Adoption

International Financial Reporting Standards (IFRS) are standards for reporting financial results and are applicable to general purpose financial statements and other financial reporting of all profit oriented entities. The term IFRS comprises

IFRS issued by IASB; IAS issued by IASC; and interpretations issued by the Standing Interpretations Committee (SIC) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB (Hoyle B., et al., 2009, Baker E. et al., 2009 and Larsen E. 2008).

Globalization of accounting standards under the lead of International Financial Reporting Standards (IFRS) is becoming trend among countries because of the advantages it provides for countries and multinational companies. According to the proponents of accounting harmonization, worldwide comparability of financial statement is necessary for the globalization of capital markets. It would be easy for investors to evaluate potential investments in foreign securities and it would also simplify multinational companies' evaluation of possible foreign takeover targets. International Financial Reporting Standards would reduce the cost of preparing worldwide consolidated financial statements. Multinational companies would also find it easier to transfer accounting staff to other countries (Apostolos et al., 2010; Iyoha and Faboyede, 2011; Jermakowicz, 2004; Alicja et al., 2007; Susana et al., 2007; William et al., 2010).

Therefore, by definition, IFRS adoption is referred to as harmonization of international accounting standards in to the practice of the local accounting standard and in this case in Ethiopia. The adoption it has been argued has the aforementioned and plenty of other benefits.

3.5.2. Independent Variables

The independent variables are the cause variables or the one that identifies forces or conditions that acts on something else (Neumann, 2007). In this study, the five independent variables are Government Policy, Professional Bodies, Company Size, Capital Market, and Educational Level as explained below.

3.5.2.1. Government Policy

The government policy plays an important role in IFRS adoption in many developing countries (Jermakawicz, 2007, Chamisa, 2000). According to Najar (2007) as cited in Sharif (2010, p. 26) government policy affect the adoption or non-adoption of IFRS in developing countries. There is evidence that after establishing communistic economies, the government of these countries reviewed and redefined the role of accounting under the political and economic system (Chamisa, 2000). The formation of the following hypothesis has become necessary in order to ascertain the possibility of government policy having an influence in the adoption of IFRS in Ethiopia.

H1: There is a relationship between government policy and adoption of IFRS

3.5.2.2. Capital Market

Among the factors noted to be influencing the adoption of IAS in developing countries, availability of capital market is singled out as very cogent (Zeghal and Mhedhbi, 2006). Capital market here is referred to a market for securities (debt or equity), where business enterprises and governments can raise long term funds.

Most authors argue that capital markets in developing countries are small and inefficient and hence the adoption of IFRS is irrelevant to these countries. According to Al- Shammari, et al, (2008) and Chamisa, (2000) the growth and opening of capital markets in a developing countries put pressure on government to adopt IFRS, in the expectation that adoption would meet demands by local and international investors for more detailed and comparable financial reporting. It is in this regard the following is hypothesized in this study.

H2: There is a relationship between capital market and adoption of IFRS

3.5.2.3. Educational Level

Chandler and Holzer (1984) indicated that one of the factors affecting the accounting system of developing countries is the educational level of accountants. A positive relationship between education level and the competence of professionals has been established by the growing bodies' literature (Chandler and Holzer, 1984). According to Zeghal and Mhedhbi, (2006) the adoption of IFRS requires a high level of education, competence, and expertise to be able to understand, interpret and then make use of these standards. It is in this regard that the next hypothesis is formulated.

H3: There is a relationship between education level and adoption of IFRS

3.5.2.4. Professional Bodies

According to Sharif, (2010) a professional body is a group of people in a learned occupation who are entrusted with maintaining control or oversight of the legitimate practice of the occupation; also a body acting to safeguard the public interest; organizations which represent the interest of the professional practitioners, act to maintain their own privilege and powerful position as a controlling body. According to Mir and Rahman (2005) the existence of professional accounting bodies is a major factor that drives the decision to adopt IFRS. Similarly, Aljifriand Khasharmeh, (2006) and Chamisa (2000) showed that professional bodies play important roles in IFRS adoption in developing countries. It is in this regard the following is hypothesized in this study.

H4: There is a relationship between professional bodies and adoption of IFRS

3.5.2.5. Company Size

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

H5: There is a relationship between company size and adoption of IFRS

3.6. Measurement of Variables and the Regression Model

As it is already mentioned above the dependent variable in this study is the adoption of IFRS by Ethiopia. Adoption of IFRS is measured with 7 items from the scales developed using the five-point Likert Scale of "1-Strongly Disagree", "2-Disagree", "3-Neutral", "4-Agree" and "5-Stronly Agree". As per the hitherto existing literature, it is possible to measure these variables by primary data Questionnaire. This measure is expected to bring a reliable result after the collection of the data and its analysis.

The regression model below reveals that there is a relationship between one dependent variable (adoption of IFRS) against five independent variables (Government Policy, Professional Bodies, Company Size, Capital Market, and Educational Level) and therefore, multiple regression analysis have been used for the study. As shown in the appendix there are two questions each to capture government policy, educational level and company size, and one question each to capture capital market, and professional bodies.

The full regression model for the empirical investigation in estimating Factors that might explain the adoption of International Financial Reporting Standards in Ethiopia is given as:

$$\mathbf{IFRS_i = \beta_0 + \beta_1 GP_i + \beta_2 CM_i + \beta_3 EL_i + \beta_4 PB_i + \beta_5 CS_i}$$

Where: IFRSi = Adoption of IFRS by Ethiopia

GPi = Government Policy

CMi = Capital Market

ELi = Educational Level

PDi = Professional Bodies, and

CSi = Company Size

3.7. Data Analysis

As explained in the preceding part, the research is designed to follow a mixed method. To this end, both qualitative and quantitative analyses were used. Data collected using questionnaire were analyzed through descriptive statistics, frequency distribution, correlation and multiple linear Regression using Statistical Package for the Social Scientists (SPSS). It helps to describe what the data look like, where there center (mean) is, how broadly they are spread in terms of one aspect to the other aspect of the same data (Leedy, 1989). The SPSS is used to find out percentages, mean values, frequencies, correlations, etc. as main means for summarizing the data. Data collected from the interview and reviews of documents are interpreted qualitatively. In analyzing the data from interviews, narrative approaches including quotations from respondents have been used.

3.8. Validity of the Study

Validity refers to the degree to which a study accurately reflects the specific concept that the researcher is attempting to measure or describe. In order to keep the validity of the study, researchers should be concerned with both external and internal validity. Internal validity refers to the extent to which the researcher can demonstrate that he has reliable and adequate evidence for the statement (Grix, 2004). External validity on the other hand stands for the extent to which the conclusion is generalized to the population (Yin, 1994).

Yin (1994) suggested using multiple sources of evidence as the way to ensure construct validity. This study used multiple sources of data including document review, interview and questionnaire that helps to cross validate the data. In addition, the study used instruments developed by Iyoha and Faboyede (2011), and Sharif (2010). Since questions are tested up on their clarity and understandability and significant conclusions are drawn using those questions, it adds both to the internal and external validity of the study. In order to keep the validity the researcher chose representative respondents which are familiar with the issue and are experts in the field, which enhance the external validity of the result.

Chapter 4: Results and Discussion

4.1. Introduction

This chapter explains and discusses the results of findings based on the analysis done on the data collected. The results of the study are discussed by triangulating the different sources results: questionnaire results, interview and document review results. The discussion attempts to accomplish the objectives of the study, answer the research questions and test the hypotheses.

A total of 105 questionnaires which dealt with the Adoption of International Financial Reporting Standards were distributed to a sample of companies which adopt this international standard. However, only 79 questionnaires were collected out of which 75 questionnaires had usable responses (71.4% response rate). Compared to other IFRS adoption studies and considering the difficulty of collecting data in developing countries such as Ethiopia, a 71.4 % response rate was reasonably good. All the survey respondents were located in Addis Ababa.

As indicated in the previous chapter, survey was the main strategy of inquiry adopted to investigate the adoption of IFRS in Ethiopia. To this end, the results obtained from the survey are analyzed through descriptive statistics, frequency distribution, correlation and multiple linear regressions. Descriptive measures of the questions response, the results of correlation and regression model, and interview and document sources results are presented in the subsequent sections.

4.2. The Application of IFRS in Ethiopia

According to ROSC (2007), so far there is no particular accounting standard in Ethiopia. Even though some of the laws indicate to use Generally Accepted Accounting Principles for example the income tax proclamation of Ethiopia article 58(1), neither of the international standards are officially adopted. But very recently, the government of Ethiopia issued a draft proclamation called "Financial Report Proclamation of Ethiopia" which obliges 'public interest entities' to follow IFRS in their financial reporting.

Even though Financial Report Proclamation of Ethiopia is being criticized for not setting a firm deadline for the IFRS transition, it sets the financial reporting standards that reporting entities in Ethiopia should use when preparing their financial statements. These are:

a) IFRS issued by IASB or its successor;

b) IFRS for SMEs issued by IASB or its successor and;

c) International Public Sector Accounting Standard (IPSAS) issued by the International Public Sector Accounting Standards Board or its successor.

According to the draft Financial Reporting Proclamation of Ethiopia, the country is in the progress of adopting IFRS and it is already required for a certain type of institutions. The main problem associated with this was the lack of an authoritative body for accounting which can guide and dictate the implementation of IFRS. These days it can no longer be a problem, as the Council of Ministers established the Institute of Certified Public Accountants of Ethiopia. The Institute of Certified Public Accountants of Ethiopia has objectives, among others, to promote the development of the accounting profession; and ensure the accountancy profession acts in the public interest.

There is no doubt that, individual countries, both developed and emerging economies, are adopting IASB standards. Since most of the countries in the world are following IFRS, Ethiopia should not isolate itself. In this regard the survey respondents were asked to mention the previous accounting standards they used to prepare financial statements and to compare IFRS with the previous standard. Based on the data finding most of them stated the nonexistence of any particular previous accounting standard in the country and they believe that the financial reporting practice of Ethiopia is driven by its tax laws. On the other hand some of the respondents mentioned GAAP as their previous standard.

In contrast the interview result indicated the absence of specific accounting standard in the country and the application of fragmented accounting practices acquired from the higher learning institutions. Because of the absence of one set of accounting standard in the country financial statements depict limited information for users. This shows the existence of urgent need for Ethiopia to adopt International Financial Reporting Standards and help financial statement users get the best out of financial statements.

In relation to the respondents perception regarding the previous standards and IFRS, more than half of the respondents indicated that IFRS is more preferable which consists of 53 (70.7%) of the respondents (table 4.1).

Table 4.1 Comparison of previous accounting standard to IFRS

		Frequency	Percent
	Previous standard	19	25.3
	IFRS	53	70.7
	Total	72	96.0
Missing	System	3	4.0
Total		75	100.0

Source: Survey results

The respondents were also asked to list the reasons for their preferences, and most of them believe that IFRS would enhance the comparability of financial statements and make them more reliable. They believe that the benefits of uniform and complete information provided by IFRS would help different stake holders such as investors, regulators, managers, accounting professionals and others to have confidence on the financial statements and to get the best out of the financial statements. Adoption of IFRS would also provide greater reporting transparency for the financial statements, improves management information for decision making, and provides better information for investors so that they can make informed decisions.

This fact is further captured in an exclusive interview which has been held between Hikmet Abdela, the country manager of the Association of Chartered

Certified Accountants (ACCA) and African capital markets news writer Tom Minney. She clearly explained the benefit of IFRS for Ethiopia in practical terms as follows:

> *Adopting IFRS will make it easier for investors and businesses to evaluate the financial performances of organizations with which they might do business or invest in: The standardized auditing system will enable the Ethiopian Revenues and Customs Authority (ERCA) to rely on external auditor's reports for their tax collection. It will also afford banks the confidence to grant loans based on the financial statements of a company.*

Even though IFRS is required for a certain type of institutions, the companies are not applying the standards properly. According to finance manager of one of the member companies of ECX, the companies which start using IFRS do not fully apply all of the standards rather they make some minor amendments to the existing financial reporting standards. Regardless of article 24 sub article 2 of the regulation issued by Ethiopian Commodities Exchange Authority (ECX) for external auditors which states that member companies should keep their accounts in accordance with IFRS for SMEs, the authority do not strictly follow the application of all the standards. Instead of following the proper application of the standards ECX gives it's trading members a format to use in reporting their financial information. A sample format used by the trading members in preparing their statement of net worth is attached in the appendix. Despite heavy stipulation on the blue print, very few elements of the standards hit the ground per se. The finance manger noted in the interview that:

> *If these standards are adopted and not applied, they become white elephants - big but valueless.*

Furthermore the published financial statements of the companies reveal the same fact about the lack of proper applicability of some of the IFRS standards. Even though IFRS provides a fair value option for property, plant and equipment and other financial assets, the United Bank Share Company prepares its financial statements on historical cost basis. According to the 2011 annual report of the bank, financial assets and liabilities and non-financial assets and liabilities are stated at amortized cost or historical cost, except for foreign currencies which are stated at closing exchange rate. On the other hand the Commercial Bank of Ethiopia recognizes gain on disposal of property and equipment by comparing the proceeds on disposal and the carrying amount of the respective item, regardless of IAS 16 which states that an entity cannot classify as revenue a gain it realizes on the disposal of an item of property, plant and equipment.

The National Bank of Ethiopia (NBE) in case of banks, and the Ethiopian Commodities Exchange Authority (ECX) in case of its member companies, requires compliance with the International Financial Reporting Standards. Even though the benefits are longer lasting than the problems in applying IFRS, the respondents believe that the required companies are facing many challenges. Lack of proper instructions from regulatory bodies, lack of availability of competent specialists, need for training, and lack of IFRS implementation guidance are listed among the most important challenges of IFRS adoption in Ethiopia. In alleviating these problems HST Chartered Certified Accountants, independent external auditing and consulting firm in the country and very few others are providing professional service to companies in the form of trainings and consultations.

4.3. Benefits of Adoption of IFRS

In this section, the questionnaire results related to the benefits of IFRS adoption were analyzed. The data related to benefits of IFRS to companies, investors, management, and other stakeholders such as regulatory bodies and to accounting professionals will be presented and discussed separately.

4.3.1. Benefits of Adoption of IFRS to Companies

Seven questions were distributed to assess the benefits of IFRS adoption to Ethiopian companies. The mean response of the seven questions under benefits of adoption of IFRS to companies were more than 3.00 and the standard deviation were also less than 1.00, which indicates that the respondents perception were close to one another. The findings of this survey seem consistent with the results of the survey carried out by Apostolos et al., (2010) among Greece publicly traded companies, which revealed that on average the respondents agreed with the proposition that the adoption of IFRS has many benefits to companies.

Table 4.2. Descriptive statistics benefits of adoption of IFRS to companies

	N	Mean	Std. Deviation
Adoption of IFRS improves the efficiency of financial reporting	75	4.7200	.45202
Financial statements based on IFRS are reliable and comparable	75	4.4133	.75504
Adoption of IFRS improves effectiveness of financial reporting	75	4.4133	.63869
IFRS makes external financing easier	75	4.1733	.84427
It provides greater reporting transparency	75	4.4133	.57171
It enables greater effectiveness of the internal audit	75	4.1867	.94000
Reduced cost of capital	72	3.8750	.99205

Source: Survey results

In relation to the assertion that IFRS result in improved efficiency and effectiveness of financial reporting, many respondents (with mean response of 4.71) believe that adoption of IFRS improves the efficiency of financial reporting and the mean response of 4.41 to the question related to effectiveness of financial reporting under IFRS indicates that adoption of IFRS improves the effectiveness of financial reporting.

The survey respondents agreed with the proposition that financial statements prepared based on IFRS are more reliable and comparable. Similarly, the interview result reveals that since similar economic transactions are accounted for similarly by eliminating different methods of accounting for the same transactions, adoption of IFRS leads to improved comparability and reliability of financial statements. Respondents who do not agree that IFRS increase comparativeness of the financial statements may be influenced by the widely acknowledged tendency of IFRS to sanction multiple alternative treatments (Bowrin, 2007, p. 29).

Almost all of the respondents believe that the financial statements would become more transparent as a result of the adoption of IFRS while most believed that the adoption of IFRS would make external financing easier. The adoption of IFRS would also enable greater effectiveness of the internal audit. Many of the respondents believe that IFRS should have been implemented earlier in Ethiopia due to the greater transparency and the better provision of information that IFRS supply in a globalized environment. In relation to transparency of financial statements the interview result reveals that the increased transparency promised by IFRS could substantially reduce the agency problem between management and shareholders through implementation of IFRS as increased transparency causes managers to act more in the interests of the shareholders. It could also cause a similar increase in the efficiency of contracting between firms and lenders. This finding was (consistent with Jermakowicz, 2004; and Apostolos et al., 2010).

The final question under benefits of adopting IFRS for companies was about cost of capital of a firm, i.e. whether adoption of IFRS brings about a reduction in cost of capital for companies. As it is shown in the table above the mean response and standard deviation indicates that adoption of IFRS would significantly reduce cost of capital of firms. The finding of this study is supported by the conclusions' forwarded by Iyoha and Faboyede, (2011); and Leuz, and Verrecchia, (2000). Leuz, and Verrecchia, (2000) states that lower cost of information, reduction in bad earnings management, increased value relevance of accounting information, greater marketability of shares, and reduced information asymmetry between managers and shareholders have positive impact on cost of capital. The aforementioned benefits of IFRS would lead companies to a reduced cost of capital.

4.3.2. Benefits for Investors

Table 4.3. Descriptive statistics of benefits of adoption of IFRS to investors

	N	Mean	Std. Deviation
IFRS provides better information for decision making by investors	75	4.5467	.50117
Investors will have more confidence in the information presented using IFRS	75	4.4667	.57735
Adoption of IFRS enhance transparency of companies through better reporting	75	4.3333	.55345

Source: Survey results

As shown in table 4.3 above three questions were distributed to assess the benefits of adoption of IFRS to investors. The mean response was above 3.00 and the standard deviation was less than 1.00. It indicates that the respondents' perceptions were close to one another. This shows that in the view of respondents the adoption of IFRS will make it easier for investors to evaluate the financial performances of organizations with which they might do business or invest in, enhance transparency of companies through better reporting, and they will have more confidence in the information presented.

One of the main objectives of IASB is to develop, in the public interest, a single set of high quality, understandable and enforceable global accounting standards that require high quality, transparent and comparable information in financial statements and other financial reporting to help participants in the various capital markets of the world and other users of the information to make economic decisions. According to this objective of IASB adoption of IFRS enhance transparency of companies through better reporting and provides better information for decision making by investors. Since the standards are high quality, transparent and comparable, investors will have more confidence in the information presented using IFRS.

4.3.3. Benefits for Management

Table 4.4. Descriptive statistics of benefits of adoption of IFRS to management

	N	Mean	Std. Deviation
Enables better risk management	72	4.3056	.54744
IFRS improves management information for decision making	75	4.5733	.49792
IFRS promotes cross border investment	75	4.1333	.77692

Source: Survey results

As it is shown in table 4.4 three questions sought to ascertain the benefits of IFRS adoption to management. The mean responses of all questions were above 4.00. This indicates that in the view of respondents, adoption of IFRS provides management of a company with better risk management, improved management information for decision making and it promotes cross border investment. The interview result reveals that management will benefit, amongst others, improved management information presented in the financial statements which they can use for decision making. Managers will also be at ease to manage risk and value firms which follow identical accounting measures; the risk assessment can be done more accurately on account of decreasing disparities in the flow of information.

The results of this study are supported by the conclusion forwarded by Larson et al., (2004). They stated that IFRS financial statements are rather seen as a comprehensive information package, than only as a reporting of the financial situation of the company. The management gets better and easier information on how to direct the business.

4.3.4. Benefits for Other Stakeholders

The last section of the questionnaire under benefits of IFRS probed the perception of respondents with regard to the importance of the adoption of IFRS for other stakeholders. Benefits of IFRS for stakeholders such as regulatory bodies, accounting and auditing professionals and financial analysts are dealt in this particular section.

Table 4.5. Descriptive statistics of benefits to other stakeholders

	N	Mean	Std. Deviation
IFRS adoption improves regulation oversight and enforcement	75	4.0000	.69749
IFRS provides greater credibility and improved economic prospects for the accounting profession	75	4.2400	.67464
It provides better reporting and information on new and different aspects of the business	75	4.3200	.54920

Source: Survey results

Under this section three questions were distributed and all of them had mean response of greater than 4.00 and standard deviation of less than 1.00. This indicates that in view of the respondents, adoption of IFRS is highly beneficial to other stakeholders.

The interview result suggests that one set of universally accepted accounting standards would make it easier for multinational companies and international auditing firms to transfer accounting and auditing staff to other countries. In other words IFRS would provide professional opportunities for accountants and auditors to serve international clients and it would increase their mobility to work in different parts of the world either in industry or practice. This implies that adoption of IFRS provides greater credibility and improved economic prospects for the accounting profession. Similarly, other stakeholders such as regulatory bodies and financial analysts would benefit from improved regulation oversight and enforcement, overall better reporting and information on new and different aspects of the business.

4.4. Challenges of IFRS Adoption

There were ten questions under challenges of IFRS adoption. All questions had a mean response of more than 3.00. Standard deviations of the first two questions were more than 1.00, which were "Adoption of IFRS is costly and IFRS increases the complexity of financial reporting". This indicates that the respondents perception were far away from one another. The remaining eight questions had standard deviation of less than 1.00; standard deviation of less than 1.00 on the other hand shows that respondents' perceptions were close to each other. The result in table 4.6 revealed that on average the respondents agreed up on the challenges of IFRS adoption.

The survey respondents agreed with the proposition that adoption of IFRS is costly (with a mean response of 3.52). According to the interview result this is due to the complex and less understandable nature of IFRS and it is especially the case for developing and least developed countries. This complexity requires a double workload during the transition year for finance and accounting people and many others. This results in not only increased internal employee cost but also external monitoring costs such as high audit fees. A training program for staff across the company is also another costly investment and of course one of the most important factors that increase the adoption of IFRS.

Table 4.6. Descriptive statistics of challenges of IFRS adoption

	N	Mean	Std. Deviation
Adoption of IFRS is costly	75	3.5200	1.15501
IFRS increases the complexity of financial reporting	75	3.0600	1.22408
There is lack of IFRS implementation guidance	75	3.7733	.92376
IFRS brings about increased volatility of earnings	75	3.4267	.80829
Tax driven nature of previous standards is a challenge for IFRS adoption	72	3.5833	.81793
Lack of availability of competent specialists	75	4.0400	.72485
Need for training	75	4.3333	.68445
Lack of proper instructions from regulatory bodies	72	4.2917	.68046
Problem with the IT system in handling the transition to IFRS	75	4.0000	.94440
Problem with IFRS's use of fair value accounting	75	3.9200	.94096

Source: Survey results

Even though IFRS adoption requires companies a huge amount of initial investment during the implementation phase, benefits of IFRS will accrue throughout the life of the company as a going concern. In other words the benefits of IFRS are longer lasting than the costs that occur during the initial phase of its adoption.

Another challenge in the process of adopting IFRS, according to respondents is it increases the complexity of financial reporting. According to Jermakowicz, (2004), one of the reasons is the complex nature of some of the IFRS, including standards related to hedge accounting (IAS 39) and impairment tests (IAS 36). For some businesses, criteria for the capitalization of development costs seem to be 'away from economic reality' (IAS 36). Even though IFRS is being criticized for its wide and complex nature, some respondents argue that these days the complex nature of IFRS adoption seems decreasing at an increasing rate. They put two reasons to support their argument; the first is countries which adopt IFRS lately can learn lessons from early adopters' mistakes. This means countries like Ethiopia have a latecomer advantage. The other reason is higher learning institutions of the country and the Association of Chartered Certified Accountants (ACCA-UK) are producing accounting professionals with IFRS orientation. In this regard Addis Ababa University and Bahirdar University are the forerunners among the higher learning institutions. The aforementioned reasons and the increased technological advancements in the area of financial reporting might contribute to the decrease in the complexity of International Financial Reporting Standards.

In the survey of Caramanis and Papadakis (2008), the respondents indicated a number of difficulties that relate with the application of IFRS. In particular, they have the opinion that a major source of the difficulties regarding the technical aspects of the application of IFRS is the lack of comprehensive training and lack of adequate IFRS implementation guidance. Their findings are also supported by the results of this study. According to the interview results 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 respondents also believe that lack of availability of competent specialists, lack of proper instructions from regulatory bodies, problem with the IT system in handling the transition to IFRS, increased volatility of earnings as a result of IFRS and Tax driven nature of previous standards as challenges of adopting IFRS. The interview result revealed that lack of specialists who could assist by providing reliable answers to accounting practices with which Ethiopian accountants were not acquainted is one of the major challenges in implementing IFRS. Another challenge is that the tax-driven nature of previous standards. Even though Ethiopia has no specific set of accounting standards to follow or its own national standard, the few that existed were driven by the countries tax system which causes major differences in accounting requirements under the previous standards and IFRS, requiring several reconciliation items in the conversion process. The adoption of IFRS creates the need for the previous standards to be modified and to progressively converge towards IFRS.

Most of the respondents (mean response of 3.426) believe that the adoption of IFRS which uses fair-value financial reporting approach introduce significant volatility in the balance sheet and, more importantly, in earnings. The interview result suggests that volatility of earnings is considered to be among the most important challenges of implementing IFRS. Company management will have to learn how to deal with volatility in reported performance. This is also supported by the results of the 2004 survey carried out by Jermakowicz, according to which adoption IFRS brings about increased volatility of earnings.

Another challenge of adopting IFRS can arise due to its emphasis on fair value accounting. Most of the survey respondents believe that the new improvement of IFRS which is the use of fair value accounting instead of historical cost is another challenge in adopting the international standard. Similarly, the interview result reveals that since the fair value accounting incorporates more information into the financial statements than historical costs it is a major challenge for developing countries particularly Ethiopia. Since some conditions in developing countries like Ethiopia are not favorable for implementing fair value accounting such as achieving observable market prices and accurate estimates of liquid market prices that cannot be materially influenced by managers due to less perfect market liquidity, IFRS's use of this accounting method can be considered as a challenge (see for example Ball, et al., 2006). As particularly listed in Ball et al. (2006), IFRSs are instilled into fair value accounting:

IFRS 2 requires share-based payments to be accounted at fair value;

IFRS 3 provides for minority interest to be recorded at fair value;

IAS 16 provides a fair value option for property, plant and equipment;

IAS 36 requires asset impairments (and impairment reversals) to fair value;

IAS 38 requires intangible asset impairments to fair value and some others;

IAS 39 requires fair value for financial instruments other than loans and receivables that are not held for trading, securities held to maturity; and qualifying hedges (which must be near-perfect to qualify); and

IAS 40 provides a fair value option for investment property.

Consistent with the findings of this study, Jermakowicz, 2004; Jermakowicz et al. (2007); Susana et al., 2007; Robyn and Graeme, 2009; and William et al., 2010 examined the challenges of the adoption of IFRS in different countries of the world. Jermakowicz et al. (2007) particularly studied the challenges of adoption of IFRS in Germany based on a questionnaire sent to company executives. They find that increased volatility of earnings after adopting IFRS, high cost of adopting, complexity and lack of guidance are among the main challenges of IFRS adoption.

4.5. Factors Affecting the Adoption of IFRS

Finally, the factors that could explain the adoption of IFRS by Ethiopian companies have been examined by estimating linear regression model and using Pearson correlation analysis. In this section, one dependent variable against five independent variables was investigated. The dependent variable is the adoption of IFRS, while the independent variables are Government Policy, Professional

Bodies, Company Size, Capital Market, and Educational Level. The subsequent sections will present the results of descriptive statistics, the Pearson correlation analysis and regression model respectively.

4.5.1. Descriptive Statistics

The table 4.7 below shows the descriptive statistics of the dependent variable, Adoption of IFRS and six independent variables.

Table 4.7. Descriptive statistics

	N	Minimum	Maximum	Mean	Std. Deviation
GP_1	75	1.00	5.00	3.6933	1.30460
GP_2	75	1.00	5.00	3.1600	1.26320
CS_1	75	1.00	5.00	3.5733	.96104
CS_2	75	1.00	5.00	3.7600	1.03767
EL_1	75	1.00	5.00	3.0533	1.45094
EL_2	75	1.00	5.00	3.6667	1.25562
CM	75	1.00	5.00	3.6000	1.34566
PB	69	1.00	5.00	3.4348	1.21846
$IFRS_1$	75	4.00	5.00	4.7200	.45202
$IFRS_2$	75	1.00	5.00	4.5867	.85572
$IFRS_3$	75	2.00	5.00	4.4133	.75504
$IFRS_4$	75	3.00	5.00	4.4133	.63869
$IFRS_5$	75	3.00	5.00	4.4133	.57171
$IFRS_6$	72	1.00	5.00	3.8750	.99205
$IFRS_7$	75	1.00	5.00	3.5200	1.15501

Source: Survey results

As it is shown on table 4.7 above the minimum value of the mean for the dependent variable of IFRS adoption is 3.52 with a standard deviation of 1.15

and the maximum value of the mean is 4.72 with a standard deviation of 0.45. This positive high mean value indicates that most respondents agree with the adoption of IFRS by Ethiopia.

In addition, the mean and standard deviation for the independent variables (government policy, capital market, education level, professional bodies, and company size) with eight items on five point Likert scale shows a minimum of 3.05 with a standard deviation of 1.45, and a maximum of 3.76 with a standard deviation of 1.03 respectively. Since the mean score for all the eight items is greater than 3.0, it could be argued that most of the respondents agree with the questions.

4.5.2. Pearson Correlation Analysis

In statistics, the Pearson correlation analysis is a measure of the correlation (linear dependence) between two variables, giving a value between +1 and −1 inclusive. It is widely used in the sciences as a measure of the strength of linear dependence between two variables. The p-value, in Pearson Correlation analysis, attempts to provide a measure of the strength of results of a test, in contrast to a simple reject or do not reject decision.

In Pearson correlation analysis the value of strength of relationship (r) plays an important role in determining the level of relationships among variables. The significance level, $p<0.05$ is also used to establish the relationship. This significance level shows that there is only 5 percent chance that the relationship does not exist, and 95 times out of 100 times the relationship among variables can be defined as having significant correlation. The table below shows the results of the Pearson correlation analysis among the variables, testing of the hypotheses and interpretation of the Pearson correlation results will be presented in a separate section with the results of the regression analysis.

Table 4.8. Pearson correlation

		IFRS	GP	CS	EL	CP	PB
IFRS	Correlation	1					
	Sig. (2-tailed)						
	N	75					
GP	Correlation	.176	1				
	Sig. (2-tailed)	.091					
	N	75	75				
CS	Correlation	.369**	.282*	1			
	Sig. (2-tailed)	.001	.014				
	N	75	75	75			
EL	Correlation	.569**	.385**	.339**	1		
	Sig. (2-tailed)	.000	.001	.003			
	N	75	75	75	75		
CM	Correlation	.237*	.149	-.147	.256*	1	
	Sig. (2-tailed)	.040	.202	.208	.027		
	N	75	75	75	75	75	
PB	Correlation	.419**	.396**	.197	.420**	-.191	1
	Sig. (2-tailed)	.000	.001	.104	.000	.116	
	N	69	69	69	69	69	69

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

Source: SPSS correlation result

As shown in the above table, of the total of five explanatory variables tested in this study, there is a significant correlation between four of the independent variables (company size, education level, capital market, and professional bodies) and the dependent variable i.e. adoption of IFRS by Ethiopian companies. The correlation between government policy and adoption of IFRS has a very week value. Based on the results in table 4.8 there are positive relationships between IFRS adoption and most of the independent variables, these shows that most of the hypotheses are supported.

4.5.3. Multiple Regression Analysis

In this section, in examining the factors that could affect the adoption of IFRS by Ethiopian companies, the researcher used a regression analysis to test the effect of five independent (explanatory) variables on the dependent (explained) variable i.e. the adoption of IFRS. Thus, in this study the researcher used multiple regression analysis, in which tests have been made to examine whether one or more independent variables influence the variation on dependent variable.

The functional relationship between variables in this study is therefore, the adoption of IFRS is a function of government policy, capital market, company size, educational level, and professional bodies. However, to show how well the model containing those of five explanatory variables actually explains the variations in the dependent variable, i.e. adoption of IFRS, it is necessary to test it through goodness of fit statistic.

Table 4.9 testing the model through ANOVA (Goodness of fit statistic)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	6.497	5	1.299	11.043	.000[a]
	Residual	7.414	63	.118		
	Total	13.911	68			

a. Predictors: (Constant), pb, cm, cs, gp, el

b. Dependent Variable: IFRS

Source: SPSS regression result

The above table summarizes the information about the variation of the dependent variable explained by the existing model used for this study and the residual that indicates the variation of the dependent variable that are not captured by the model. It is observed that the independent variables give a significant effect on the dependent variable, where F-value is 11.043 with a p-value of less than 0.05 (i.e. $p<0.000$) indicating that, over all, the model used for the study is significantly good enough in explaining the variation on the dependent variable.

To ensure the statistical adequacy of the model, the goodness of fit can also be measured by the square of the correlation coefficient also called R^2.

Table 4.10 Goodness of fit through R Square

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.683[a]	.467	.425	.34304

a. Predictors: (Constant), pb, cm, cs, gp, el

Source: SPSS regression result

As shown in the table above, both R^2 and adjusted R^2 measure the fitness of the model i.e. they measure the proportion of the variation in dependent variable explained by the model. But since adjusted R^2 is the modification for the limitation of R^2 the value of the adjusted R^2 is considered to measure the fitness of the model. Thus, as it is shown on table 4.10, the value of adjusted R^2 is 0.425, indicating that the independent variables in the model are explaining 43% variation on the dependent variables. Thus, we can understand that the model of the study is providing a good fit to the data. This outcome empirically indicates that the independent variables in this study are the major determinants of IFRS adoption.

Table 4.11 below shows the results of the regression model. The result reveals that with the exception of government policy there exists a significant relationship between independent variables such as company size, capital market, education level, and professional bodies and dependent variable, i.e. adoption of IFRS.

Table 4.11 Regression analysis on IFRS adoption

Variables	Coefficients	t-statistic	Prob.
Constant	2.369	8.358	.000
Government policy	.002	.036	.972
Company size	.162	2.495	.015
Education level	.179	2.487	.016
Capital market	.097	2.726	.008
Professional bodies	.111	2.642	.010

Source: SPSS regression result

As shown in the above table, of the total five explanatory variables tested in this study, company size (p-value= 0.015), education level (p-value=0.016), capital market (p-value=0.008), and professional bodies (p-value=0.01) were statistically significant at 5 percent or lower. In this study, there is insignificant positive relationship between government policy and adoption of IFRS with a regression coefficient of 0.002, and P-value of 0.972. The result also reveals that there is a positive relationship between all the independent variables and the adoption of IFRS.

4.5.4. Hypothesis Testing and Interpretation of the Results

The last section of the study aims to find out the factors affecting the adoption of International Financial Reporting Standards by Ethiopian companies. This particular section presents the results of the study indicated by statistics, using correlation and regression analysis. The correlation and regression between independent variables and IFRS adoption were compared against the hypotheses tested in the investigation. The results show that there are significant relationship between independent variables such as capital market, education level, professional bodies and company size, and the dependent variable i.e. IFRS adoption. Even though most of the hypotheses are supported, the study found that there is a weak relationship between government policy and adoption of IFRS.

In the next section the effect of each independent variable tested under this study is discussed and analyzed based on the theoretical predictions, prior empirical studies and hypothesis formulated for this study.

Government Policy

In this study both the Pearson correlation and regression results indicate that there is insignificant relationship between government policy and adoption of IFRS. The results of the Pearson correlation indicate that the value for the correlation coefficient (r) is 0.176 and insignificant at 0.05. On the other hand the results of the regression analysis shows there is a weak relationship between government policy and IFRS adoption, with a regression coefficient of 0.002, t-statistic of 0.036 and P-value of 0.972. This indicates that this value is insignificant to further the relationship with adoption of IFRS. Therefore, the first hypothesis is rejected.

The result is consistent with the findings of Sharif (2010). Tucker (2002 cited in Sharif, 2010, p.56) states that when government policy is hostile to the foreign and global principles, the adoption of IFRS may be impossible, suggesting that the government should support the adoption of IFRS.

Capital Market

In this study, both the correlation and the regression result shows there is a significant positive relationship between capital market and adoption of IFRS. As it is presented on table 4.8, the Pearson correlation result shows a significant correlation between capital market and IFRS adoption with correlation coefficient of $r = 0.237$ and significant at 0.05. The regression result also shows a significant relationship between capital market and IFRS adoption, with a regression coefficient of 0.097, t-statistic of 2.726 and P-value of 0.008. Thus, from the result it can be conclude that capital market influences the adoption of IFRS. This result is consistent with the hypothesis of the study.

Consistent with the result of this study a number of prior empirical evidence found significant relationship between capital market and adoption of IFRS; (e.g Chamisa (2000), Sharif (2010) and Zeghal and Mhedhbi (2006)). In conformity with this Al- Shammari, et al, (2008), states that the rapid growth and opening up of capital markets has led governments to adopt IFRS, in the expectation that adoption would meet demands by local and international investors for more detailed and comparable financial reporting.

Educational Level

As it is presented on table 4.8, there is a positive correlation between adoption of IFRS and education level with a correlation coefficient of 0.569 and significant at 0.01. The correlation between education level and adoption of IFRS by Ethiopian companies has a very good value. Similarly the regression result shows a significant positive relationship between IFRS adoption and education level, with a regression coefficient of 0.179, t-statistic of 2.487 and P-value of 0.016. This indicates that education level influences 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 Iyoha and Jimoh (2011), Sharif (2010), and Wong, (2004). According to Iyoha and Jimoh (2011) the education and training of accountants have strong implications for IFRS adoption. They also concluded that education and training are important for the successful adoption of IFRS.

Professional Bodies

As it is presented on table 4.8, there is a positive correlation between adoption of IFRS and professional bodies with a correlation coefficient of 0.419 and significant at 0.01. The correlation between professional bodies and adoption of IFRS by Ethiopian companies has a very good value. Similarly the regression result shows a significant positive relationship between IFRS adoption and professional bodies, with a regression coefficient of 0.111, t-statistic of 2.642 and

P-value of 0.010. This indicates that professional bodies influence the adoption of IFRS and the result is consistent with the hypothesis of the study.

Both the regression and Pearson correlation analysis results show that there is significant relationship between professional bodies and IFRS adoption. Consistent with the result of this study Mir and Rahman (2005), Aljifri and Khasharmeh, (2006) and Chamisa (2000) found similar result. Chamisa (2000) for example found that professional bodies have played a significant role in supporting the adoption of IFRS in developing countries particularly in Zimbabwe.

Company Size

In this study, both the correlation and the regression result shows there is a significant positive relationship between company size and adoption of IFRS. As it is presented on table 4.8, the Pearson correlation result shows a significant correlation between company size and IFRS adoption with correlation coefficient of 0.369 and significant at 0.05. The regression result also shows a significant relationship between company size and IFRS adoption, with a regression coefficient of 0.162, t-statistic of 2.495 and P-value of 0.015. Thus, from the result it can be conclude that company size influences the adoption of IFRS. This result is consistent with the hypothesis of the study.

According to the regression and Pearson correlation analysis results there is a significant relationship between company size and IFRS adoption. This result is supported by the findings of Aljifri and Khasharmeh, (2006). In the study of United Arab Emirates accounting practice they found that company size (large-medium-small) affects the adoption of IFRS.

4.6. Summary of the Chapter

In this chapter the results of findings has been explained and discussed based on the analysis done on the data collected. The results of the study are discussed by triangulating the different sources results: questionnaire results, interview and document review results. The Data collected using questionnaires were analyzed through descriptive statistics, frequency distribution, Correlation and multiple linear Regression analysis. The discussion attempted to accomplish the objectives of the study, answer the research questions and test the hypotheses. The benefits of IFRS adoption to different stakeholders, the related challenges, and the factors that could influence the adoption of IFRS in Ethiopia has been analyzed in the chapter.

Chapter 5: Conclusions and Implications

5.1. Introduction

This chapter presents conclusions and implications of the results. It has three parts; the first part presents conclusions of the study. The second part presents implications and finally, the last part presents possible future research areas.

5.2. Conclusions

This study examined the adoption of International Financial Reporting Standards (IFRS), its benefits, the challenges of adopting International Financial Reporting Standards, and the factors that could influence its adoption in Ethiopia with particular reference to companies which adopted this standard. Three research questions were developed and tested in this study. The first question is to understand the practical benefits of adopting IFRS for companies and other stakeholders. The second question is to understand the challenges faced by the stakeholders in the process of adoption of IFRS. The last question is to assess the underlying factors (i.e., Government Policy, Professional Bodies, Company Size, Capital Market, and Educational Level) that could affect the adoption of IFRS.

The study used document analysis (annual reports, legislations, directives, and other documents), interview with finance managers and audit directors and self-administered questionnaire to finance officers and accountants. Questionnaire data were analyzed using descriptive statistics, correlations, and multiple linear regression and data from interview and document reviews were interpreted qualitatively.

Even though Ethiopia has not officially adopted IFRS, it is already required for a certain type of institutions. National Bank of Ethiopia (NBE) and Ethiopian Commodities and Exchange Authority (ECX) are the main institutions in this regard which required the companies under their domain. This paper investigated a wide array of issues related to the adoption of IFRS in Ethiopia with particular reference to companies which already started reporting using this international standard and the following conclusions were drawn.

The government of Ethiopia has expressed an initiative to integrate its financial statements with international standards. Intention of the government to adopt IFRS is manifested by the recently issued draft proclamation called "Financial Report Proclamation of Ethiopia" which obliges 'public interest entities' to follow IFRS in their financial reporting. However, the Financial Report Proclamation of Ethiopia is being criticized for not setting a firm deadline for the IFRS transition.

The results of the survey reveal that IFRS should have been implemented earlier in Ethiopia due to the greater benefits it has compared to the associated problems. On the other hand the institutions which are required to use IFRS in preparing their financial reports are not applying all the standards. In other words there is a serious compliance problem with IFRS in Ethiopia.

The results show that the introduction of IFRS in Ethiopia will result in a number of important benefits for a wide range of stakeholders. The benefits of effective and efficient financial reporting will accrue to companies. Since similar economic transactions are accounted for similarly by eliminating different methods of accounting for the same transactions, adoption of IFRS leads to improved comparability and reliability of financial statements.

Adoption of IFRS has also the benefit of more transparent financial statements to companies which in turn reduce the agency problem between management and shareholders as increased transparency causes managers to act more in the interests of the shareholders. Adoption of IFRS would also significantly reduce cost of capital of firms through lower cost of information, reduction in bad earnings management, greater marketability of shares, and reduced information asymmetry.

Investors will benefit, amongst others, more confidence in the information presented in financial statements which they can understand and use. For management, the adoption of IFRS will create improved management information for decision making and enables better risk management. Similarly, other stakeholders such as regulatory bodies and accounting professionals would benefit from improved regulatory oversight and greater credibility and improved economic prospects for the accounting profession.

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.

Other key challenges include increased volatility of earnings, tax driven nature of previous standards and problem with IFRS's use of fair value accounting. IFRS's use of fair value accounting instead of historical cost is considered as a challenge because some conditions in developing countries like Ethiopia are not favorable for implementing fair value accounting such as achieving observable market prices and accurate estimates of liquid market prices due to less perfect market liquidity.

Finally, this empirical study has been conducted to critically examine the factors that could influence the adoption of IFRS in Ethiopia. The Pearson correlation and multiple linear regression analysis have been used for the study and the result reveals that variables including capital market, professional bodies, education level, and company size have significant effect on the adoption of IFRS in Ethiopia. The study also found statistically insignificant relationship between government policy and adoption of IFRS in Ethiopia.

5.3. Implications

As the conclusions reveal since the benefits are longer lasting than the costs of adopting IFRS, there is an urgent need to prepare financial statements based on this international standard. This implies that the government of Ethiopia should set a firm deadline for the IFRS transition and the official adoption of IFRS by Ethiopian companies should be announced in earnest.

The conclusions also reveal that there is a serious problem in relation to the detailed application of the adopted standards in Ethiopia. This implies that the concerned regulatory bodies such as the National Bank of Ethiopia, the Ethiopian Commodities Exchange Authority, the newly established institute which is the Institute of Certified Public Accountants of Ethiopia and others should strictly follow the application of all the standards. If these standards are adopted and not applied, they become valueless.

On the other hand to fine tune with the main problems of IFRS adoption, Ethiopia's adoption of IFRS should be supported by all stake holders. In other words a rigorous IFRS capacity building program should be embarked upon by all regulatory bodies, firms and training institutions in order to provide the needed manpower for IFRS implementation.

Finally, the findings reveal that there are numerous factors that impact adoption of IFRS in Ethiopia. The study found statistically insignificant relationship between government policy and adoption of IFRS in Ethiopia. Based on the findings of the study, it is essential that the government should support adoption of IFRS. The government should also open training for accountants about IFRS and encourage its adoption, since adoption of IFRS could attract foreign direct investment, which in turn may lead to economic growth.

5.4. Future Research Areas

The International Financial Reporting Standards (IFRS) is a broader scope of accounting which cannot be dealt with in its entirety in one study alone. This study focused on the benefits, challenges and Factors that could explain the adoption of these standards in Ethiopia. However, it would be highly appropriate for future research to be conducted on the issue of disclosure and compliance with IFRS in Ethiopia. This would comprise the detailed application of the adopted standards and how well companies in Ethiopia apply these standards. Furthermore little is known about how mandatory IFRS adoption affects financial statements and it is therefore still an open question whether financial statements are more informative following mandatory IFRS adoption. How small and medium scale enterprises adopt and comply with IFRS tailored for them could also be considered as another area for future research. Finally, this study attempted to focus on the factors affecting the adoption of IFRS by Ethiopia. Even though the research found some important factors affecting the adoption of IFRS, the researcher advocates more studies to be conducted in the financial reporting domain.

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Appendices

Appendix (A)

Questionnaire

Fikru Fantahun Tesfu (MSc student)

Addis Ababa University

School of Business and Public Administration

Department of Accounting and Finance

Dear sir/madam

The aim of this questionnaire is to seek information regarding the adoption of International Financial Reporting Standards (IFRS) in Ethiopia. The questionnaire will be distributed to all Accountants and finance officers of randomly selected companies. The information you provide in response to the items in the questionnaire will be used as part of the data needed for a study on *Adoption of International Financial Reporting Standards in Ethiopia: Benefits and key Challenges.*

I would like to assure you that the information you provide will be accessible only to the academic purpose. Your involvement is regarded as a great input to the quality of the research results. Hence, I believe that you will enlarge your assistance by participating in the study.

Your honest and thought full response is invaluable

Thank you for your participation

Kind regards

Fikru Fantahun

Fikru Fantahun

Section 1: ***Demographic Background***

Please kindly tick (√) your answer in the appropriate boxes or respond by writing if required.

1. Gender:

   ☐Female ☐Male

2. Academic level:

   ☐Technical / vocational certificate (Diploma)

   ☐Bachelor's degree

   ☐Master's degree

   ☐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. Current position in your organization______________________________

Section 2: ***Adoption and practices of International Financial Reporting Standards (IFRS) in your company.***

5. When did your company start using IFRS?
   Please state the year__________________
6. Before the adoption of IFRS, What reporting standards did your company use?
   Please mention the previous standard______________________________
7. If you compare the previous standard to the IFRS, which one is more preferable?
   Please underline your answer (A) previous standard (B) IFRS
8. What are the two main reasons for your preference?
   Please state your reasons:
   (I)____
   (II)____

Section 3: ***Your perception towards factors that could affect the Adoption of IFRS by Ethiopian companies and the benefits and challenges of adopting it.***

In this section the researcher is seeking your specific perceptions toward the adoption of IFRS by Ethiopian companies. Please kindly indicate the appropriate scale for your opinion by ticking (√) 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)'.**

A. Factors affecting IFRS adoption

	SD	D	N	A	SA
Government policy					
9. The Ethiopian government encourage companies to adopt IFRS	( )	( )	( )	( )	( )
10. Politics is one of the major barriers to adopt IFRS	( )	( )	( )	( )	( )
Company size					
11. Size of capital may lead to adoption of IFRS	( )	( )	( )	( )	( )
12. Size of companies determines early adoption of IFRS	( )	( )	( )	( )	( )
Educational level					
13. Having trained people in place greatly influence the adoption	( )	( )	( )	( )	( )
14. Weak educational level of accountants is barrier for the adoption of IFRS	( )	( )	( )	( )	( )
Other factors					
15. Professional support with IFRS experience	( )	( )	( )	( )	( )
16. The absence of capital market in Ethiopia has negative impact on the adoption of IFRS	( )	( )	( )	( )	( )

B. Adoption of IFRS by Ethiopian Companies

	SD	D	N	A	SA
17. Adoption of IFRS improves the efficiency of financial reporting	( )	( )	( )	( )	( )
18. Adoption of IFRS is costly	( )	( )	( )	( )	( )
19. Financial statements based on IFRS are reliable	( )	( )	( )	( )	( )

and comparable					
20. IFRS adoption result in Reduced cost of capital	( )	( )	( )	( )	( )
21. It provides greater reporting transparency	( )	( )	( )	( )	( )
22. Adoption of IFRS improves effectiveness of financial reporting	( )	( )	( )	( )	( )
23. Adoption of IFRS achieves the objectives of financial reporting	( )	( )	( )	( )	( )

C. Benefits of adopting IFRS

1. Benefits of adopting IFRS to companies					
24. Adoption of IFRS improves the efficiency of financial reporting	( )	( )	( )	( )	( )
25. Financial statements based on IFRS are reliable and comparable	( )	( )	( )	( )	( )
26. Adoption of IFRS improves effectiveness of financial reporting	( )	( )	( )	( )	( )
27. IFRS makes external financing easier	( )	( )	( )	( )	( )
28. It provides greater reporting transparency	( )	( )	( )	( )	( )
29. It enables greater effectiveness of the internal audit	( )	( )	( )	( )	( )
30. Reduced cost of capital	( )	( )	( )	( )	( )
2. Benefits for Investors					
31. IFRS provides better information for decision making by investors	( )	( )	( )	( )	( )
32. Investors will have more confidence in the information presented using IFRS	( )	( )	( )	( )	( )
33. Adoption of IFRS enhance transparency of companies through better reporting	( )	( )	( )	( )	( )
3. Benefits of IFRS for management					
34. Enables better risk management	( )	( )	( )	( )	( )
35. IFRS improves management information for decision making	( )	( )	( )	( )	( )
36. IFRS promotes cross border investment	( )	( )	( )	( )	( )
4. Benefits of IFRS for other stakeholders					
37. IFRS adoption improves regulation oversight and enforcement	( )	( )	( )	( )	( )
38. IFRS provides greater credibility and improved economic prospects for the accounting profession	( )	( )	( )	( )	( )
39. It provides better reporting and information on new and different aspects of the business	( )	( )	( )	( )	( )

D. Challenges of IFRS Adoption

40. Adoption of IFRS is costly	( )	( )	( )	( )	( )
41. IFRS increases the complexity of financial reporting	( )	( )	( )	( )	( )
42. There is lack of IFRS implementation guidance	( )	( )	( )	( )	( )
43. IFRS brings about increased volatility of earnings	( )	( )	( )	( )	( )
44. Tax driven nature of previous standards is a challenge for IFRS adoption	( )	( )	( )	( )	( )
45. Lack of availability of competent specialists	( )	( )	( )	( )	( )
46. Need for training	( )	( )	( )	( )	( )
47. Lack of proper instructions from regulatory bodies	( )	( )	( )	( )	( )
48. Problem with the IT system in handling the transition to IFRS	( )	( )	( )	( )	( )
49. Problem with IFRS's use of fair value accounting	( )	( )	( )	( )	( )

Section 4: Company profile

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

50. Identify the primary business of your company:

☐Finance/banking ☐Merchandising

☐Manufacturing ☐Service

51. What is the capital of your firm?

☐Less than Br. 500,000 ☐Br. 500,000 to 1.5 million

☐Over 1.5 million

Additional Comments

____

____

____

_____________________________.

Appendix (B)

Interview Guide

Fikru Fantahun Tesfu (MSc student)

Addis Ababa University

School of business and Public Administration

Department of Accounting and Finance

Dear sir/madam

The intent of this interview is to explore information regarding the adoption of International Financial Reporting Standards (IFRS) in Ethiopia and to have sufficient response to the research problem in addition to questionnaires distributed to Accountants and finance officers of companies which adopt IFRS. The interview will be made with financial managers and audit directors of the randomly selected companies. The information you provide in response to the items in the interview will be used as part of the data needed for a study on *The Adoption of International Financial Reporting Standards in Ethiopia: Benefits and key Challenges.*

I would like to assure you that the information you provide will be accessible only to the academic purpose. Your involvement is regarded as a great input to the quality of the research results. Hence, I believe that you will enlarge your assistance by participating in the study.

Your honest and thought full response is invaluable

Thank you for your participation

Kind regards

Fikru Fantahun

Fikru Fantahun

1. What accounting standards were employed in Ethiopia before the adoption of IFRS?
2. What would you say are the main factors that could influence the adoption of IFRS in Ethiopia?
3. Do you agree with the statement that IFRS is developed by the developed countries hence not practical for developing countries?
4. From your point of view how beneficial are IFRS to Ethiopia and the companies practicing them?
5. What are the main problems faced by stakeholders in the process of adoption of IFRS?
6. What are the ways through which these problems can be addressed? Please recommend some solutions to overcome the problems.

Appendix (C)

Frequency Distribution Analysis

Demographic characteristics of respondents

Demographic Elements	Characteristics	Number of Respondents	Percentage
Gender	Female	23	30.7
	Male	52	69.3
Academic Level	Diploma	10	13.3
	Bachelor	59	78.7
	Masters	6	8.0
Working Experience	less than five years	28	37.3
	6 to 10 years	22	29.3
	11 to 15 years	15	20.0
	16 to 20 years	6	8.0
	over 20 years	4	5.3

Source: Survey results

Independent Variables: Frequency Distribution Analysis

Government policy 1

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	9	12.0	12.0	12.0
	Disagree	6	8.0	8.0	20.0
	Neutral	6	8.0	8.0	28.0
	Agree	32	42.7	42.7	70.7
	Strongly Agree	22	29.3	29.3	100.0
	Total	75	100.0	100.0	

Government policy 2

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	9	12.0	12.0	12.0
	Disagree	13	17.3	17.3	29.3
	Neutral	24	32.0	32.0	61.3
	Agree	15	20.0	20.0	81.3
	Strongly Agree	14	18.7	18.7	100.0
	Total	75	100.0	100.0	

Educational Level 1

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	19	25.3	25.3	25.3
	Disagree	10	13.3	13.3	38.7
	Neutral	3	4.0	4.0	42.7
	Agree	34	45.3	45.3	88.0
	Strongly Agree	9	12.0	12.0	100.0
	Total	75	100.0	100.0	

Educational Level 2

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	6	8.0	8.0	8.0
	Disagree	10	13.3	13.3	21.3
	Neutral	9	12.0	12.0	33.3
	Agree	28	37.3	37.3	70.7
	Strongly Agree	22	29.3	29.3	100.0
	Total	75	100.0	100.0	

Company Size 1

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	3	4.0	4.0	4.0
	Disagree	4	5.3	5.3	9.3
	Neutral	27	36.0	36.0	45.3
	Agree	29	38.7	38.7	84.0
	Strongly Agree	12	16.0	16.0	100.0
	Total	75	100.0	100.0	

Company Size 2

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	2	2.7	2.7	2.7
	Disagree	3	4.0	4.0	6.7
	Neutral	18	24.0	24.0	30.7
	Agree	34	45.3	45.3	76.0
	Strongly Agree	18	24.0	24.0	100.0
	Total	75	100.0	100.0	

Capital Market

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	12	16.0	16.0	16.0
	Disagree	4	5.3	5.3	21.3
	Neutral	4	5.3	5.3	26.7
	Agree	37	49.3	49.3	76.0
	Strongly Agree	18	24.0	24.0	100.0
	Total	75	100.0	100.0	

Professional Bodies

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	9	12.0	13.0	13.0
	Disagree	6	8.0	8.7	21.7
	Neutral	9	12.0	13.0	34.8
	Agree	36	48.0	52.2	87.0
	Strongly Agree	9	12.0	13.0	100.0
	Total	69	92.0	100.0	
Missing	System	6	8.0		
Total		75	100.0		

Dependent Variable: IFRS Adoption

IFRS Adoption 1

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	21	28.0	28.0	28.0
	Strongly Agree	54	72.0	72.0	100.0
	Total	75	100.0	100.0	

IFRS Adoption 2

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	3	4.0	4.0	4.0
	Disagree	12	16.0	16.0	20.0
	Neutral	22	29.3	29.3	49.3
	Agree	19	25.3	25.3	74.7
	Strongly Agree	19	25.3	25.3	100.0
	Total	75	100.0	100.0	

IFRS Adoption 3

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	3	4.0	4.0	4.0
	Neutral	3	4.0	4.0	8.0
	Agree	29	38.7	38.7	46.7
	Strongly Agree	40	53.3	53.3	100.0
	Total	75	100.0	100.0	

IFRS Adoption 4

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	3	4.0	4.2	4.2
	Disagree	3	4.0	4.2	8.3
	Neutral	13	17.3	18.1	26.4
	Agree	34	45.3	47.2	73.6
	Strongly Agree	19	25.3	26.4	100.0
	Total	72	96.0	100.0	
Missing	System	3	4.0		
Total		75	100.0		

IFRS Adoption 5

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Neutral	3	4.0	4.0	4.0
	Agree	38	50.7	50.7	54.7
	Strongly Agree	34	45.3	45.3	100.0
	Total	75	100.0	100.0	

IFRS Adoption 6

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	7	9.3	9.3	9.3
	Neutral	6	8.0	8.0	17.3
	Agree	28	37.3	37.3	54.7
	Strongly Agree	34	45.3	45.3	100.0
	Total	75	100.0	100.0	

IFRS Adoption 7

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	3	4.0	4.0	4.0
	Agree	19	25.3	25.3	29.3
	Strongly Agree	53	70.7	70.7	100.0
	Total	75	100.0	100.0	

Appendix (D) Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
GP_1	75	1.00	5.00	3.6933	1.30460
GP_2	75	1.00	5.00	3.1600	1.26320
CS_1	75	1.00	5.00	3.5733	.96104
CS_2	75	1.00	5.00	3.7600	1.03767
EL_1	75	1.00	5.00	3.0533	1.45094
EL_2	75	1.00	5.00	3.6667	1.25562
CM	75	1.00	5.00	3.6000	1.34566
PB	69	1.00	5.00	3.4348	1.21846
$IFRS_1$	75	4.00	5.00	4.7200	.45202
$IFRS_2$	75	1.00	5.00	4.5867	.85572
$IFRS_3$	75	2.00	5.00	4.4133	.75504
$IFRS_4$	75	3.00	5.00	4.4133	.63869
$IFRS_5$	75	3.00	5.00	4.4133	.57171
$IFRS_6$	72	1.00	5.00	3.8750	.99205
$IFRS_7$	75	1.00	5.00	3.5200	1.15501

Appendix (E) Pearson Correlation

Correlations

		IFRS	GP	CS	EL	CP	PB
IFRS	Pearson Correlation	1					
	Sig. (2-tailed)						
	N	75					
GP	Pearson Correlation	.176	1				
	Sig. (2-tailed)	.091					
	N	75	75				
CS	Pearson Correlation	.369**	.282*	1			
	Sig. (2-tailed)	.001	.014				
	N	75	75	75			
EL	Pearson Correlation	.569**	.385**	.339**	1		
	Sig. (2-tailed)	.000	.001	.003			
	N	75	75	75	75		
CM	Pearson Correlation	.237*	.149	-.147	.256*	1	
	Sig. (2-tailed)	.040	.202	.208	.027		
	N	75	75	75	75	75	
PB	Pearson Correlation	.419**	.396**	.197	.420**	-.191	1
	Sig. (2-tailed)	.000	.001	.104	.000	.116	
	N	69	69	69	69	69	69

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

Appendix (F)

ECX Trading Members which Starting Reporting According To IFRS

በኢምገባ ዕውቅና ተሰጥቷቸው ሂሳባቸውን በዓለም አቀፍ የፋይናንስ የሪፖርት ስታንዳርድ (IFRS) መያዝ የጀመሩ የግብይት ፈጻሚዎች/ነጋዴዎች ዝርዝር፣

ተ.ቁ፣	የግብይት ፈጻሚዎች ዝርዝር
01	ኢትዮጵያ ኮሞዲቲስ ኃ.የተ.የግል ማህበር
02	ካቤ ኃ.የተ.የግል ማህበር
03	ሰይድ ያሲን ኃ.የተ.የግል ማህበር
04	ኤስ.ሳራ ኮፊ ኤክስፖርት ድርጅት
05	ላታ አግሪ ኤክስፖርት
06	የሮዋቅ ጠቅላላ ንግድ ሥራ ኃ. የተ. የግ. ማ
07	ዳኘው ገ/ሚካኤል ሀ/ማርያም
08	ድኬን ኢንተርናሽናል ቢዝነስ ሰርቪስ ኃ.የተ.የግ.ማህበር
09	ጎንዴ አስመጪና ላኪ ኃ.የተ.የግል ማህበር
10	ቬራ ኢንተርናሽናል ቢዝነስ ኃ.የተ.የግል ማህበር
11	ዋርካ ትሬዲንግ ኃ.የተ.የግል ማህበር
12	ተስቲ ትሬዲንግ ኃ.የተ.የግ.ማ
13	አይናጌ ጠቅላላ ንግድ ፒ.ኤል.ሲ
14	ካሜልስ ትሬዲንግ ኢንተርፕራይዝ ኃ.የተ.የግ.ማ
15	ጉጂ ቡና ላኪ ኃ.የተ.የግ.ማ
16	ኑሮቢ ኢንተርናሽናል ቢዝነስ ኃ.የተ.የግ.ማ
17	ነዲ ኢንተርናሽናል ቢዝነስ ኃ.የተ.የግ.ማ
18	ናፊሲፍ ኢንተርናሽናል ቢዝነስ ኃ/የተ/የግ/ማ
19	ቡኖ አጠቃላይ ንግድ ሥራ ኃ.የተ.የግ.ማ
20	ሐሚድ ሁሴን ትሬዲንግ
21	መሐመድ አወል ቦረር ፋርም
22	ሳብር ጠቅላላ ንግድ ሥራ ኃ.የተ.የግ.ማህበር
23	አባድር ኮፊ ትሬዲንግ ኃ.የተ.የግል ማህበር
24	ማዊ ኮፊና አጠቃላይ ንግድ ኃ.የተ.የግል ማህበር
25	የአዲስ አበባ ወፍጮ አክስዮን ማህበር
26	የኢትዮጵያ እህል ንግድ ድርጅት Amanuel
27	አኮስ ኢትዮጵያ ኃ.የተ.የግል ማህበር
28	ካኪ ኃ.የተ.የግ.ማ
29	ሀይኮፍ ሊሚትድ ኃ.የተ.የግል ማህበር
30	ማሞ ካቻ ኃ.የተ.የግ.ማ
31	ዋኖስ ጠቅላላ ንግድ
32	ሰናይት ተመልሶ አስገዶም
33	አቀብ ሰላት ጠቅላላ ንግድ ኃ.የተ.የግ.ማ

34	ጆሞ ጠቅላላ ንግድ አክስዮን ማህበር
35	ሻርፕ ጀነራል ትሬዲንግ
36	ዮሚፍ ትሬዲንግ ኃ.የተ.የግ.ማ
37	ቀጀላ ጠቅላላ ንግድ ኃ.የተ.የግ.ማ
38	ፍፁም ታፈረ ገ/መድህን
39	መሀመድአሚን ከማል መሐመድ
40	ጊፍት ትሬዲንግ ኃ.የተ.የግል ማህበር
41	ሆሴዕ ንግድ ሥራዎች ኃ.የተ.የግል ማህበር
42	ዋን ኦፊ ትሬድ ኃ/የተ/የግ/ማ
43	ሞሲሳ ከካ ዱሜሶ ቡና አቅራቢ
44	ቻንድለር ትሬዲንግ ኃ.የተ.የግ.ማህበር
45	ንጉሴ አያሌው ግሬይን ትሬደር ኃ.የተ.የግል ማህበር
46	መኮንን ገመቹ ሂርጳ
47	ቦኩ ቢዝነስ ኃ/የተ/የግ/ማ
48	ሞርገን ጀነራል ቢዝነስ ኃ.የተ.የግ.ማህበር
49	ወጅን ትሬዲንግ ኃ/የተ/የግ/ማ
50	ዲ.ኢ.ቲ.ዜድ ጠቅላላ ንግድ ሥራ ኃ.የተ.የግ.ማ
51	ኦሮኮፊ ጀነራል ትሬዲንግ ኃ.የተ.የግ.ማህበር
52	በከልቻ ኢንተርናሽናል ቢዝነስ ኃ.የተ.የግ.ማህበር
53	ኤ.ጂ.ኤን.ኤ. ኃ/የተ/የግ/ማ
54	ኤም.ቢ.ቲ.ኤስ አጠቃላይ ንግድ ሥራ ኃ/የተ/የግ/ማ
55	ቦፋ ኤቲ ኢንተርናሽናልቢዝነስ ኃ.የተ.የግ.ማ
56	ማስ ኮፊ ሰርቪስ ኃ.የተ.የግ.ማ
57	ሐጎስ እና አለምፀሀይ ኃ.የተ.የግ.ማ
58	አለታ ላንድ ኮፊ ኃ.የተ.የግል ማህበር
59	ኤ.ቲ.ኤል ትሬዲንግ ኃ.የተ.የግ.ማ
60	አፋፍ ጀነራል ትሬዲንግ ኃ.የተ.የግ.ማ
61	ቶሞካ ቡና ኃ.የተ.የግ.ማ
62	ዴብላም ትሬዲንግ ኃ.የተ.የግ.ማህበር
63	ጂ.ኤም.ቲ. ኢንዳስትሪያል ኃ.የተ.የግል ማህበር
64	ሳጉሬ ትሬዲንግ ኃ.የተ.የግ.ማህበር
65	መኩሪያ መርጊያ ሊባቦ
66	ሳውዘርን ግሪን ኮፊ አቅራቢ ኃ.የተ.የግ.ማህበር
67	አምዴሁን ጠቅላላ ንግድ ኃ.የተ.የግል ማህበር
68	አስግራት ትሬዲንግ ኃ.የተ.የግ.ማ
69	ማግ ኢንተርናሽናል ኃ.የተ.የግል ማህበር
70	ኩሩ ኢትዮጵያ ኮፊ ዲቨሎፕመንት ኃ.የተ.የግ.ማ
71	ቦሬ ቡና ኃ.የተ.የግል ማህበር
72	ባሻንፈር ትሬዲንግ ኃ.የተ.የግል ማህበር
73	ራያን ኢንቨስትመንትስ ኃ.የተ.የግል ማህበር
74	ዳዪ ቤንሳ ኮፊ ኤክስፖርት ኃ.የተ.የግል ማህበር
75	ኤስ.ጄ. ማግዳሊኖስ ኃ.የተ.የግል ማህበር

76	ሐረም ጀነራል ትሬድ ኃ.የተ.የግ.ማ
77	ዱራሜ ኃ.የተ.የግ.ማ
78	ሞፕላኮ ንግድ ኃ.የተ.የግል ማህበር
79	ጂ.ጂ. ኮታሪ ኩባንያ (ኢትዮጵያ) ሊሚትድ
80	ኑረዲን ሑሴን ሹሪ
81	ደሣለኝ መንግስቱ ገ/ክርስቶስ
82	አፍሪካ ኃ.የተ.የግል ማህበር
83	ኦሜጋ የጤና አገልግሎቶች ኃ.የተ.የግ.ማ
84	አስተኮ ኃ.የተ.የግል ማህበር
85	አዲስ ኤክስፖርተር ኃ.የተ.የግ.ማ.
86	ቡሌሆራ ትሬዲንግ ኃ/የተ/የግ/ማ
87	ኤ.ዜድ.ኬ.ዜድ አጠቃላይ ንግድ ኃ.የተ.የግ.ማህበር
88	ጉና ንግድ ስራዎች ኃ.የተ.የግል ማህበር
89	ትግራይ ሁለገብ ገበያ ፌደሬሽን ኃ.የተ.ኅ.ስ.ማ

የመደበኛ ተገበያይ አባል /Trading Member/ የሩብ ዓመት የፋይናንስ ሪፖርት ማስተላለፊያ ቅፅ

ሃብት

ሀ. ጊዚያዊ ሃብት

ገንዘብና ተቀማጭ ....

የሚሰበሰብ ክፍያ ....

ክምችት ....

ቅድሚያ ክፍያ ....

ለ. ኢንቨስትመንት በአክሲዮን ....

ሐ. ቋሚ ንብረት

ሕንፃ ....

ተሽከርካሪ ....

መሳሪያዎች

የቢሮ ዕቃዎች ....

መ. ጠቅላላ ሃብት (ሀ+ለ+ሐ) ....

ዕዳ

ሠ. ጊዚያዊ ዕዳ

ተከፋይ ዕዳ ....

ኦቨር ድራፍት ....

ከደንበኞች በቅድሚያ የተሰበሰበ ሂሳብ ....

በአንድ ዓመት ጊዜ ውስጥ የሚከፈል የረጅም ጊዜ ብድር ....

የአጭር ጊዜ ብድር ....

ረ. የረጅም ጊዜ ዕዳ

የሞርጌጅ ብድር ....

ከፋይናንስ ተቋማት የተገኘ የረጅም ጊዜ ብድር ....

ሸ. ጠቅላላ ዕዳ (ሠ+ረ) ....

ቀ. የተጣራ ሃብት (መ+ሸ) ....

ሂሳቡን የመረመረው ድርጅት ስም፣ ....

የሂሳብ ባለሙያው ስም፣ ....

ቀን፣ ....

ማህተም፣

<u>ማሳሰቢያ</u>፣

1. የተጣራ ሃብት የድርጅቱን የማይዳሰሱ ንብረቶች አያካትትም፣
2. የተጣራ ሃብት በእህት ኩባንያዎች ወይም ከባለቤት ጋር ተያያዥነት ያላቸው ሂሳቦችን አያካትትም፣
3. የተጣራ ሃብት የተከራየ ንብረትን አያካትትም፣
4. የአባሉ የተጣራ ሀብት ዕውቅና በጠየቀበት ወቅት ካሳወቀው በታች ሲሆን ወዲያውኑ ለባለስልጣኑ በጽሑፍ ማስወቅ ይገባል
5. ሪፖርቱ በየሩብ ዓመቱ መዘጋጀት ይኖርበታል፣

The Federal Democratic Republic of Ethiopia
የምርት ገበያ ባለሥልጣን
Commodity Exchange Authority