



**Challenges and Prospects of International Financial Reporting
Standards (IFRS) implementation in Ethiopia**

By
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JANUARY, 2017
ADDIS ABABA, ETHIOPIA

ADDIS ABABA UNIVERSITY
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**Challenges and Prospects of International Financial Reporting
Standards (IFRS) implementation in Ethiopia**

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**A thesis submitted to the Department of Accounting and Finance College of
Business and Economics Presented in partial fulfillment of the requirements
for the degree of Master of Science in Accounting and Finance**

JANUARY, 2017

ADDIS ABABA, ETHIOPIA

Addis Ababa University
School of Graduate Studies

This is to certify that the thesis prepared by Firdawok Teshome entitled: Challenges and Prospects of International Financial Reporting Standards (IFRS) implementation in Ethiopia and submitted in partial fulfillment of the requirements for the degree of Master 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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Addis Ababa, Ethiopia
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Acronyms and Abbreviation's

AABE	Accounting and Auditing Board of Ethiopia
ACCA	Association of Chartered Certified Accountants
ECX	Ethiopian Commodities Exchange Authority
EPAAA	Ethiopian Professional Association of Accountants and Auditors
EU	European Union
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
ISAR	International Standards of Accounting and Reporting
MoFED	Ministry of Finance and Economic Development
NBA	National Bank of Ethiopia
NIFRSHD	National IFRS help Desk
ROSC	Report on the Observance of Standards and Codes
SIC	Standing Interpretations Committee
SME	Small and Medium size Enterprises
UNCTAD	United Nations Conference on Trade and Development

Abstract

One of the foremost requirements to operate a Business successfully is to have a good financial reporting system in place. This study examines implementation of International Financial Reporting Standards (IFRS) In Ethiopia in accordance with financial reporting proclamation # 847/2014. The study investigates the challenges faced in implementing, International Financial Reporting Standards (IFRS) by Ethiopian firms. The paper provides insight into the IFRS adoption process based on a questionnaire sent to Authorised Accounting and Auditing professionals in Ethiopia. 95 responses received out of 116 and it indicate: (1) a majority of respondents have indicated IFRS Enforcement capacity will be a key challenge for transition; (2) the process is costly, complex, and burdensome; (3) Institutional readiness require more attention for transition to IFRS; (4) the more comprehensive the approach to conversion, the more respondents tend to agree with the factors influencing the transition; (5) the complexity of IFRS as well as the lack of Implementation guidance and uniform interpretation are also key challenges in technical capacity area; the results of the questionnaire and interviews confirmed that, the transition to IFRS in Ethiopia will be challenging. The study also discusses the prospect of IFRS implementation in Ethiopia and the result showed that the transition plan to IFRS and its implications for preparers, users, educators and other stakeholder has to be effectively coordinated and communicated. In the conclusion part, the study brings out the ways through which these challenges can be addressed.

Keywords: IFRS; Proclamation; Challenge; Enforcement Capacity, Institutional readiness; Technical Capacity.

Chapter One

1, Introduction

1.1 General background of the study

Ethiopia is the second-most populous country in Sub-Saharan Africa with a population of 97.0 million, and population growth rate of 2.5% in 2014. One of the world's oldest civilizations, Ethiopia is also one of the world's poorest countries. The main challenge for Ethiopia is to continue and accelerate the progress made in recent years toward the MDGs and to address the causes of poverty among its population. The government is already devoting a very high share of its budget to pro-poor programs and investments, however, even if donor support is increased, using aid effectively will require Ethiopia to improve governance, empower local authorities, and become more accountable to its citizens. World Bank (2016 Nov. 30) Eth. Country Profile, retrieved from [//www.worldbank.org](http://www.worldbank.org). Among the efforts made by the government, implementing high quality International Financial Reporting Standards (IFRS) is critical to meeting and sustaining Ethiopia's economic growth potential. IFRS provides international investors with a brand of trust in the quality of financial reporting. That trust in financial reporting is essential if investors are to be encouraged to step in to promote continued economic growth. IFRS will also have a profound impact on the country's growth potential, because nationally supported IFRS will increase stability, stewardship, accountability and transparency both at institutional and government level.

On 5th December 2014 Ethiopia Adopted International financial reporting standard (IFRS) as its financial reporting framework (Financial Reporting Proclamation 847/201), with the aim to contribute to the Government efforts of improving good governance and reducing the level of corruption and rent seeking behaviours. (AABE 2015)

Accounting professionals around the world are making efforts to strengthen the various components of the accounting infrastructure in their respective countries, so that financial resources can be mobilized and used more efficiently. However, different countries have been using different national accounting standards, making it difficult and costly to compare investment opportunities in different countries. In addition, the faster pace of globalization, the growing interdependence of international financial

markets and the increased mobility of capital have added to the pressure and demand for the harmonization of accounting and financial reporting frameworks and related standards around the world. (UNCTAD 2008)

Recognizing the importance of high quality financial reporting and its contribution to improved financial management is necessary to attract investment and to exploit International opportunities, the Government of Ethiopia in 2014 passed the Financial Reporting Proclamation—a ground breaking piece of legislation enshrining the accounting profession’s role in fostering the growth of the economy and ensuring the stability of the economy; and the related Council of Ministers Regulation setting-up the oversight Board – the Accountants and Auditors Board of Ethiopia (AABE). The Proclamation sets out financial reporting frameworks applicable to different reporting entities and mandated AABE with the responsibility of regulating the accountancy profession and ensuring its development in the country. AABE is the statutory body established in terms of the Financial Reporting Proclamation 847/2014, with the primary purpose of protecting the public interest. To achieve this, AABE is responsible for regulating the profession as well as for issuing a national professional accountancy qualification that is recognized internationally. Among others, its responsibilities include setting accounting and auditing standards and code of conduct to regulate the behaviour of professionals; register and certify professionals and firms to provide such services; review and monitor the work of professionals and firms rendering accountancy and/or audit services and reporting entities; providing professional qualification training, supporting education and continuous professional development programs; enforcing the financial reporting law and taking disciplinary measures on those who do not comply with the provisions of the law and the regulation set by the Government and directives, other relevant policies and guidelines issued by the Board.

The Board plans a three phase transition over a period of three years for reporting entities in Ethiopia. (AABE Nov. 2015) The transition plan is prepared on the basis of Article 54(1) of the Proclamation and anchored on the understanding that the Board and all stakeholders will follow the milestones and timelines as described in strategic plan of AABE. (AABE Nov. 2015)

Phase 1:

(Mandatory Adoption of IFRS): Significant Public Interest Entities - Financial Institutions and public enterprises owned by Federal or Regional Governments. July 8, 2016 is recommended as the date for adoption of IFRS for all financial institutions and large public enterprises. The choice of July 8, 2016 is anchored on the need to give sufficient period (22 months) over which to effectively transit to IFRS. (AABE Nov. 2015)

Phase 2:

Other Public Interest Entities (ECX member companies and reporting entities that meet Public Interest Entities quantitative thresholds) and International Public Sector Accounting (IPSA) for Charities and Societies, All other public interest entities (ECX member companies and reporting entities that meet the qualitative thresholds for PIE) and Charities and Societies are expected to mandatorily adopt IFRS and IPSAs (for Charities and Societies), for statutory purposes, by July 8, 2017. This means that all other public interest entities and Charities and Societies in Ethiopia will statutorily be required to issue IFRS and IPSAs based financial statements respectively for the year ending July 7, 2018. (AABE Nov. 2015)

Phase 3:

Small and Medium-sized Entities, IFRS for SMEs shall mandatorily be adopted as at July 8, 2018. This means that all Small and Medium-sized Entities in Ethiopia will statutorily be required to issue IFRS based financial statements for the year ending July 7, 2019. (AABE Nov. 2015)

This seems, Ethiopia is recognizing the significant influence that corporate reporting has on investment decisions; the country is now attaching greater importance to transparency in corporate accounting and reporting. Edogbanya and Kamardin (2014) held that adopting IFRS leads to improved quality of financial reporting. The availability of relevant information on potential investment targets has a bearing on the efforts to mobilize investment for financing economic and social development. (UNCTAD 2008) In addition, the faster pace of globalization, the growing interdependence of

international financial markets and the increased mobility of capital have added to the pressure and demand for the harmonization of accounting and financial reporting frameworks and related standards around the world. (UNCTAD 2008)

According to Bhargava and Shikha (2013), adopting IFRS affects investors' decisions because financial reports under IFRS contain more information disclosure for investment decisions. Bhargava and Shikha (2013) argued that IFRS does not require strict reporting rules; hence, it is a principle-based standard. The principle-based characteristic of IFRS is a demerit, as reporting entities can easily manipulate the financial report through creative accounting. IFRS is, however, a fair-value, principle-based standard with the potential to improve reporting qualities, enhance international comparability, exhibit more information disclosure, and increase transparency of accounting information.

Financial information plays an important role in making critical investment decisions and conducting risk assessment. It also contributes to improved investor confidence and decreased cost of capital. Over the years, attracting financing needed for economic development has become more competitive. Economic resources have become more mobile across borders. Enterprises that provide potential investors with reliable and comparable financial statements are more likely to attract domestic and international investment. (UNCTAD 2008)

Depending on the general economic situation, existing regulatory framework and financial reporting tradition of a given country, practical implementation of IFRS poses considerable challenges and prospects. Though it is very early to note practical challenges and prospects of IFRS implementation in Ethiopia, this paper questions whether Institutional responsibilities are clearly set or not? Are the enforcement capacity and/or mechanism in place? Is the required expert human resources/technical capacity available?

The research will take the practical challenges and prospects of other countries that adopted and implemented IFRS

1.2. Statement of the problem

In spite of the numerous studies about the Adoption and implementation of International Financial Reporting Standards by developed and industrialized countries around the world, less attention has been given to developing countries. Very less articles and books about the implementation of IFRS in Ethiopia were found.

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 analysing 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 implementation, prospect of IFRS for Ethiopia, challenges faced by the stakeholders in the process of implementation of IFRS, and the factors that might affect the implementation process,

The factors that initially contributed to the introduction of IFRS in Ethiopia seem external-attracting investment for economic development. 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. Given this, Moving out from such sophisticated and traditional way of report preparation to International Financial Reporting Standard (IFRS) will not be smooth, so this study will try to find out major challenges and prospects with recommendation to facilitate the process of IFRS adoption/implementation in Ethiopia.

This study is therefore motivated because of the absence of studies in the area of IFRS implementation, its prospect, challenges and factors that could explain its implementation 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 implementation in Ethiopian context.

1.3. Research questions

1.3.1) what are the prospects of International Financial Reporting Standard (IFRS) implementation in Ethiopia?

1.3.2) what are the challenges in the implementation of International Financial reporting Standard (IFRS) in Ethiopia?

1.3.3) what are the factors affecting the implementation of IFRS? (Institutional readiness, Enforcement capacity/ mechanism and availability of the required human /technical capacity)

1.4 General Objective

The general objective of the study is to assess/identify the challenges and prospects of International Financial Reporting Standard (IFRS) implementation in Ethiopia.

1.4.1 Specific Objective

- To identify the challenges of International Financial Reporting Standard (IFRS) implementation in Ethiopia
- To examine the factors affecting the implementation of IFRS (Institutional readiness, Enforcement capacity/mechanism and availability of the required human/technical capacity)
- To identify general prospects for International Financial Reporting Standard (IFRS) implementation in Ethiopia.

1.5. Scope of the study

1.5.1 As mentioned previously also, the IFRS implementation procedure is yet to be completed in Ethiopia. The study, therefore, does not discuss the post IFRS implementation impact.

1.5.2 The study focuses on the assessment of Institutional readiness, Enforcement capacity/system availability of the required Human/Technical issues related to the adoption/implementation of IFRS in Ethiopia.

1.6. Limitation of the study

Lack of researches and /or articles in the area of such topic was the main challenge of this study; hence the research emphasizes studies conducted in other country context, In order to address the challenges and prospects of implementing IFRS in Ethiopia.

1.7 Significance of the Study

As stated on the proclamation, the adoption of IFRS is *to support the various building blocks of the economy and to reduce the risk of financial crisis, corporate failure and associated negative economic impacts; it is necessary to ensure that the provision of financial information meets internationally recognized reporting standards;* 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 implementation. It would also be useful for organizations by providing information about the principles and actual challenges of implementing IFRS. It is also very important for academic purpose by providing some information in regard to the prospect and challenges of IFRS implementation in Ethiopia.

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

In general, the studies identify challenges that affect the implementation of IFRS and its prospects and recommend ways out. *The study can be used as a spring board for future studies in this area, the study can also be used as an input for policy makers, standard setters, and academic institutes and to regulatory bodies in Ethiopia.*

1.8 Organization of the Paper

This study is organized in to five chapters. The first chapter states the general introduction and background of the study. Chapter two presents the literature review regarding the research area of International Financial Reporting Standards and its implementation 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 recommendation and wind up the report by highlighting future research areas.

Chapter Two

2 Literature review

2.1 Conceptual and Theoretical Framework of the Study

The study examined the institutional, infrastructural adequacy and technical factors that may predict the success of the transition to the global reporting standards in Ethiopia. The purpose of the study is to examine the variables that impact IFRS implementation in Ethiopia.

As of the beginning of 2005, the global corporate financial reporting landscape has been transformed in a major way – an unprecedented number of countries and enterprises around the world adopted international financial reporting standards (IFRS) as a basis for the preparation of financial statements. (UNCTAD 2008) The European Union (EU) took the lead when it mandated all listed companies in the European Union to start the adoption and implementation of the IFRS in their financial reporting since 2005. In fact the year 2005 to 2009 was regarded by the IASB to provide a stable platform for EU companies that started implementation in 2005. Presently over 120 countries are reported to have adopted or converged with IFRS. The process of international convergence towards a global set of standards started in 1973 when 16 professional accountancy bodies from Australia, Canada, France, Germany, Japan, Mexico, the Netherlands, the United Kingdom and the United States of America agreed to form the International Accounting Standards Committee (IASC), which in 2001 was reorganized into the International Accounting Standards Board (IASB). The IASB develops global standards and related interpretations that are collectively known as international financial reporting standards (IFRS). (UNCTAD 2008)

Membership of IASC expanded to 140 professional bodies including the International Federation of Accountants (IFAC) under which some African countries belong. Because of globalization and comparability issues, IASC was restructured leading to the creation of International Accounting Standard Board (IASB) that issues IFRS. This ushered in the convergence (both local and international) of accounting standards to IFRS which has become globally adopted including in Africa. However, convergence is still going on various areas of accounting. Additionally, International convergence of

accounting standards refers to the goal of establishing a single set of high-quality accounting standards to be used internationally. The effort of standard-setters, particularly, the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) is to achieve that goal. The essence of convergence is to avoid conflict and confusion, promote simplicity, streamlining, consistency and transparency and avoid any future financial crises or meltdowns. Convergence is also already taking place in other countries, with “all major economies” planning to either adopt IFRS or converge towards it in the near future. For example, Canada required all listed entities to use IFRS from January 1, 2012 and Japan permitted the use of IFRS for certain multinational companies from 2010 and made a decision on mandatory adoption in 2012 (IFRS Foundation, 2012).

Standard setting bodies, such as IASB and FASB, experience lobbying from preparers and governmental self-interest (Nobes, 2008). The lobbying is motivated by different reasons. The major one is related to revenue and earning management. Managers want to show higher revenue in the financial statements of their companies due to the fact that their compensation is most often associated with it. Governments also lobby the formulation of standard that can lead to a higher earning (Nobes, 2008). Cortese Irvine and Kaidonis (2010) describe the lobbying that IFRS 6 (*Exploration for and Evaluation of Mineral Assets-2004*) has gone prior to becoming a standard. In spite of this, accounting standard setting bodies imposes their standards by getting the help of enforcement bodies (Nobes, 2008). Different forms of bodies in different accounting regimes perform the enforcement. Regulators of stock exchanges, government departments and agencies and private sector bodies are used as an enforcer in various accounting regimes. In countries such as US, Norway, Sweden, Switzerland and Australia, stock exchange regulators perform enforcement. On the other hand, in Belgium, Italy, France, Portugal and Spain, the task is left to the private body panel. In the UK, government department carries out enforcement (Nobes, 2008). The enforcement action of those bodies makes a standard mandatory in their jurisdiction. The mandatory standard may be new or a change to the existing standard. As the topic of this research is related to a new standard, mandatory accounting change is worth mentioning (Endale, 2011).

2.2 Empirical Evidence

Eva K. Jermakowicz and Sylwia Gornik-Tomaszewski (2006) conducted a study on Implementing IFRS from the perspective of EU publicly traded companies. The objective of this study was to examine the process of implementing IFRS by European publicly traded companies, including the approach which these companies take to conversion, the impact of adopting IFRS on the financial statements, and the perceived benefits and challenges of implementing IFRS. The study investigates the approaches that companies take in the conversion process. And the overall findings of the study suggest that the process of implementing IFRS was costly, complex and burdensome. A study by (Street & Bryant, 2000) highlighted the significance of the enforcement issue for the IASC as it was seeking an International Organization of Securities Commissions (IOSCO) endorsement.

Several papers attempted to determine the level of accounting harmonization by examining selected measurement practices used by companies in Europe (Emenyonu & Gray, 1992, 1996; Herrmann & Thomas, 1995, 1996; Murphy, 2000; Van der Tas, 1988). These studies analysed the annual reports from companies headquartered in different countries to determine the level of compliance between various accounting practices and the impact of adopting international standards on accounting harmonization.

Various accounting items exhibit high-value relevance in common law countries that have effective judicial systems, better investor protection, and higher quality of accounting practices (including more transparent reporting) and auditing systems compared with code law countries. It is expected that the smaller the deviation of a domestic practice from the IFRS, the higher the value relevance of that practice. Accordingly, the EU countries with the largest deviation of a domestic practice from the IFRS should have the most to gain from transition to IFRS (Francis, Khurana, & Pereira, 2003; Hung, 2001). Prior research investigated problems associated with implementing the true and fair view requirement in the EU (Aisbitt & Nobes, 2001; Alexander & Archer, 2003).

Recent developments in the EU provide an opportunity to investigate the impact of the IAS regulation on national accounting standards. Previous studies have investigated issues related to possible consequences of the IAS regulation, including the costs involved and potential problems associated with the adoption of IFRS (Bradshaw & Miller, 2003; Cairns, 2003; Delvaile, Ebbers, & Saccon, 2005; Epstein & Mirza, 2006; Flower, 2004; Haller, 2002; Haller & Eierle, 2004; Mazars, 2003; Nobes & Parker, 2004; Stolowy & Jeny-Cazavan, 2001; Street & Larson, 2004; Van Hulle, 2004; Walton, 2004). Buchanan (2003) suggested that compliance, enforcement, and jurisdiction are among many issues that need to be resolved in the process of developing a single world standard. Larson and Street (2004) reported, based on the data collected by the largest international accounting firms during their 2002 convergence survey, that the two most significant impediments to convergence appear to be the complicated nature of particular IFRS (including financial instruments) and the tax-orientation of many national accounting systems. The consensus view of the study is that a lack of adequate education, training, and knowledge of IFRS are important challenges of conversion. A training program for staff across a company is needed to let them adopt an entirely different system of business operations, performance measurement, and communication with the markets. This training will be an ongoing exercise since IFRS is a moving target. Audit firms play the crucial role in this training program. The involvement of auditors is so significant that they run the risk of becoming heavily involved in preparing the financial statements they are required to audit. This is mainly caused by the complexities of IFRS where many entities, especially smaller listed entities, lack sufficient expertise (Hoogendoorn, 2006).

The consequences of implementing IFRS will undoubtedly go far beyond a simple change of accounting rules by the companies concerned (Eichhorst, Steen, van der Tas, & Smits, 2002). It further suggests that European standard-setters and legislators act now to determine the future of accounting and financial reporting in their countries. But the future of financial reporting will also be shaped by the preparers themselves. Many decisions as to the process of implementation of IFRS have been left to the companies. It is vital that company management recognize the far-reaching impact that IFRS will have

on business. A number of issues raised in this study that would benefit from further research. Some respondents expressed doubts as to whether common standards within the EU can be achieved due to differences in interpretation and the lack of implementation guidance. Research is needed to analyse the impact of differences between IFRS and national GAAP on accounting convergence. Finally, common Accounting standards create the need for a common approach to auditing and enforcement within the EU, currently determined at the national level.

2.3 Factors Affecting the Adoption of IFRS

(UNCTAD 2008) a country case study was conducted by UNCTAD and The country case studies cover Brazil, Germany, India, Jamaica, Kenya, Pakistan, South Africa and Turkey. The objective of the case study was, to identify practical challenges in the Implementation of IFRS as requested by International Standards of Accounting and Reporting (ISAR) as it has recognized the growing number of member States that are introducing international financial reporting standards (IFRS) as basis for the preparation of corporate financial reports. The countries have taken a variety of approaches to implementing IFRS.

In the case of Brazil, the implementation of IFRS had come into effect in 2010. German companies started preparing financial statements based on international accounting standards (IAS) beginning in the early 1990s. The approach in India has been to adapt IFRS to the economic realities of the country. Jamaica started implementing IFRS in 2002, while Kenya began the implementation process in 1998. Pakistan started introducing IAS issued by the International Accounting Standards Committee (the processor of the IASB) as early as in the 1970s. South Africa initiated a similar process in 1993. In Turkey, the process began in 2003.

One of the critical elements in the implementation of IFRS is the rigorous enforcement of standards. The full benefits of a global set of financial reporting standards such as IFRS will be realized only when these standards are consistently enforced. Thus, IFRS consist of only one element of the financial reporting infrastructure. The institutions responsible for enforcing IFRS need to realize that, as a result of the growing globalization of financial markets, their enforcement efforts often protect both domestic and international investors. (UNCTAD 2008) Switching to IFRS involves to some

degree a leap of faith. A strong national enforcement regime is essential to realise the potential benefits of adopting global accounting standards. (ICAWA 2015) Practical implementation of IFRS requires adequate technical capacity among preparers, auditors, users and regulatory authorities.

The factors that initially contributed to the introduction of IFRS in the countries covered in the case studies vary. In Brazil, the Central Bank's intention is to bring financial reporting in line with international best practice to facilitate the comparability of financial reports and fostering investor confidence. In Germany, a number of large companies began to prepare their financial statements in accordance with IAS, not because they were required by national regulators, but in order to be able to access financial markets outside Germany. In 1998, German lawmakers gave listed companies the option of preparing their consolidated financial statements in accordance with IAS.

The implementation of IFRS for the preparation of consolidated financial statements of listed companies in Germany became mandatory following the decision of the European Union to implement the IAS Regulation of 2002. The case study of Germany illustrates a European-Union-wide approach to implementing IFRS. Therefore, the implementation challenges extend beyond domestic factors.

The case study of Kenya shows a desire to raise national financial reporting requirements to international best practices in the aftermath of significant collapses in the country's financial services sector in the 1980s and 1990s. The case study of Kenya also indicates another factor that was taken into consideration in deciding to adopt IAS in place of national ones. By adopting IAS, the standard-setting body intended to reallocate resources away from setting national accounting standards to strengthening other activities aimed at more effective implementation of international accounting and auditing standards.

In India, the case study shows again a desire to harmonize domestic financial reporting requirements with international standards. However, in the case of India, yet another approach is taken, i.e., a programme of converging Indian accounting standards with IAS by adapting the latter to the economic reality of the country. The case study of Jamaica also cites an intention to harmonize corporate reporting practices across countries in the Caribbean in accordance with international requirements and with the position taken by IOSCO on its endorsement of IAS.

The case studies of Pakistan, South Africa and Turkey show that a desire to raise their financial reporting requirements to internationally recognized benchmarks is one of their main objectives in implementing IFRS. Furthermore, Turkey is negotiating membership with the European Union. The case study of Turkey illustrates the country's efforts to bring its financial reporting requirements in line with those of the European Union. The case study highlights the role of IFRS in facilitating economic integration on a regional basis.

The main practical challenges that arise in implementing IFRS that have been identified through the country case studies and the lessons learned are generalised as depending on the general economic situation, existing regulatory framework and financial reporting tradition of a given member State, practical implementation of IFRS poses considerable challenges. These practical challenges relate to the coherence of the regulatory framework and the state of preparation of relevant institutions, enforcement and technical capacity.

Schipper (2005) described several implementation effects associated with the adoption of IFRS in the EU, including a possible increased demand for detailed implementation guidance. If the IASB declines to respond to demands for detailed implementation guidance, preparers will look to U.S. GAAP or national GAAP for guidance, diminishing comparability, and convergence. According to Hoogendoorn (2006), there is an area of tension between a principles-based interpretation of IFRS and a rules-based interpretation, trying to avoid diversity in practice results in a rules-based approach. In his opinion, IFRS should be more principles-based and less complex.

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 favour 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.

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.

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.

Relevant institutions needed for ensuring a smooth transition to a global set of financial reporting standards might be inexistent or weak. Rigorous enforcement of such global standards at the national level poses practical challenges due to absence of adequately resourced enforcement institutions and lack of adequate coordination mechanisms among relevant institutions. (UNCTAD 2008).

The need for a stricter enforcement mechanism of financial reporting standards in emerging markets significantly reduces the cost of equity, this reduction is present only in countries with strong legal enforcement and that increased disclosures and enhanced information comparability are two mechanisms behind the cost of equity reduction. (Cai & Wong 2010) Without the introduction of appropriate enforcement mechanisms for IFRS reporting, alongside, amongst other things, high standards of professional education and training, corporate governance and auditing, there will be no certainty that the accounting information reported by listed companies is either reliable or comparable.(ICAWA 2015). Countries that implement IFRS face a variety of capacity-related issues, depending on the approach they take. (UNCTAD 2008) For example, Turkey has encountered several complications in adaption of IFRS such as complex structure of the International standards, potential knowledge shortfalls and other difficulties in application and enforcement issues, Epstein (2009).

2.4 Challenges of implementing IFRS

Irvine and Lucas (2006), Faraj and Akbar (2010), Michas (2010) and Siddiqui (2010) all highlight the need that there needs to be further studies about IFRS in developing countries. Gyasi (2010), Laga (2012) and Hibbard (2012) all draw attention to the

specific need to focus on IFRS in emerging countries in particular. Several researchers including Kholeif (2008) and Braun and Rodriguez (2014) have suggested that there is a need to undertake more research to examine the challenges that is facing the implementation of IFRS in developing nations.

Irvine and Lucas (2006) state that substantial benefits have been proposed by the adoption of IFRS, including a decreased cost of capital, greater mobility of capital, greater efficiency in the allocation of resources, improved and more comparable financial reporting, on the other hand, Implementing IFRS by developing countries had posed several challenges. Such difficulties include the complex structure of the international standards, potential knowledge shortfall and other difficulties in the application and enforcement issues. Alp and Ustuntage (2009) and Zhang et al. (2007)

As accounting standards and practices become more complex, the ability to apply and interpret those standards and practices will depend on the educational level of the population (Choi and Meek, 2008). Countries with less sophisticated educational systems may find the transition to IFRS more costly to implement compared to other countries with better education systems. Therefore, education should be positively related to adoption.

Emerging economies, in pursuing the global financial advantages offered by the adoption of IFRS, face challenges in adapting their regulatory infrastructure and culture to western oriented accounting standards (Irvine and Lucas, 2006; Zhang et al., 2007). Michas (2010) highlights that, in emerging market countries, there are often deficiencies in the accounting and auditing practices.

As evident from the literature review, good number of studies carried out in different countries have highlighted the benefits of having single set of financial reporting standards across the globe. Few of the studies have also brought out the procedural aspects of implementation of IFRS. Some of the studies have given a contradictory view wherein the articles talk about the difficulties and complications faced in implementing IFRS.

In order to reap the full benefits of harmonized global reporting standards and their consistent application in countries with different economic and business environments, a number of practical implementation challenges need to be addressed to assist developing countries and countries with economies in transition in meeting internationally recognized standards, particularly in the area of institutional and technical capacity-building (UNCTAD 2008).

2.5. 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).

Though 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).

The year 2014 marked significant water shed in Ethiopia's financial reporting as the country wholly adopts international Financial Reporting Standards (IFRS) as its financial reporting framework. With the growing internationalisation of economic trade and the globalisation of businesses and financial markets, financial information prepared and audited in traditional/rule based accounting and auditing system may no longer satisfy the needs of users whose decisions are more international in scope (Zeghal and Mhedhbi, 2006) ; (Carson and Dowling, 2010). As a result of the increasing popularity of participating in the global economy investors are becoming increasingly interested in emerging markets as they present a diversified opportunity according to Levich (2001).

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. The Government of Ethiopia in 2014 passed the Financial Reporting Proclamation—a ground breaking piece of legislation enshrining the accounting profession's role in fostering the growth of the economy and ensuring the stability of the economy; and the related Council of Ministers Regulation setting-up the oversight Board – the Accountants and Auditors Board of Ethiopia (AABE). The Proclamation sets out financial reporting frameworks applicable to different reporting entities and mandated AABE with the responsibility of regulating the accountancy profession and ensuring its development in

the country. Currently, The Board plans a three phase transition over a period of three years for reporting entities in Ethiopia. (AABE Nov. 2015) The transition plan is prepared on the basis of Article 54(1) of the Proclamation and anchored on the understanding that the Board and all stakeholders will follow the milestones and timelines as described in strategic plan of AABE. (AABE Nov. 2015). Even though IFRS is required for a certain type of institution, Ethiopia lacks resources to implement IFRS properly, 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). 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 Reporting Standards whether their designation changes or they are replaced, from time to time.

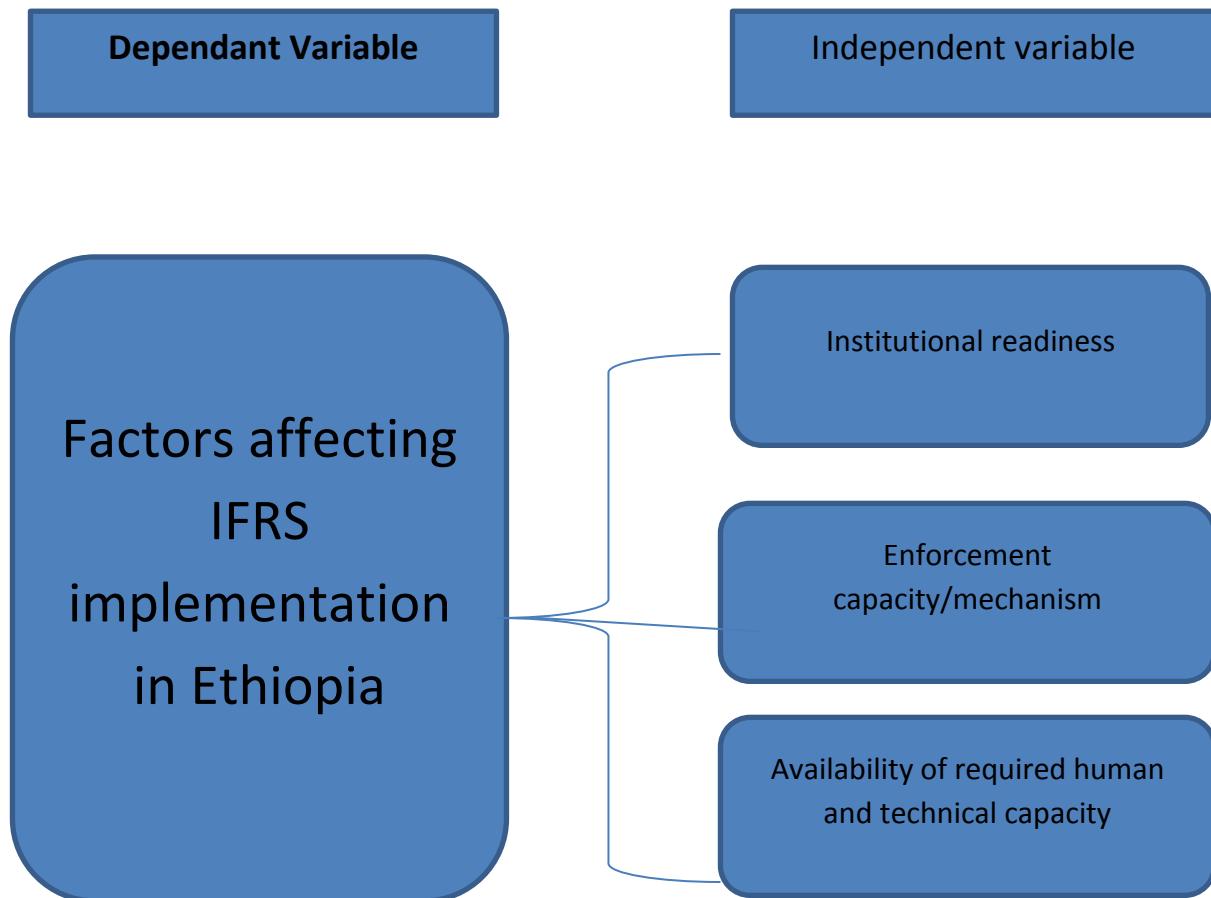
Similar to many developing countries, Ethiopia's financial reporting practices are driven by its tax laws and fragmented accounting practices acquired from the country's institutions of higher learning. Implementing IFRS as a national standard will have significant benefits and challenges for countries 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).

2.6. 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 implementation of IFRS, while the independent variables are institutional readiness, enforcement mechanism, and Availability of the required skill. The study is interested in testing the variability of these variables. Do these variables truly in any way affect /assess the implementation of IFRS by Ethiopia or not.

Figure 3.1; Factors affecting the implementation of IFRS



Source: *International Journal of Accounting and Financial Reporting* ISSN 2162-3082 2014, Vol. 4, No. 2 with amendment to suit for this study.

Chapter Three

3 Methodologies

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 framework adopted for this study and development of hypotheses respectively. The fifth section presents the regression model and measurement of the variables. The sixth section is about data analysis methods and the final section outlines the validity of the study.

3.2. Research Approach

Research approach refer to the methods of data collection, methods of data analysis, interpretation, methods of communicating findings, validation and the questions to be addressed, The selected strategy of inquiry equally determines the research methods.

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.

This study is framed to use the mixed method of investigation. This is because the goal of the study is to analyse the challenges and prospect of IFRS implementation which has both qualitative and quantitative nature.

To see the implementation 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 implementation 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 are implementing IFRS. Questionnaire is a common place instrument for observing data beyond the physical reach of the observer (Leedy, 1989).

3.3.1. Sample Selection

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 authorised Accountants and Auditors in Ethiopia and randomly draw a sample from the total to get rich evidence. According to the register of Auditors and Accounting Board of Ethiopia, there are 578 Authorised Accountants and Auditors as of 30 November 2016.

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 (116) 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 116 questionnaires.

3.3.2. Data Collection Instruments

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

3.3.2.1. Questionnaire

Questionnaires were distributed to finance officers, Auditors, Accounting teachers and Accountants in the samples who are deemed to be knowledgeable about IFRS and could provide important perspective on its implementation. The response is expected to help understand the factors that could explain the implementation of IFRS in Ethiopia, the perceived and actual challenges and prospect 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.

Item	Strongly Disagree (SD)	Somewhat Disagree (D)	Neither Agree Nor Disagree (N)	Somewhat Agree (A)	Strongly Agree (SA)
	1	2	3	4	5

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, Accounting lecturers, Accountants and audit directors 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 implementation and importance of IFRS were used. The document reviews were used to triangulate the data collected by the questionnaires and interviews.

3.5. Hypotheses Development in 2008 a case study was under taken by the United Nations Conference on Trade and Development (UNCTAD 2008) that covers eight countries. These countries have taken a variety of approaches to implementing IFRS. In the case of Brazil, the implementations of IFRS come into effect in 2010. German companies started preparing financial statements based on international accounting standards (IAS) beginning in the early 1990s. The approach in India has been to adapt IFRS to the economic realities of the country. Jamaica started implementing IFRS in 2002, while Kenya began the implementation process in 1998. Pakistan started introducing IAS issued by the International Accounting Standards Committee (the processor of the IASB) as early as in the 1970s. South Africa initiated a similar process in 1993. In Turkey, the process began in 2003. (UNCTAD 2008)

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 implementation one dependent variable against three 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 implementation of IFRS, while the independent variables are institutional readiness, enforcement mechanism and availability of the required technical skill, 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 implementation of IFRS as per the dead line set by AABE and as explained below.

3.5.1.1. Implementation of IFRS

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 implementation is referred to the enforcement of the adopted IFRS to reporting entities in Ethiopia, or harmonization of international accounting standards in to the practice of the local accounting standard in Ethiopia.

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 three independent variables are institutional readiness, enforcement mechanism, and Availability of the required skill as explained below.

3.5.2.1 Institutional readiness

When IFRS are introduced in a given country, they form part of the pre-existing laws and regulations in the country pertaining to the governance of business entities. Given, Ethiopia has no single and formal accounting and reporting structure until the IFRS proclamation; the tradition of financial reporting was not consistent and was not coordinated. According to (UNCTAD 2008), Often, laws and regulations overlap or become inconsistent with each other, especially when the roles and responsibilities of different institutions are not clearly defined and coordination mechanisms are not in place. Lack of coherence in the regulatory system becomes cause for serious misunderstandings and inefficiency in the implementation of IFRS.

H1- There is a relationship between Institutional readiness and successful implementation of IFRS

3.5.2.2 Enforcement mechanism/capacity

One of the critical elements in the implementation of IFRS is the rigorous enforcement of standards. The full benefits of a global set of financial reporting standards such as IFRS will be realized only when these standards are consistently enforced. Thus, IFRS consist of only one element of the financial reporting infrastructure. The institutions responsible for enforcing IFRS need to realize that, as a result of the growing globalization of financial markets, their enforcement efforts often protect both domestic and international investors. (UNCTAD 2008)

The responsibility of enforcing IFRS rests with a number of parties. Institutions such as Ministry of Finance and Economic Development, banking and insurance supervisory authorities (National Bank of Ethiopia), Ministry of Trade and Industry, Charities and Societies Agency (CHA's) ETC play important roles in enforcing financial reporting requirements like IFRS.

Zhou et al (2009) in one such study of Chinese firms' data concluded that the firms adopting IFRS need for a stricter enforcement mechanism of financial reporting standards in emerging markets. Working on the data of European firms, Armstrong et al (2010) found out a positive reaction to IFRS adoption events for firms with high quality

pre adoption information, consistent with investors expecting net convergence benefits from IFRS adoption. In his study of 1084 European Union firms during the period of (1995-2006), Siqi Li (2010) concluded that on average, the IFRS mandate significantly reduces the cost of equity for mandatory adopters. He also suggested in his research that this reduction is present only in countries with strong legal enforcement and that increased disclosures and enhanced information comparability are two mechanisms behind the cost of equity reduction. IFRS adoption may translate into market benefits only where there are greater incentives for better disclosure (Daske et al., 2008; Li, 2009). In common law countries, information asymmetry is likely to be resolved by timely and greater public disclosures to shareholders (“shareholder model”), whereas communication in code law countries is more likely to be conducted more privately between major political groups (“stakeholder model”). As a result, accounting standards in common law countries may be similar to IFRS, thus making adoption of IFRS easier and more enforceable.

H2- There is a relationship between Enforcement mechanism and successful implementation of IFRS

3.5.2.3 Availability of the required technical skill/capacity

Practical implementation of IFRS requires adequate technical capacity among preparers, auditors, users and regulatory authorities. Countries that implement IFRS face a variety of capacity-related issues, depending on the approach they take. One of the principal difficulties encountered in the practical implementation process is the shortage of accountants and auditors who are technically competent in implementing IFRS and ISAs. Usually, the time between when a decision is made to implement the standards and the actual implementation date is not sufficiently long to train a sufficient number of professionals who could competently apply international standards. (UNCTAD 2008)

Elena et al (2009) in their article dealing with the issues of convergence between US Generally Accepted Accounting Principles (GAAP) and IFRS were of the opinion that the adoption of IFRS in the USA undoubtedly would mark a significant change for many US companies. It would require a shift to a more principles based approach, place for

greater reliance on management (and auditor) judgment, and spur major changes in company processes and systems.

Many member States, particularly developing countries and countries with economies in transition, lack a critical mass of competent accountants and auditors capable of applying highly sophisticated and voluminous global standards such as IFRS. In general, training materials on IFRS are scarce, particularly in languages other than English. Furthermore, proper application of certain measurement requirements in IFRS requires input from competent professionals in other areas such as actuary, property valuation and others. Lack of technical capacity poses a significant barrier to the successful implementation of IFRS. (UNCTAD 2008)

H3- There is a relationship between the availability of the required skill and successful implementation of IFRS

3.6. Measurement of Variables and the Logistic Regression Model

As it is already mentioned above the dependent variable in this study is the successful implementation of IFRS beginning from 08 July 2018. IFRS implementation is measured with 15 items from the scales developed using the five-point Likert Scale of “1-Strongly Disagree”, “2-Disagree”, “3-Neutral”, “4-Agree” and “5-Strongly 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 (implementation of IFRS)-measured by implementation of IFRS effective from 08 July 2018 as set by AABE against three independent variables institutional readiness, enforcement mechanism/capacity and availability of the required technical skill and therefore, logistic regression analysis have been used for the study. As shown in the appendix there are four questions each to capture institutional readiness, seven questions to capture enforcement mechanism and four questions to capture availability of the required technical skill.

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

$$\text{IFRS}_i = \frac{1}{1 + e^{-(\beta_0 + \beta_1 \text{IR}_i + \beta_2 \text{EM}_i + \beta_3 \text{TS}_i)}}$$

Where: IFRS_i = Implementation of IFRS in Ethiopia

IR_i = Institutional readiness

EM_i = Enforcement Mechanism

TS_i = Availability of technical skill

Field (2012) argued that for a linear regression to be used, the assumption of linearity of variables must not be violated. That means the data should contain a linear relationship, which is violated when there is the presence of a categorical variable in the model. Field (2012) argued that this is where logistic regression is useful. According to Field (2012), the power of logistic regression to overcome the presence of categorical variables lies in its ability to “express the multiple regressions in a logarithmic term (called the logit), thereby overcoming the problem of violating the assumption of linearity” (p. 267). This study adopts logistic multiple regressions because there are three predictive variables that are measured on nominal scales whereas the dependant variable is categorical.

Assumptions of the Statistics

The assumptions which must be met before the regression statistics can be applied are: the assumption of no multicollinearity, independence of variance, normal distribution, assumption of linearity of variables, and assumption of independent errors.

According to Field (2012), multicollinearity is when there is a strong correlation between two or more predictive variables. Field (2012) argued that multicollinearity between predictive variables impedes the ability to obtain true estimates of the regression coefficients. The study deal with data management issues such as outliers and missing data as follows: create standardized zscores for all the variables in order to search for outliers and transform any variable in excess of ±3.29 value. The study adopt an aggressive data collection strategy to avoid missing data and, at worst, to reduce its

occurrence. Should missing data still occur above 5 %, I will substitute missing data with the mean of the variable.

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 analysed through descriptive statistics, frequency distribution, correlation and logistic regression using Statistical Package for the Social Scientists (SPSS-23). It helps to describe what the data look like, where the centre (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 analysing 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 understandbilty 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.

Cronbach Alpha was also used to measure internal consistency for the study survey, based on the sample estimation. Although George and Mallery (2003) suggest 0.7 as the accepted level, a value more than 0.6 is regarded as a satisfactory level (Pallant, 2007). The reliability test was conducted for all 15 items. According to Sekaran (1992: p.173), “The reliability of a scale indicates the stability and consistency with which the instrument is measuring the concept and helps to assess the goodness of a measure” After coding all answers from completed questionnaires, the reliability test using Cronbach’s alpha was conducted.

Table (3.1) Reliability test

Reliability Statistics

Cronbach's Alpha	No of cases	N of Items
.69	95	15

Source: survey

Chapter Four

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 116 questionnaires which dealt with the implementation of International Financial Reporting Standards were distributed to a sample of authorised accountants and auditors which are involved in the implementation of this international financial reporting standard. However, only 100 questionnaires were collected out of which 98 questionnaires had usable responses (98% response rate). Compared to other IFRS adoption studies and considering the difficulty of collecting data in developing countries such as Ethiopia, 98% response rate was very good. All the survey respondents were located in Addis Ababa.

Table (4.1): Percentage Distribution of Participants by Qualification Achieved, Experience and Occupation

Education level

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid High School	5	5.1	5.1	5.1
First University Degree	23	23.5	23.5	28.6
Masters	50	51.0	51.0	79.6
PHD	20	20.4	20.4	100.0
Total	98	100.0	100.0	

Work Experience

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Less than 5	7	7.1	7.1	7.1
5 to 10	19	19.4	19.4	26.5
Above 10	72	73.5	73.5	100.0
Total	98	100.0	100.0	

Occupations

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Lecturer	22	22.4	22.4	22.4
Finance Manager or Officer	20	20.4	20.4	42.9
Auditor	40	40.8	40.8	83.7
Accountant	14	14.3	14.3	98.0
Other	2	2.0	2.0	100.0
Total	98	100.0	100.0	

Source: survey

As indicated in the previous chapter, survey was the main strategy of inquiry adopted to investigate the implementation of IFRS in Ethiopia. To this end, the results obtained from the survey are analysed 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 proclamation called "**Financial Reporting Proclamation No. 847/2014**", which obliges all reporting entities established in accordance with the Ethiopian law or operating in Ethiopia.

According to the Financial Reporting Proclamation of Ethiopia, an authoritative bodies "the board "namely, **Accounting and Auditing Board of Ethiopia (AABE)**, is established by the Ethiopian council of ministers to guide and dictate the **implementation** of IFRS. It also state that, the role includes, "providing professional qualification training, supporting education and continuous professional development programs; *enforcing the financial reporting law and taking disciplinary measures on those who do not comply with the provisions of the law and the regulation set by the Government and directives, other relevant policies and guidelines issued by the Board.*" *AABE*, Its objectives, among others, are to promote the development of the accounting profession; and ensure the accountancy profession and acts in the public interest. The Proclamation also sets out financial reporting frameworks applicable to different reporting entities and mandated AABE with the responsibility of regulating the accountancy profession and ensuring its development in the country.

The Board plans a three phase transition over a period of three years for reporting entities in Ethiopia. (AABE) The transition plan is prepared on the basis of Article 54(1) of the Proclamation and anchored on the understanding that the Board and all stakeholders will follow the milestones and timelines as described in strategic plan of AABE. (AABE)

It also 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.

Most professional who are interviewed believe that the change in accounting and reporting under IFRS, including the robust disclosure requirements, should improve comparability and improve financial transparency given the transition to IFRS might take much longer time than expected.

4.3. Prospect of IFRS implementation in Ethiopia.

In general, this study confirmed that, there is growing appreciation of the usefulness of IFRS by different companies and stake holders irrespective of their size and financial reporting practice. However, there is serious institutional, enforcement and technical challenges that the country need to overcome in order to benefit fully from the introduction of IFRS. Successful implementation of IFRS needs extensive and ongoing support from professional accountancy associations. The role of professional accountancy organizations in implementing IFRS has been highlighted in so many studies. 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 long-lasting than the costs that occur during the initial phase of its adoption. The manger of one authorised audit firm stated that: -

“Ensuring a high quality corporate financial reporting environment depends on effective Control & Enforcement Mechanism. Merely adopting International Financial Reporting Standards is not enough. Each interested party, namely Top Management and

Directors of the Firms, Independent Auditors and Accountants and Regulators and Law Makers will have to come together and work as a team for a smooth IFRS adoption procedure.”

In order to ensure timely adoption of IFRS in Ethiopia, trained Accountants and Auditors in IFRS are required in large number. Which currently Ethiopia does not have the sufficient number of IFRS trained Accountants and Auditors.

4.3.1 Prospects of IFRS implementation in relation to institutional issues

Table: (4.2)Descriptive Statistics on Institutional readiness

	N	Minimu m	Maximu m	Mean	Std. Deviation
Overlap of local or regional and international regulatory considerations	95	1	5	3.99	.574
Inconsistency of Existing laws and regulatory frameworks	95	2	5	4.51	.563
Lack of clear responsibilities among regulatory institutes	95	3	5	4.23	.472
Lack of coordination among regulatory institute	95	4	5	4.55	.500
Valid N (listwise)	95				

Source: Survey

4.3.1.1 As per the survey result mean of 4.00 and above all respondents confirmed that Preparers, users, regulators, professional accountancy bodies and educators need to be engaged in the planning of IFRS, as well as in the implementation. ***The transition plan to IFRS and its implications for preparers, users, educators and other stakeholder has***

to be effectively coordinated and communicated. The country's transition action plan to IFRS needs to have a logistical framework of targeted activities to be completed within a specified period of time. The communication programme could include elements such as road shows to present the objectives of the transition to IFRS, raising the awareness of regulatory bodies of the potential impact of the conversion, identifying regulatory synergies to be derived and communicating to preparers and users the potential temporary impact of the transition on business performance and financial position.

4.3.1.2 The implementation of IFRS requires considerable preparation both at the country and entity levels. One of the critical considerations is the need for ensuring coherence in the regulatory framework and for providing clarity on the authority that IFRS will have in relation to other existing national laws (mean=3.99). Undertaking the necessary tasks to ensure coherence and clarity will require considerable resources and time.

4.3.2 Prospects of IFRS implementation in relation to enforcement mechanism

Table (4.3) Descriptive Statistics on Enforcement capacity /Mechanism

	N	Minimu m	Maximu m	Mean	Std. Deviation
Lack or weakness of prof. accounting. body	95	3	5	4.47	.581
Follow up action on financial report	95	2	5	4.46	.580
Lack of adequate time period for transition to IFRS	95	3	5	4.28	.539
Lack of adequate financial resource	95	3	55	5.01	5.209
Lack of change management process	95	3	55	4.82	5.227
Lack of clear guide for IFRS imp.	95	3	5	4.39	.511
Lack of capacity by the indp. oversight body to enforce acc. standards	95	1	5	4.17	.630
Valid N (listwise)	95				

Source: Survey

4.3.2.1 There is need for The Accounting and Auditing Board of Ethiopia (AABE) to collaborate with the ministry of education and other professional institutes outside of Ethiopia in order to spread the promulgate knowledge of IFRS through the review of their curriculum. All the respondents (mean=4.47) agree that strengthening professional bodies in Ethiopia is essential for successful transition to IFRS

4.3.2.2 Professional bodies should embark on massive sensitization of their members and users of accounting in order to apprise them of the fundamental change that will occur in financial reporting of the country.

4.3.2.3 As part of the implementation strategy of IFRS, professional accountancy bodies could be established as task forces or response teams that would reply to queries (through different approach) from members on IFRS

4.3.2.4 This study suggest, an IFRS implementation programme needs to adequately assess the state of readiness of relevant professional accountancy organizations so that the necessary resources are available to ensure competent and continuous support from such organizations.

4.3.3 Prospects of IFRS implementation in relation to technical Capacity

Table (4.4)Descriptive Statistics on the availability of required technical capacity

	N	Minimu m	Maximu m	Mean	Std. Deviation
Lack of training materials	95	3	55	5.11	5.199
Lack of technical skill due to complex nature of IFRS	95	3	5	4.37	.506
The need for training of relevant professional	95	2	5	4.45	.579
Weakness of accounting education in Eth.	95	1	5	4.34	.612
Valid N (listwise)	95				

Source: survey

4.3.3.1 The consensus view of respondents is that (with mean ≥ 4.34), a lack of adequate education, training, and knowledge of IFRS are critical challenges so the board

must expeditiously arrange to train the trainers programme for accounting teachers, assessors and examiners who are the vehicle for the implementation of IFRS.

4.3.3.2 In relation to the lack of training materials and to costs associated with the training, it could be resolved by working in partnership with International and regional development banks who play a positive role in the implementation of IFRS by providing resources to developing countries.

4.4 Challenges of IFRS implementation in Ethiopia

There were fifteen questions under challenges of IFRS implementation. All questions had a mean response of more than 4.00. Standard deviations of the three questions were more than 5.00, which were “Lack of adequate financial resource, Lack of change management process and Lack of training materials”. This indicates that the respondents perception were far away from one another. The remaining twelve 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 4.3 revealed that on average the respondents agreed up on the challenges of IFRS adoption.

The survey respondents agreed with the proposition that implementation of IFRS requires coordinated actions by regulatory institutions (with a mean response of 4.55). According to the interview result this is due to the inconsistent and absence formal accounting standard, 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 transition to IFRS. According to one of the manager of an authorised audit firm:-

“Adoption of IFRS means a complete set of different reporting standards have to bring in.

The awareness of these reporting standards is still not there among the stakeholders like Firms, Banks, etc. To bring a complete awareness of these standards among these parties is a difficult task.”

There is a general consensus that one of the most important challenges in implementing IFRS is the complex nature of these standards. This complexity has contributed to the costs and efforts involved in financial reporting which often fall disproportionately on smaller public and private companies. (Almost all respondents with mean value 4.50 agree that financial resource and change management process are the key enforcement challenge to implementing IFRS)

The lack of implementation guidance and follow up actions are other obstacles to accounting convergence with mean value of 4.39 and 4.46 respectively.

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.

Another challenge in the process of adopting IFRS, according to respondents is it increases the complexity of financial reporting. 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. 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.

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, 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 transition to IFRS creates the need for the previous standards to be modified and to progressively converge towards IFRS.

The consensus view of respondents is that ***a lack of adequate coordination, training, and enforcement*** of IFRS are critical challenges of conversion. A training program for staff across a company is needed to let them implement an entirely different system of business operations, performance measurement, and communication with the markets. This training will be an ongoing exercise since IFRS is a moving target. Professional bodies, specially, Audit firms play the crucial role in this training program. The involvement of auditors is so significant that they run the risk of becoming heavily involved in preparing the financial statements they are required to audit. This is mainly caused by the complexities of IFRS where many entities, especially smaller entities, lack sufficient expertise (Hoogendoorn , 2006)

Table 4.4. Descriptive statistics of challenges of IFRS implementation

	N	Minimum	Maximum	Mean	Std. Deviation
Overlap of local or regional and international regulatory inconsistency of	95	1	5	3.99	.574
Existing laws and regulatory frameworks	95	2	5	4.51	.563
Lack of clear responsibilities among regulatory institutes	95	3	5	4.23	.472
Lack or weakness of prof. accounting. body	95	3	5	4.47	.581
Lack of capacity by the indep. oversight body to enforce acc. standards	95	1	5	4.17	.630
Follow up action on financial report	95	2	5	4.46	.580
Lack of adequate time period for transition to IFRS	95	3	5	4.28	.539
Lack of adequate financial resource	95	3	55	5.01	5.209
Lack of change management process	95	3	55	4.82	5.227
Lack of coordination among regulatory institute	95	4	5	4.55	.500

Lack of clear guide for IFRS imp.	95	3	5	4.39	.511
Lack of training materials	95	3	55	5.11	5.199
Lack of technical skill due to complex nature of IFRS	95	3	5	4.37	.506
The need for training of relevant professional	95	2	5	4.45	.579
Weakness of accounting education in Eth.	95	1	5	4.34	.612
Valid N (listwise)	95				

4.5. Factors affecting the implementation of IFRS

Finally, the factors that could explain the successful transition to IFRS by Ethiopian companies have been examined by estimating linear regression model and using Pearson correlation analysis. In this section, one dependent variable against three independent variables was investigated. The dependent variable is the implementation of IFRS, while the independent variables are institutional readiness, Enforcement mechanism and Availability of the required skill. 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 4.5 below shows the descriptive statistics of the dependent variable, implementation of IFRS and three independent variables.

Table 4.5: Descriptive statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Factors_IFRS_imp	95	6.85	17.28	5.2228	1.26970
Institutional_readiness	95	2.75	5.00	4.3184	.31251
Enfo_Mechanisem	95	3.71	12.14	4.5158	1.12607
Tech_capacity	95	3.75	17.00	4.6105	1.31871
Valid N (listwise)	95				

As it is shown on table 4.6 above the minimum value of the mean for the dependent variable of IFRS implementation is 5.22 with a standard deviation of 1.26 and the maximum value of the mean is 5.6 with a standard deviation of 1.5 This positive high mean value indicates that most respondents agree with the implementation of IFRS in Ethiopia will be affected.

In addition, the mean and standard deviation for the independent variables (Institutional readiness, enforcement mechanism and availability of the required skill) with fifteen items on five point Likert scale shows a minimum of 4.3 with a standard deviation of 0.31, and a maximum of 4.6 with a standard deviation of 1.3 respectively. Since the mean score for all the fifteen items is greater than 4.0, it could be argued that most of the respondents agree with the questions. This was also confirmed by Alp and Ustuntage (2009) and Zhang et al. (2007) the complex structure of the international standards, potential knowledge shortfall and other difficulties in the application and enforcement issues.

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 4.6 Pearson correlation

		Factors_IFRS_imp	Institutional_readiness	Enfo_Mechanism	Tech_capacity
Factors_IFRS_imp	Pearson Correlation	1			
	Sig. (2-tailed)				
	N	95			
Institutional_readiness	Pearson Correlation	.534**	1		

	Sig. (2-tailed)	.000			
	N	95	95		
Enfo_Mechanisem	Pearson				
	Correlation	.966**	.313**	1	
	Sig. (2-tailed)	.000	.002		
	N	95	95	95	
Tech_capacity	Pearson				
	Correlation	.434**	.112	.014	1
	Sig. (2-tailed)	.000	.279	.892	
	N	95	95	95	95

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

Source: survey

As shown in the above table, of the total of three explanatory variables tested in this study, there is a significant correlation between all of the independent variables (institutional readiness, enforcement mechanism, and Availability of the required skill) and the dependent variable i.e. implementation of IFRS in Ethiopian . Based on the results in table 4.7 there are positive relationships between IFRS implementation and all of the independent variables, these shows that most of the hypotheses are supported.

4.5.3. Logistic Regression Analysis

In logistic regression, the regression coefficients deal in probabilities so they cannot be calculated in the same way as they are in linear regression. While in theory we could do a linear regression with logits as our outcome, we don't actually have logit for each individual observation we just have 0's or 1's. The regression coefficients have to be estimated from the pattern of observations (0's and 1's). The process of *maximum*

likelihood estimation (MLE) starts with an initial arbitrary “guesstimate” of what the logit coefficients should be. The MLE seeks to manipulate the b’s to maximize the log likelihood (LL) which reflects how likely it is (i.e. the log odds) that the observed values of the outcome may be predicted from the explanatory variables. After this initial function is estimated the residuals are tested and a re-estimate is made with an improved function and the process is repeated.

Table 4.7 (A) Variable in the equation.

Variable in the equation							
	B	S.E	Wald	df	Sig	Exp(B)	
step 0	Consta	-0.081	0.018	19.995	1	0.000	0.923

Hosmer and Lameshow Test (B)

Step	Chi-squre	Df	Sig
1	4.674	8	0.792

Classification table (C)

Observed			Predicted		
			IFRS_IMP_N		Percentage correct
			no	yes	
Step 0	IFRS_IMP_N	No	70	72	0.95
		Yes	25	23	0.24
		Overall percentage	95	95	.72

Source: Survey

Moving on, to the Hosmer & Lemeshow test (table 4.7) of the goodness of fit suggests the model is a good fit to the data as $p=0.792 (>.05)$. However the *chi-squared* statistic on which it is based is very dependent on sample size so the value cannot be interpreted in isolation from the size of the sample. As it happens, this *p value* may change when we allow for interactions in our data, but that will be explained in a subsequent model 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 R2.

Table4.8 (A)Goodness of fit through R square

Omnibus Tests of Model Coefficients

		Chi-square	df	Sig
Step 1	Step	1566.727	15	,000
	Block	1566.727	15	,000
	Model	1566.727	15	,000

(B)Model Summary

Step	-2 Log Likelihood	Cox & snell R square	Sig
1	15529.838a	,119	,159

a. estimation terminated at iteration number 4 because parameter estimate changed by less than .0001.

Source: SPSS regression result

Table 4.8 suggests that the model is explaining more of the variance in the outcome Here the chi-square is highly significant ($chi-square=1566.7$, $df=15$, $p<.000$) so the model is significantly better and explain the dependant variable.

Looking first at the results for Institutional readiness, there is a highly significant overall effect (Wald=19, df=7, $p<.000$). The b coefficients for all Institutional readiness are significant and positive, indicating that increasing influence is associated with increased odds of achieving the implementation IFRS target. The effect of enforcement capacity is also insignificant and negative, indicating that Ethiopia is more unlikely to achieve IFRS implementation target. The effect of technical capacity is also insignificant and positive, indicating that Ethiopia is more unlikely to achieve IFRS implementation target. The overall association between IFRS implementation target and Enforcement capacity remains highly significant, as indicated by the overall Wald statistic.

The result reveals that there exists a significant relationship between independent variables and dependent variable, i.e. Implementation of IFRS as per the target.

4.5.4. Hypothesis Testing and Interpretation of the Results, the last section of the study aims to find out the factors affecting the implementation of International Financial Reporting Standards in Ethiopian. 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 implementation of IFRS were compared against the hypotheses tested in the investigation. The results show that there are significant relationship between independent variables such as Institutional readiness, Enforcement capacity, Availability of the required technical skill and the dependent variable i.e. Successful Implementation of IFRS. Even though all of the hypotheses are supported, the study found that there is a very strong relationship between Enforcement mechanism and implementation of IFRS. In the next section the effect of each independent variable tested under this study is discussed and analysed based on the theoretical predictions, prior empirical studies and hypothesis formulated for this study.

4.5.4.1 Institutional issues

In this study, both the correlation and the regression result shows there is a significant positive relationship between Institutional readiness and implementation of IFRS. As it is presented on table 4.7, the Pearson correlation result shows a significant correlation between Institutional readiness and successful IFRS implementation with correlation coefficient of 0.534 and significant at 0.01. The regression result also shows a

significant relationship between Institutional readiness and IFRS implementation, with a regression P-value of 0.00 thus, from the result it can be conclude that Institutional readiness influences the implementation of IFRS. This result is consistent with the hypothesis of the study. It is also in line with the case study made with (UNCTAD 2008) which states that, relevant institutions needed for ensuring a smooth transition to a global set of financial reporting standards which might be inexistent or weak.

4.5.4.2 Enforcement mechanism

As it is presented on table 4.7, there is a positive correlation between implementation of IFRS and enforcement mechanism with a correlation coefficient of 0.966 and significant at 0.05. The correlation between enforcement mechanism and Successful implementation of IFRS in Ethiopian is high. Similarly the regression result shows a significant positive relationship between IFRS implementation and enforcement mechanism, with a regression P-value of 0.000. This indicates that enforcement mechanism influence the implementation 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 enforcement mechanism and IFRS implementation. Consistent with the result of this study (UNCTAD 2008) found that enforcement mechanism have played a significant role in supporting/enforcing the implementation of IFRS in developing countries because Rigorous enforcement of such global standards at the national level poses practical challenges due to absence of adequately resourced enforcement institutions and lack of adequate coordination mechanisms among relevant institutions. (UNCTAD 2008)

4.5.4.3 Availability of the required skill

As it is presented on table 4.7, there is a positive correlation between implementation of IFRS and technical capacity with a correlation coefficient of 0.434 and significant at 0.01. The correlation between technical capacity and implementation of IFRS in Ethiopian has a very good value. Similarly the regression result shows a significant positive relationship between IFRS implementation and technical capacity, with a regression P-value of 0.00. This indicates that Technical capacity influences the implementation 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 implementation of IFRS.

According to the regression and Pearson correlation analysis results there is a significant relationship between availability of technical skill and IFRS implementation. This result is supported by the findings of (Choi and Meek, 2008). Countries with less sophisticated educational systems may find the transition to IFRS more costly to implement compared to other countries with better education systems. Therefore, Technical capacity should be positively related to Implementation

4.6. Summary of the Chapter

In this chapter the results of the study 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 analysed 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 prospect of IFRS implementation in Ethiopia, the related challenges, and the factors that could influence it in Ethiopia has been analysed in the chapter.

Chapter Five

5 Conclusions and Recommendation

5.1. Introduction

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

5.2. Conclusions

This study assessed the implementation of International Financial Reporting Standards (IFRS), its prospects, the challenges in the implementation process of International Financial Reporting Standards, and the factors that could influence its implementation in Ethiopia with particular reference to the smooth transition to IFRS. Three research questions were developed and tested in this study. The first question is to understand the prospects of implementing IFRS in Ethiopia. The second question is to understand the challenges faced in the process of implementing IFRS. The last question is to assess the factors (i.e Institutional, Enforcement mechanism and availability of the required technical capacity) that could affect the implementation of IFRS.

The study used document analysis (proclamations, annual reports, legislations, directives, papers on IFRS and other documents), interview with finance managers and audit directors is made and self-administered questionnaire to lecturers Finance Managers/officers Auditors and accountants are also distributed. Questionnaire data were analysed using descriptive statistics, correlations, and multiple linear regression and data from interview and document reviews were interpreted qualitatively.

Even though Ethiopia has officially adopted IFRS, National Bank of Ethiopia (NBE) and Ethiopian Commodities and Exchange Authority (ECX) already require the companies under their domain to present IFRS financial report. This paper investigated a wide array of issues related to the implementation of IFRS in Ethiopia with particular reference to the transition to IFRS and the following conclusions were drawn.

The government of Ethiopia has expressed its commitment to integrate its financial statements with international Financial Reporting standards. The government commitment is manifested by the recently issued proclamation called “Financial Reporting Proclamation 847/2014” which obliges all entities“ to follow IFRS in their financial reporting. The Financial Report Proclamation has also set deadline for the IFRS transition/implementation.

The main challenges in the process of implementing IFRS include significant cost of adoption of IFRS, need for training, lack of readiness to implement within the time frame set by the board, lack of adequate implementation guidance and lack of enforcement capacity are some of the key challenges facing the transition to IFRS

Ensuring a high quality corporate financial reporting environment depends on effective Institutional Control, Enforcement Mechanism & availability of technical skills. Merely adopting International Financial Reporting Standards is not enough. Each interested party, Independent Auditors and Accountants and Regulators and Law Makers will have to come together and work as a team for a smooth IFRS adoption procedure.

Top Management should ensure that the Financial Statements are prepared in compliance with the IFRS. Auditors and Accountants should prepare and audit Financial Statements in compliance with IFRS. Regulators and Law Makers must implement efficient monitoring system of regulatory compliance of IFRS along with this the Regulators should ensure that proper changes are to be made in existing laws for IFRS transition process. In order to ensure timely transition to IFRS in Ethiopia, trained Accountants and Auditors in IFRS are required in large number. Ethiopia currently does not have the sufficient number of IFRS trained Accountants and Auditors. The board has currently started to provide IFRS Training programmes. Yet there exists a large gap in the Trained Professionals required and trained professional available.

Awareness and proper Training should contribute to that process. Only enforcement mechanism will not help the procedure but an Advisor is also required (national NIFRSHD). With all these systems in places, the IFRS implementation in Ethiopia will become very smooth and accurate.

To conclude, transition to IFRS in Ethiopia is inevitable. The Government and Accounting professional Bodies are taking every possible step for a smooth transition process. In this regard, self-regulation is the answer which will ensure a complete and smooth transition procedure.

Finally, this empirical study has been conducted to critically examine the factors that could influence the implementation 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 Institutional readiness, Enforcement mechanism/capacity and availability of the required expert capacity have showed significant effect on the transition to IFRS in Ethiopia.

5.3. Implications

The conclusions also reveal that there is a serious problem in relation to the detailed application of 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 board and others should strictly follow the application of all the standards. If these standards are adopted and not applied, they become valueless.

First time implementation of IFRS requires lot of training and some difficulties may also be experienced. To ensure a smooth transition from the existing inconsistent accounting Standards to IFRS, Continuous training to staff and addressing all the difficulties that would be experienced while carrying out the implementation is also required.

On the other hand to fine tune with the main challenges of IFRS implementation, the process 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. IFRS is principally meant to promote the interest of corporate entities and in particular to enhance their access to cheaper funds from international capital markets through the presentation of credible, reliable and comparable financial statements hinged in full disclosures. The corporate entities need to own the transition process as well as work

closely with professional bodies, so that they can positively impact the standard setting process.

Finally, the findings reveal that there are numerous factors that impact the transition to IFRS in Ethiopia. The study found statistically significant relationship between Independent variable and implementation of IFRS in Ethiopia. Based on the findings of the study, it is essential that the actors to support and engage themselves for smooth transition of IFRS. The government should also open training for accountants about IFRS and encourage its implementation, since implementation of IFRS could lead to increased foreign direct investment and access to finance, which in turn may lead to economic growth.

5.4 Recommendation

The transition plan to IFRS and its implications for preparers, users, educators and other stakeholder has to be effectively coordinated and communicated.

Professional bodies should embark on massive sensitization of their members and users of accounting in order to apprise them of the fundamental change that will occur in financial reporting of the country.

The board must expeditiously arrange to train the trainers programme for its accounting teachers, assessors and examiners who are the vehicle for the implementation of IFRS.

There is need for The Accounting and Auditing Board of Ethiopia (AABE) to collaborate with the ministry of education and Professional association outside Ethiopia in order to spread the promulgate knowledge of IFRS (through the review of Accounting and Auditing curriculum)

5.5. 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 prospects, challenges and Factors that could explain the successful transition to 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 implementation of IFRS in Ethiopia. Even though the research found some important factors affecting the implementation of IFRS, the researcher advocates more studies to be conducted in the area.

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