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College of Business and Economics
Department of Accounting and Finance
(Graduate Program)

Challenges and Prospects of Adopting International Financial Reporting Standard (IFRS) in Manufacturing Sector of Ethiopia

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A Thesis submitted to the Department of Accounting and Finance presented in partial fulfillment of the requirement for the degree of Master of Science in Accounting and Finance

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STATEMENT OF DECLARATION

I, Arefainie Ayalew, hereby declare that the thesis entitled *The Challenges and Prospects of IFRS Adoption in Manufacturing sector of Ethiopia* is the outcome of my own effort and study and that all sources of materials used for the study have been duly acknowledged. This study has not been submitted for any degree in this University or other Universities. It is offered for the partial fulfillment of the requirement for the degree of masters of MSC in Accounting and finance department.

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This is to certify that the thesis prepared by Arefainie Ayalew entitled “challenges and prospects of International Financial Reporting Standards (IFRS) in Manufacturing Sector of Ethiopia” is submitted in partial fulfillment of the requirements for the degree of masters of Science (MSC) in accounting and finance compiled with the regulations of the university and meets the accepted standards with respect to originality and quality.

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ABSTRACT

International Financial Reporting Standards (IFRS) becomes internationally accepted standard which is adopted and implemented in many jurisdictions to harmonize financial reporting throughout the globe. As Ethiopia is also one of those countries which accept this standard starts adopting it. Therefore, this study aims to assess the challenges and prospects of International Financial Reporting Standards (IFRS) adoption in Manufacturing sector of Ethiopia. The study employed mixed research approach to achieve the research objectives. The questionnaire data were analyzed using descriptive statistics and data from interview and document review were interpreted qualitatively. The results of the study show that IFRS adoption in Manufacturing sector of Ethiopia will provide benefits to this sector such as attraction of more foreign direct investment and financial support, bridging the communication gap with stakeholders and will bring uniformity of accounting languages. On the other hand this study also finds different challenges of adopting IFRS in Manufacturing sector of Ethiopia such as conversion cost of adoption, required training and education, legal and enforcement mechanisms, employee's resistance to change, asset valuation and availability of professional bodies. Finally the study recommended that employees should be aware of how to reduce costs in adoption process and the government must amend regulations to fit with IFRS requirements. Professional bodies should encouraged and do consult to facilitate successful IFRS adoption in this sector. In addition to that, academic courses regarding IFRS should be incorporated in colleges and universities levels so that the new generation will be knowledgeable about IFRS.

Keywords: International Financial Reporting Standards(IFRS), challenges , prospects , manufacturing sector and financial reporting

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Chapter one

Introduction

1.1. Background of the study

International Financial Reporting Standard (IFRS) requires a single set of high quality, globally accepted accounting standards that promotes comparability of financial reporting internationally. As comparability of financial information is important for better investment decisions and ensure a more optimal allocation of resources across the global economy (Jacob and Madu, 2009). Business standards use IFRS which are sets of standards to prepare their financial statements. IFRS unlike GAAP a rule based accounting system are, principle based, market oriented and globally recognized and accepted, and published to require more extensive disclosure in comparison with prior standards, i.e. local generally accepted accounting principles (GAAP) (Bhattacharje and Islam, 2009). According to Armstrong et al.,(2007), Covrig, Defond, and Hung, (2007), IFRS eliminate international differences in accounting standards and provides standardized reporting formats. IFRS helps to make companies' financial information internationally comparable and it makes less costly compare firms across markets and countries for investors. According to them again having common set of accounting standards help to reduce information asymmetries with different stakeholders and decreases estimation risk by increasing comparability between lower and higher quality firms.

According to (AABE 2015) Ethiopia adopted IFRS in December 2014 as the country's financial reporting framework by the financial reporting proclamation 847/201), and its objective was helping the government policies in promoting good governance and to discourage the corruption & rent seeking behaviors in the country. Teferi Deyuu Alemi & J.S. Pasricha (2016) classified the motivating factors to adopt IFRS in Ethiopia in to two: the first one is internal factor which is the absence of national accounting standards in the country and the second one is external factor which comes from lenders and donors, international correspondent organizations, World Bank and IMF, International Audit Firms(such as Earnest and Young, KPMG International, and Delloitte) , ACCA through its affiliate offices and Ethiopian graduates who are working as professional auditors in Ethiopia and pushing companies to use IFRS.

In 2014 when Ethiopia enacted proclamation of 847/2014), the related council of Ministers set up a board called the Accountants and Auditors Board of Ethiopia (AABE), with the responsibilities of regulating the accountancy profession and ensuring its development in the country. Since its establishment, AABE developed a three phase of transition strategy based on the article 54(1) from the proclamation (AABE, 2015). According to this the first phase is Mandatory Adoption of IFRS which indicated that, Significant Public Interest Entities, Financial Institutions and public enterprises owned by Federal or Regional Governments will adopt IFRS at the effective date of July 8, 2016. The second phase is that, 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 will mandatorily adopt IFRS at the effective date of July 8, 2017. And all other public interest entities and Charities and Societies in Ethiopia will statutorily be required to issue IFRS and IPSAs based financial statements at the effective date of July 7, 2018. The third and the final phase is also says that, Small and Medium-sized Entities, 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.

Therefore, according to this phase, the manufacturing sector of Ethiopia will join the adoption of IFRS in July 2018. As a sector which is aimed by the government to contribute the lion share of the country's GDP, Ethiopia needs to adopt and implement IFRS effectively and efficiently. In spite of the benefits obtained from adopting IFRS, there are also challenges which will affect the effective and efficient adoption such as cultural issues, mental models, legal impediments, educational needs, and political influences which are the main challenges of successful IFRS implementation (Obazee, 2007). Similarly, Lack of technical skills and inadequate knowledge of Libyan professional accountants, the difficulty to develop its existing accounting systems, and a regulatory framework to cope with economic and social development, recent evolution in accounting profession including international financial reporting standards application, and inadequate education and training of accountants will also be challenges of IFRS implementations in Libya (Schachler, Al-Abiyad, & Al-Hadad, 2012; Laga, 2012; Masoud, 2014).

To that end, as per the knowledge of the researcher, there is no any attempt to conduct a study in assessing challenges and prospects of the manufacturing sector of Ethiopia to adopt IFRS. Therefore, the study will be important in identifying and pointing out the possible challenges and prospects of adopting IFRS in manufacturing sector of Ethiopia. In result the study will help Ethiopian government to get good preparation for the successful adoption and implementation of IFRS in this sector.

1.2 Statement of the problem

Preparation and presentation of financial statements will become easy because of the adoption of IFRS as it is a single language of accounting globally. It is also an opportunity for audit firms to review their programs, procedures and practices to make them more effective and efficient, but the switching over to IFRS is a major challenge. Like any major shift, the changeover will not be easy and will require considerable resources and time (Ramesha V, 2016). Therefore, the adoption of IFRS needs considerable preparation in identifying the benefits and challenges of adopting IFRS and it also needs to determine the resource and time requirements for successful adoption.

Mukti Bapna(2017) stated that, the free flow of international investment and attaining other significant benefits for all capital market stakeholders will be contributed from the convergence of IFRS into Indian AS. The study also revealed that, the convergence of IFRS improves the aptitude of investors to compare investments on a global base and also decreases their risk of errors of judgment. This convergence according to Mukti Bapna(2017) will have the following benefits such as:

- Provides better outcome of quality of financial reporting which will lead to increased trust , reliability and confidence among investors, analysts and other stakeholders in a company's financial statements
- Transparency, easy accessibility with reduced cost of capital which increases the global capital markets.
- Scope of accounting professionals in industry as well as in practice will be increased as the accounting professionals are able to work in different parts of the globe.

- The language of communication for Indian companies, which increases listed Indian companies in overseas stock exchanges will be internationally accepted accounting standards.

The adoption of IFRS bridges the gap or information asymmetry with stakeholders and makes the communication effective. According to Okpala, (2012) investors and investment analysts will be confident because of IFRS based financial statements prepared and provided by Nigerian companies as investors and investment analysts require quality financial information for their effective communication. Ovute F. E., Eyisi A. S. & Amorji-Nike, Enugu-Nigeria (2014) also stated the benefits of adopting IFRS such as: increases Comparability of financial statement and Efficiency of Investment, internationally uniform accounting Language, lower cost of preparing financial statements and attraction of More Foreign Direct Investments (FDIs).

In spite of the above benefits of adopting IFRS, Lawrence Udofia & Itoro Ikpantan (2015) stated that, training and educating personnel and management are also challenges for preparers of financial statements compliant to IFRS implementation as it is costly and take away huge man hours. Therefore, the Nigerian banks to increase their understanding of the new global standards, they have to organize in-house training, sponsor staff to attend conferences and seminars. Ball (2006) stated that, although IFRS has the potentials to facilitate cross-border comparability, increase reporting transparency, decrease information costs, reduce information asymmetry and thereby increase the liquidity, competition and efficiency of markets, it has challenges which affects its effective adoption and implementation.

According to Lawrence Udofia & Itoro Ikpantan (2015), making necessary reforms to a country's regulatory, legal and economic structures and adaption of its culture to the West, the need for training and education for investors are challenges of embracing globalization and adopting IFRS. In this study they also pointed out that, making the legal system conversant with the new IFRS standards as it applies to tax issues and other applications of laws is another challenge of IFRS adoption.

Irvine and Lucas (2006) pointed out that, one of the challenges of adopting IFRS in SMEs is lack of accounting education and training. In addition to that the need for adequate technical capacity among preparers and users of financial statements, auditors and regulatory authorities is another challenge. They also revealed that, training materials are costly and not readily available to make

IFRS understandable. G.O. Demaki(2013) concluded that, updating accounting curricula in all training institutions including the universities and polytechnic in Nigeria and harmonize regulatory requirements by amending existing laws that may be a drawback to IFRS are required to overcome the challenges of IFRS.

Resistance to change is also another challenge to convert the current accounting system to IFRS. like Lewin (1947), concluded that when implementing changes, the efficiency and final stability of the process are greater by decreasing forces acting opposite to the desired changes than by attempting to increase forces towards the goal to be achieved. Relating the implementation of IFRS to Lewin's theory, it was concluded that the former accounting system should be considered a quasi-stationary equilibrium, and that the perfect and complete implementation of the IFRS should be seen as the desired new equilibrium.

As it is known Ethiopia hasn't completely implement IFRS yet except few companies in area of financial institutions. According to CSA (2012), manufacturing is a wealth-creating sector of an economy, and closely connected with engineering and industrial design and provides important material support for national infrastructure. But in our country Ethiopia, the industrial sector accounts only 14.3% of GDP, 9.5 % of total employment, and 21.2 % of export earnings. Therefore, to improve this sector and achieve the main objectives of the sector in increasing its contribution to GDP and transform the economic system of Ethiopia from agrarian to industrialized one, successful adoption of IFRS is crucial because IFRS helps to attract investment, increase foreign direct investment, bridge the communication gap between stakeholders and make the accounting languages uniform. To this end, it seems indispensable to assess the challenges and prospects of in adopting IFRS. To the best of the knowledge of the researcher, there are no attempts to conduct a research regarding to IFRS adoption in the manufacturing sector of Ethiopia to assess its challenges and prospects except few in other sectors. This study will be helpful in assessing and pointing out whether the above challenges and prospects of IFRS adoption will face this sector and if there are other factors which are peculiar to Ethiopian manufacturing sector.

1.3. The research objectives

The general objective of this study is to assess the challenges and prospects of IFRS adoption in manufacturing sector of Ethiopia for smooth and effective transition from the local GAAP to the internationally accepted IFRS.

1.3.1. Specific objectives

Specifically this study aspires to achieve the following research objectives.

- ❖ To assess whether IFRS adoption attracts more foreign direct investment & financial support for manufacturing sector of Ethiopia.
- ❖ To assess whether IFRS adoption bridges the communication gap with stakeholders.
- ❖ To examine whether IFRS adoption will bring uniformity of accounting language.
- ❖ To examine that conversion cost is a challenge to IFRS adoption in manufacturing sector.
- ❖ To assess whether the legal and enforcement mechanism of Ethiopia comply with IFRS requirements.
- ❖ To assess whether the availability of professional bodies is a challenge in adopting IFRS.
- ❖ To examine the required training and education for the adoption of IFRS is a challenge in manufacturing sector of Ethiopia.
- ❖ To examine whether there is resistance/ negative perception to adopt the new standard IFRS from employees and owners.
- ❖ To assess manufacturers' perception on challenges arising in asset valuation due to adopting IFRS.

1.4. Research questions

- ❖ What are the benefit/prospects of adopting IFRS in the manufacturing sector of Ethiopia?
- ❖ Will conversion cost be a challenge to adopt IFRS in manufacturing sector of Ethiopia?
- ❖ Is there inadequacy of professional bodies, training and education regarding the adoption of IFRS in manufacturing sector of Ethiopia?
- ❖ Will the legal & enforcement mechanism of the country comply with IFRS requirements?
- ❖ Will the employees of the manufacturing sector of Ethiopia resist the change to transform to IFRS?
- ❖ Will valuation of asset be difficult to adopt IFRS in manufacturing sector of Ethiopia?

1.5 Significance of the study

In spite of the benefits and opportunities obtained from the adoption of IFRS, it is important to assess the possible challenges Ethiopia is facing during the adoption processes. Therefore, to overcome those challenges and have successful transition process, as many researches as possible need to be conducted regarding to the adoption and implementation process of IFRS. Even though it is not sufficient, there are few researches which have been conducted in other sectors especially in financial sector. To that end this study since there is no any research conducted in manufacturing sector as per the researcher's knowledge, will be significant for all practitioners and academicians to be informed about the adoption of IFRS and the accompanying challenges and prospects. The ministry of trade and the manufacturing sector also will be beneficiaries from such studies as it will help them know what will be the prospects and challenges of adopting IFRS and will be well prepared to successfully adopt it. This study will also be important in providing information for the manufacturing sector to successfully adopt IFRS and prepare comparable, transparent and fully disclosed financial reporting so that the sector can be internationally competent to attract local and foreign investors and will enable the country's economic system to be transformed to industrialized economy.

The study will also be important for the accountants, auditors to be aware how IFRS will be successfully adopted in manufacturing sector and enable them to produce globally comparable financial statements and also to provide consultations. Preparers and professionals will also be able to develop IFRS curricula at the university and other levels, adjustment of the accounting training and education to have better understanding as a society and prepare internationally recognized financial reporting. It is also important for users of financial statements to compare financial statements of companies easily by reducing information costs. At last this study will be used as a base for the academicians to conduct further researches to increase the awareness about the adoption and implementation of IFRS in the country totally for economic development of the jurisdiction.

1.6 Scope of the study

As the manufacturing sector of Ethiopia is a wealth creating sector which is expected to transform the country's economic system from agriculture based to industrialized economy, successful adoption of IFRS is crucial. To that end, conducting a study to identify and point out the potential challenges and prospects of adopting IFRS in this sector will be helpful to make the

sector produce globally comparable financial report based on IFRS requirements. Therefore, this study targets to assess the challenges and prospects of adopting IFRS in manufacturing sector operating in Addis Ababa city which are at corporate level as it will be difficult to assess the whole manufacturing sector of Ethiopia due to time and resource constraints. Based on this, the researcher assumed that most of the manufacturing companies are located in Addis Ababa and it will be better conducting this study to identify the challenges and prospects of adopting IFRS in Addis so that the manufacturing companies outside Addis can use it as a reference to get well preparation for successful adoption of it.

Chapter two

Literature review

2.1 Introduction

International Accounting standards Board (IASB), the former International Accounting Standards (IASC) developed International Financial Reporting Standard (IFRS) in 2005 with the aim of producing globally harmonized financial statements to provide financial information for existing and potential investors, lenders & other creditors for decision making.

The emergence of internationally harmonized accounting standards since 2005 provides comparable, verifiable, time line & understandable financial statements globally and cross border investment decisions become easy and feasible. According to Ramesha V, as all companies, preparing their consolidated financial statements, have been reporting under one reporting standard have improved the comparability not only for investors, but also all stakeholders who use the financial statements.

Ethiopia adopted International Financial Reporting Standard (IFRS) in 2014 with proclamation 847/2014 and regulation no 332/2014 for commercial businesses operating in Ethiopia to transparently control the alarmingly expanding corruption and rent seeking (AABE2015).

2.2 The concepts of IFRS and international accounting standards

According to Ramesha.v 2016 , because of globalization an increase in recent years, globe forced to adopt comparable and consistent international accounting standards. Developing accounting standards started in 1966 when prquire high professional accountants in United kingdom, Canada and USA formed accountants study group (AISG) to make accounting and auditing reports comparable. In 1973 initiation of AISG countries and accounting professionals of Australia, France, Germany, Mexico and Netherlands together formed international accounting standards committee (IASC) with the objective of developing internationally accepted and high quality international accounting standards (IAS).(**Odia,.J.O.,Ogiedu, K.O 2013**)stated that, since 1973 up to 2001, the IASC issued 41 standards or IASs before it was replaced by the International Accounting Standards Board (IASB) .To sustainably produce and provide harmonized accounting standards and issues, standing interpretations committee (SIC) was formed in 1997.

International Accounting Standards Board (IASB) was established in 2001 , by replacing International Accounting Standard Committee (IASC) , with the objective of developing a single set of high quality , understandable and enforceable global accounting standards that require high quality , transparent and comparable information in financial statements and other financial reporting to help participants in the various capital markets of the world and other users of the information to make economic decisions. (IFRS 2015). And subsequently IASB issued International financial reporting standards (IFRS) to be adopted in countries of the world and have harmonized financial statements. Since, April 2001 International Accounting Standard Board (IASB) become responsible to produce international accounting standards and called IFRS by replacing International Accounting Standards Committee (IASC) (IFRS Foundation, 2010).

(Gina 2016, Aeghe 2016 and Kingsley 2016) stated that first countries to adopt IFRS and prepare their IFRS based financial statements were European Union member countries in 2005, through the companies which mandated all listed in the European Union. Recently over 160 countries in the world adopted IFRS and are preparing IFRS based financial statements.

Because of financial markets in more regulated countries are threatened with a loss of market share and multinational corporations must prepare multiple reports for different nations they do business in, makes harmonizing national standards of financial statements globally very important (Nobes and Parker 1991). Preparing & auditing financial information based on national accounting & auditing systems is unable to help the information users in making their internationally comprehensive decisions as economic trade and financial markets are becoming global (Carson& Dowling,2010).

To have access for international capital markets by providing compareable and transparent financial statements, adopting IFRS is imperative and important for developing countries. Irvane & Lucas(2006) stated that, IFRS adoption by developing countries has many benefits including decreased cost of capital, greater mobility of capital, greater efficiency in the allocation of resources, improved and more comparable financial reporting, a decrease in the opportunities for earning management expression, satisfy the accountability demands of World Bank (WB) & International Monetary Fund (IMF). (Demaki 2013) states that appropriate and reliable IFRS based financial statement management to plan well, hire the right labor, provide effective control and leadership, identify managerial problems, find solutions and take decisions and provide knowledge which is the power to management and entrepreneurship.

Though adoption of IFRS's advantages exceeds its challenges, the process faces proponents and opponents. Some scholars say having globally harmonized financial report helps countries and MNC's to easily compare it with one set of standard and decide easily. But others say that having one set of standard may not match with countries different environmental influences.

According to proponents of developing harmonized standard internationally, adopting IFRS make financial statements to be internationally comparable and easily participate in internationalization of capital markets. IFRS also reduces the cost of preparing consolidated financial statements from different jurisdictions. MNC will also be benefited as IFRS helps them to easily evaluate and decide for their cross border investments and use their accounting staff easily in different jurisdictions. (Apostolos et al., 2010; Iyoha and Faboyede, 2011; Jermakowicz, 2004; Alicja et al., 2007; Susana et al., 2007; William et al., 2010). Hail, Leuz and Wysocki(2010) argued that countries and reporting jurisdictions are beneficiaries in reducing cost of capital, allocating capital resources, providing market liquidity and reducing cost in consolidated financial statement preparation for Multinational Companies (MNC) who operate their businesses in more than one jurisdictions.

On the other hand, some scholars argued against the adoption of IFRS. Jermakowicz & Gornik Tomszewsk (2006) stated that the adoption of IFRS is not the only factor in improving the quality of financial reporting, there are also other factors which affect the quality of financial reporting such as institutional factors legal factors and cultural factors existed in different countries. And they also argued that inconsistent implementation of standards and poor enforcement mechanisms are other factors which affect or decrease the financial reporting. Rechar,(1991) stated that it is normal and appropriate to have different accounting standards for the differently environmentally influenced countries. And also economic status differences in different countries might be the affecting factors to implement the appropriate accounting system. But as it has been practically seen in different countries the adoption of IFRS helps to prepare a transparent, comparable, accountable and low cost of capital financial statements, which results high investment attraction across boundaries and increased globalization.

Alsuhaibania (2012) stated that Saud Arabia is motivated to adopt IFRS because the Saudi economy is strongly interconnected to other economies in the world and many Saudi listed companies have subsidiaries in other countries and many international companies have started to establish subsidiaries in Saudi Arabia. Moreover, most of the companies that are listed in the

Saudi Stock Exchange (TADAWUL) have many large transactions with the international economy and based on Saudi media, almost 25% of the population of Saudi Arabia is composed of expatriates. In addition, Saudi Arabia has recently launched many programs to attract more Foreign Direct Investments (FDI) into Saudi Arabia. The other force which derives countries to adopt IFRS is multinational companies (MNCs) are required to fulfill the disclosure requirements for stock exchanges around the world to be valued and compete internationally (Armstrong et al 2007., Covrig, Defond & Hung 2007).

Companies who convert their accounting systems to IFRS derive many benefits as they do not operate their businesses in isolation. Therefore in this time of globalization, preparing their financial statements in line with international reporting requirements will help streamline their financial reporting and they reduce reporting costs, produce comparable financial statement, easily accessed to foreign capital & can trade stocks and securities on worldwide stock exchange markets (Ikpefan & Akande, 2012).

According to Melese Hailemichael (2016), motivating factors to adopt IFRS in Ethiopia are classified in to internal and external factors. Internally Ethiopia is motivated because it has no its national accounting standard and external pressure comes from lenders, donors, international correspondent organizations, World Bank and IMF, International Audit Firms (such as Earnest and Young, KPMG International, and Deloitte), Association of Chartered and Certified accountants (ACCA) through its affiliate offices and Ethiopian graduates who are working as professional auditors in Ethiopia and pushing companies to use IFRS. Shrivastava, Rawat & Maheswari stated that India is driven to adopt IFRS because the country is one of the emerging country in the world and for its economic development India need foreign direct investment therefore, making conducive environment for investment becomes important. To do this India integrated its financial reporting with the rest of the world countries economies to enable their financial results and financial positions of companies be understood.

Ramesha V (2016) pointed out that, the benefits gained from converging accounting standards among accounting circles pressures in favor of accounting convergence. These benefits which pressure to converge the accounting standards are: International of national business concerns, Need of increased foreign capital, Growth of international markets, Business Process Outsourcing (BPO) and Growth of international audit firms. According to Odia, J.O. & Ogiedu, K.O (2013) the Institutions driving or fostering IFRS Adoption internationally are, the World

Bank, the International Monetary Fund (IMF), the G8, the G7 Finance Ministers and Central Bank Governors, International Organization of Securities Commissions (IOSCO), Basel Committee on Banking Supervision, the United Nations (UN) and the Organization for Economic Co-operation and Development (OECD) have publicly recommended the adoption of a single set of global accounting standards or the IAS.

2.3. Financial report quality and IFRS

It is to achieve accounting quality improvement through developing harmonized set of accounting standards for financial reporting, that countries in the world are adopting IFRS and implement it with in an increasing pace. Accounting quality depends on the firm's over all institutional setting which includes the legal and political system of the country in which the firm operates (Bhattacharjee & Islam, 2009). Because of the factors such as globalization and anticipation of international accounting harmonization, accounting quality has improved globally since the beginning of 1990s. And this higher quality of financial reporting provides comparable and transparent financial statement (Land & Lang, 2002). According to Barth, Landsman, & Lang (2008), less earnings management, more timely loss recognition, and value relevance of earnings are achieved through adoption of IFRS which all are evidences of higher accounting quality. Meeks and Swann (2009) concluded that firms adopting IFRS had exhibited higher accounting quality in the post-adoption period than they did in the pre-adoption period.

According to many scholars (e.g., Barth et al., 2006; Gassen and Sellhorn, 2006; Hung and Subramanyam, 2007; Barth et al., 2008) accounting quality will be improved by adopting IFRS voluntarily because IFRS reduces information asymmetry between managers and shareholders, helps to have proper asset and earnings management, uses lower cost of capital and high forecasting capability by the investors in determining firm's future earnings. Barth et al. (2006) concluded that eliminating the use of alternative accounting methods by managers to control earnings improves accounting quality. After comparing firms voluntarily adopt IFRS with firms that use domestic accounting standards in their earnings management, they concluded that after IFRS adoption, firms have higher variance of changes in net income, a higher ratio of variance of changes in net income to variance of changes in cash flows, higher correlation between accruals and cash flows, lower frequency of small positive net income, and higher frequency of large losses. Indicating how important commercial transactions are to be implemented is the fundamental function of using international accounting standards. Reducing information

asymmetry and solving agency problems in a corporate sector is also the character of disclosing quality financial information through the use of accounting standards (Ball, 1995).

Barth et al. (2006; 2008) also stated that from the taken sample of firms internationally who voluntarily adopt IFRS up to 2003 performs lower levels of earnings management and more timely loss of recognition than another sample of firms who use local GAAP. And also Daske et al. (2007) pointed out that by focusing on the heterogeneity in the consequences of voluntary IFRS adoption, concludes that on average capital markets respond modestly to voluntary IFRS reporting .Generally it shows that the association between voluntary IFRS adoption and accounting quality is mixed, but researches using more recent data are totally concluded that the firms who adopt IFRS perform relatively better accounting quality than those who use local accounting standards.

Daske et al. (2007) also concurrently revealed the impacts of mandatory IFRS adoption capital markets and concluded that mandatory IFRS adoption also reduces the information asymmetry between managers and stockholders and argued that this impact is influenced by network effects rather than the accounting quality improvements. Similarly, other findings show that if IFRS matters, then firms in countries that had lower disclosure quality and dependence on equity financing prior to mandatory IFRS should experience a greater impact after mandatory adoption. Therefore, using implied cost of equity capital as an indicator, they find no effect among such countries even after two years under the new accounting standards (Lee et al. 2008). According to Ali & Hwang, (2000) tax system, ownership structure, the political system, capital structure and capital market development are also the other factors which affect the financial reporting quality in addition to the mandatory adoption of IFRS.

2.4. Prospects of IFRS adoption

Demaki(2013) pointed out that Nigerian companies will participate in the global market place because of IFRS and will ensure transparency, accountability and integrity in financial reporting in Nigeria Nigeria which is a prerequisite for the investment attraction to achieve economic development in Nigeria. And IFRS will help international investors to have sufficient information, so that investors can make a useful and meaningful comparison of investment opportunities between Nigeria and other countries. He also states that IFRS based financial statement helps Multinational companies to easily prepare consolidated financial statements. According to Ramesha V (2016) the major prospects of adopting IFRS can be listed as follows:

2.4.1. Attraction of investment and financial support:

An efficient investment decisions depends up on the relevance, reliability, comparability, understandability, full disclosure of underlying accounting policies etc. Therefore, whenever companies need investment opportunity, across countries and between industries with in the country the IFRS based financial statement provides real comparative framework and attracts the right investment and financial support (ATU, Oghogho Gina *et. al*, 2016). They also pointed out that, investors will not be in doubt about the quality of financial statements produced based on IFRS to decide where and when to invest and for financial support in Nigeria so that a price will inevitably be paid.

Harteneck (1997) also stated that if there is doubt to the quality, consistency or transparency of the rules country's financial statements, prices will be paid for short period of time with lower market values of shares and high interest rates will be charged for their financings. And also the quality of information available to potential and existing investors including the bases of accounting policies applied determines the cost of raising funds. And he also states that when there is doubt in the quality, consistency or transparency of their rules, prices will be paid for the shortcomings with lower market values for their shares and/or higher interest rates for their financing. The quality of information provided to potential and existing investors determines also the cost of raising funds.

2.4.2. Bridge Communication gap with Stakeholders

Many users need accounting and financial information for their different purposes, to that end, the IFRS based financial information provides full information in a language that communicates effectively for those various users including Stakeholders. If the language of financial information preparation is internationally understandable, no need of conversation with existing and potential investors (ATU, Oghogho Gina *et. al*, 2016).

According to Okpala,(2012) investors and investment analysts will be confident because of IFRS based financial statements prepared and provided by Nigerian companies as investors and investment analysts require quality financial information for their effective communication. IFRS based financial information fulfils the international disclosure requirements for stock exchanges globally prepared by multinational companies (Armstrong et al 2007, Covrig, Defond

& Hung 2007). The adoption of IFRS bridges the gap or information asymmetry with stakeholders and makes the communication effective.

2.4.3. Attraction of More Foreign Direct Investments (FDIs)

Known and predictable risk profile of a country is the result of reliable and credible financial statements which is the main factor to attract foreign direct investment. Foreign direct investment is more attracted in a situation where there is high probability of gain than risks. Therefore, risks can be influenced or decreased by providing reliable information availability of financial statements (Abel, 2011). At the same time Okpala (2012) concludes that IFRS adoption by companies directly increases the Nigerian foreign direct investment and in effect it improves the economic development of the country.

G.O.Demaki, (2013) states that adoption of IFRS enable to ensure transparency, accountability and integrity in financial reporting and help the Nigerian companies to participate in the global market which is the basic factor in attracting foreign direct investment that will contribute economic development in the country. Because of this, it will be easy to make well-informed, useful and meaningful comparison of investment portfolio in Nigeria and other countries by international investors.

2.4.4. Uniformity in Accounting Language

The main objective of having harmonized accounting standards internationally is to globalize businesses, finances and investment by using uniform accounting languages globally. According to Abel, (2011) unless it is harmonized, accounting terminologies are confusing because of differences in accounting languages of different countries. Therefore, IFRS adoption eliminates the unnecessarily complex and multiple reporting accounting languages. As IFRS provides an internationally accepted financial reporting language, Multinational companies can also easily prepare their consolidated financial statements in uniform accounting language. Moreover these Multinational companies are beneficiaries in transferring their staffs without any additional training to adapt different country's accounting languages.

2.5. Challenges of adopting IFRS

Other than technical issues, there are other principal factors affecting the implementation of IFRS in Europe, America, and the rest of the world such as cultural issues, mental models, legal impediments, educational needs, and political influences which are the main challenges of

successful IFRS implementation (Obazee, 2007). And also Larson & Street, (2004) identified that the two most significant hindrances of converging to IFRS are the complexity of certain IFRSs and tax orientation of most countries.

Shifting of an accounting standard to any other new standard like IFRS requires a huge cost which is the main challenge of implementing it in to practice. For example the cost of training personnel to understand the new standard, cost of acquiring new accounting packages, cost of discarding former accounting packages which will not fit with the IFRS are the costs which will be challenges of adopting IFRS.(Udofia & Ikpantan 2015). As cited by (Beranovia 2008), the number of multinational companies (MNCs) operating their business in multiple countries are recently increasing and the cost of producing consolidated financial statement from these different countries is high and exposed to errors therefore, it is important to use a single set of high quality financial reporting standards in all over the world's capital markets (Mazars, 2005).

According to Cairns, (2001) even though companies claim that they are preparing IFRS compliant financial statement, there have been different levels of compliances with IFRS. The other problem is the failure of auditors to reveal their opinion about the compliance or non compliance of IFRS. Therefore, the enforcement mechanism of IFRS will be the major challenge especially in country's enforcement agencies and institutions are weak. Hail, Leuz & Verdi, (2008) and ball (2006) also agree with Cairns, (2001) that the most IFRS adoptions are inconsistent with IASB's prescription because these adoptions are in labels and with various versions.. According to Ball (2006), the culture and developing systems of regulation and accountability will be the main challenges of adopting and implementing IFRS most countries will face. He also opined that, culture, language, regulatory and accounting profession challenges, demands for greater accountability and wider political participation and including of necessary political reforms are factors faced by countries in adopting and implementing IFRS. Because of the necessary reforms in a country's regulatory, legal and economic structures and adaption of its culture to the Westerns, insisted by embracing globalization and adopting IFRS, countries face challenges in adopting and implementation of IFRS. Another challenge in adopting IFRS according to Ball (2006), is the cost required to training and education for investors, accountants, auditors, preparers and users of financial reports etc, development of IFRS curricula at the university and other level, adjustment of the accounting training and

education to incorporate IFRS, the legal system must be conversant with the new IFRS standards as it applies to tax issues and other applications of laws.

Timely interpretation of standards, continuous amendment to IFRS, accounting knowledge and expertise possessed by financial statement users, preparers, auditors and regulators are identified as implementation challenges of IFRS (Rong-Ruey, 2006). Managerial incentive is also included as a challenge of implementing IFRS (Ball, Robin & Wu, 2003). According to Armstrong et al.,(2007) and Soderstrom & Sun (2007), cultural issues, mental models, legal impediments, educational needs and political influences are challenges which make harmonization and moving from one tradition to another more difficult. They also agreed up on that, because the differences in national business practices arising from differences in institutions and cultures cannot match with a single set of accounting standard, cultural, political and business differences will prolong as challenges of hindering the progress towards a single global financial communication system implementation process.

Lack of technical skills and inadequate knowledge of Libyan professional accountants, the difficulty to develop its existing accounting systems, and a regulatory framework to cope with economic and social development, recent evolution in accounting profession including international financial reporting standards application, and inadequate education and training of accountants will also be challenges of IFRS implementations in Libya (Schachler, Al-Abiyad, & Al-Hadad, 2012; Laga, 2012; Masoud, 2014). Similarly, Mohamed (2014) also strengthen the above idea and concluded that, weakness of professional accountancy body, lacks of an independent oversight body, inconsistency of existing laws and regulatory frameworks of accounting in Libya with recent development of accounting profession, economic growth in Libya, lacks technical skills and inadequate knowledge of Libyan professional accountants and weak accounting education will be the challenges of implementing IFRS in Libya.

Kenya, also as an African country is affected by challenges of adopting and implementing IFRS such as the gap between education in Kenya and the requirements of IFRS, the lack of training and inability of accountants and professional bodies in Kenya to remain shoulder to shoulder of the standards issued by IASB and lastly, lack of Kenya representative in the standard setting process (UNCTAD, 2008). Katto (2010) pointed out that, lack of professional accountants, lack of awareness of the value of audit and professional accounting bodies and stock exchanges do not exist in all African countries to promote financial reporting are challenges that African

countries will face during the implementation of IFRS. Gyasi, (2012) concluded that developing countries generally including Ghana are affected in adopting and implementing IFRS by the challenges such as legal. According to Gambari (2010), assessing technical accounting, tax implications, internal processes, and statutory reporting, technology infrastructure, and organizational issues are the required factors to successfully adopt IFRS.

Handling employees ethically and maintaining qualified and competent employees targeted by other companies for long time are the main challenges of Nigerian companies facing in adopting IFRS (Iyoha and Faboyede, 2011). According to Wong (2004), the major challenges of adopting IFRS are education and training. Robyn and Graeme, (2009) classified challenges of adopting IFRS as common challenges to all countries and companies, the other one is challenges that are unique to particular countries and companies. Gyasi (2010), Laga (2012) and Hibbard (2012) concluded that, further studies need to be undertaken more and more to examine the challenges of IFRS adoption and implementation in developing countries.

One of the consequences usually found in change processes are the different forms of resistance. Currently there is an approximation in the academics' perception on the resistance to change. According to Bareil (2013), resistance to change can be seen from the perspective of two paradigms: the first one is the traditional, classifying resistance as a problem to be eliminated; and the second one is the modern, which classifies resistance as a kind of feedback for those intending to implement change. Giangreco and Peccei (2005) state resistance as an attitude diverging from the changes that are being implemented. As cited by Camila Pereira Boscov (2016), Delassus, Vandelannoite and Lorraine (2014) argue that, resistance originates from individuals' threatening and unhelpful perception of the change. According to Ball (2006), cross-border comparability, increase reporting transparency, less information costs, increasing the liquidity, increasing competitive advantage etc are benefits of adopting IFRS, but it is impossible to realize these benefits unless individuals and countries can have the right perception about IFRS to minimize the negative outcome which is the result of negative perception of IFRS. Similarly, Winney, Marshall, Bender & Swiger, (2011) concluded that, American small businesses were not prepared for IFRS by the the same reason that they do not perceive the benefits of IFRS over the GAAP they have been using.

IFRS uses fair value measurement instead of cost approach. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market

participants at the measurement date. Therefore, asset valuation is another challenge in adopting IFRS as companies are not well documented and problem of observable market transaction. In applying fair value principles by IFRS there is significant difference financial information revealed, particularly in case of financial instruments and business combinations (Mukti Bapna 2017). The use of fair value accounting can bring volatility and subjectively to the financial statements it is very difficult to arrive at the fair value and valuation experts also feel difficulty to shift from historical method to fair value method. . Moreover, adjustments to fair value results in gains or losses which are reflected in the income statements. Whether this can be included in computing distributable profit is also debatable issue. The fair value financial reporting under International Financial Reporting Standards (IFRSs) got scrambled in the current economic turmoil in the US that rocked global financial markets and institutions. As per fair value accounting banks and other entities would require to adopt mark to market valuation of financial assets and investment property (. Preeti shrivastava, D.S Rawat & Deepti Maheswari 2015)

2.6. Manufacturing sector of Ethiopia

Manufacturing as a sector, plays the lion's share for the growth and development of a country's economy. Especially when it comes to developing countries, manufacturing sector is the most important factor to transform from agriculture based economy to the industry based economy. According to DAB DRT (2014) in Ethiopia as a developing country, manufacturing industry started in 1920s with a simple processing technology that produces agriculture based products. Manufacturing sector is still at its beginning limited only producing semi-processing products. Even though there are hindering factors which prevents the emergence of stronger manufacturing base in the country, Ethiopia has the probability to challenge those hindrances through the use of cheap labor force and well-educated, trainable and inexpensive labour and supplies of utilities. Moreover, according to the survey DAB DRT (2014) the Ethiopia's policy framework is developed in a position to improve this sector and it proposes to drive manufacturing growth through vertical and horizontal links to the base of rich agricultural and mineral resources. As it is stated by DAB DRT (2014), to ensure economic and social development, the Ethiopian government launched new push to make the framework conducive, because of this The International Monetary Fund (IMF) ranks Ethiopia as among the five fastest growing economies in the world. After a decade of continuous expansion (during which real GDP growth averaged 10.8% per annum), in 2013/14 the economy grew for its 11th consecutive year posting 10.3%

growth. Ethiopia's economy is based on agriculture, which accounts 40.2 % of GDP, 60 % of the export earning, and 80 % of total employment. The industrial sector accounts 14.3% of GDP, 9.5 % of total employment, and 21.2 % of export earnings. . While the service sector accounts for 46.2% of GDP. Ethiopian manufacturing sector contribute for export, employment and national output. The sector accounts for 70% of the industrial sector.

According to CSA (2012), manufacturing is a wealth-creating sector of an economy, and closely connected with engineering and industrial design and provides important material support for national infrastructure. It involves the mechanical or chemical transformation of materials or substances into new products. It makes products from raw materials by the use of manual labour or machines and is usually carried out systematically with a division of labour. In a more limited sense, manufacturing is the fabrication or assembly of components into finished products on a fairly large scale.

Therefore, this huge sector of the economy needs to follow high quality financial report preparation. The adoption of IFRS to this sector and implementing it will enable the manufacturing sector of Ethiopia to be competent internationally. By producing transparent and comparable financial statement in the sector foreign direct investment will increase considerably. And also multinational companies in this sector will produce their consolidated financial statement with a list cost and can easily mobilize their staff across different jurisdictions. Generally the adoption of IFRS in this sector will have high contribution to the economic development of Ethiopia.

2.7. Empirical review

Ramesha V, (2016) in his paper about the *Convergence of Indian Accounting Standards with IFRS – Prospects & Challenges* tried to see challenges and prospects of converging IFRS in India by using analytical study with the help of secondary data, aimed to achieve the following three objectives. The first objective was to study the process of IFRS adoption in India and the second objective the research was to study the different advantages of can be gained from adopting of IFRS in India. Lastly this research was aimed to provide suggestions about how to successfully adopt IFRS and how the academic studies can be conducted regarding to IFRS. The study ends with the result of, though the switching over to IFRS is a major challenge, as a single language of accounting it is very much helpful in the preparation and presentation of financial statements and gives an opportunity for audit firms to review their programs, procedures and

practices will make them more effective and efficient. But as a major shift, the converging process will not be easy and needs considerable resource and time, good planning, accounting team work, proper strategy and effective leadership.

G.O. Demaki (2013) conducted a research entitled the Prospects and Challenges of International Financial Reporting Standards to Economic Development in Nigeria with the objective of assessing the contributions of adopting IFRS to Nigerian economy and identifying the major challenges of IFRS . The study revealed its findings as, having appropriate and reliable IFRS based financial statement helps to plan well, hire the right labour, provide effective control and leadership, identify managerial problems, find solutions and take decisions, provides the power to management and entrepreneurship. But, upgrading accounting curricula in all training institutions including the universities and polytechnic in Nigeria and harmonize regulatory requirements by amending existing laws that may be a drawback to IFRS, are the major challenges, Nigeria need to overcome for the sustainable economic development in the country.

Mohamed Abulgasem Zakari (2014) conducted a study on the Challenges of International Financial Reporting Standards (IFRS) Adoption in Libya with the objectives to study the challenges of adopting and implementing IFRS the Libyan firms will face and to assess the effect of legal, economic, accounting education and culture structures on adopting of IFRS in the Libyan context. As a result the study concludes that some obstacles like accounting education and economic issues faced the Libyan companies adopted IFRS. The confidence of external International Investors in Libya will increase if the country develops its legislation, professional bodies, accounting education, infrastructure and application of practice. Therefore, meeting the challenges of the developing economic market structure in Libya, i.e stock market development will ensure the population benefited.

Mukti Bapna (2017) also conducted a research on A Study of IFRS and its Adoption in India – Prospects and Challenges with three objectives; the first objective was to comprehend the applicability, implication and prospects of IFRS. The second objective was to encompass the present scenario and the adoption phases of IFRS in India and lastly to embrace the challenges faced by corporate firm in adopting IFRS and IndAS. The findings of this study is that the first important thing is dealing with the challenges and works to fully adopt IFRS through the implementing the roadmap in India. IFRS skills and knowledge of Indian accounting professionals should be built to supervise the conversion processes in the country. Relevance,

transparency, reliability and comparability of financial reports and benefiting global investors are expected from converging the national accounting standard to IFRS. Therefore, mutual international understanding about the objectives of financial reporting and harmonization are the basic factors to successfully and efficiently adopt IFRS.

Lawrence Udofia & Itoro Ikpantan (2015) conducted a study on International Financial Reporting Standard (IFRS) Adaptation in Nigeria: Challenges and Prospects with the objective to survey literature and identify the challenges of IFRS adoption and implementation problems of IFRS in Nigeria. As a result this study concludes that attracting foreign direct investment, reduction of the cost of doing business, and cross border listing are the benefits can be obtained from adopting IFRS in Nigeria. Nigeria also will face some challenges such as the development of a legal and regulatory framework, awareness campaign, and training of personnel during the adoption of IFRS in the country. At the end, the researcher recommends that Strengthening education and training at all levels of governance, establishment of an independent body to monitor, enforce, and advise on accounting and auditing standard, efficient capacity building programmes to prepare the various stakeholders for the imminent transition and challenges are the possible solutions which will help to confront challenges and successfully adoption of IFRS in the country.

Ovute F. E.& Eyisi A. S.(2014) conducted a research on Problems and Prospects of Adopting International Financial Reporting Standards in Nigerian Corporate Organization with the objective of investigating the loss of interest from international investors in investing into Nigerian firm who observed the principles of SAS rather than IFRS, investigating the difficulty in consolidation of financial statements of Multi-national companies, examining the difficulty of international investors in monitoring of overseas investment and global comparability of financial statements and the last objective of this study was evaluating the level of awareness put in place in adopting the international financial Reporting Standards (IFRS) in a co-operate organization. In conclusion, this study reveals that Nigeria will be interested to adopt IFRS which will indicate financial reporting practices in the country will embrace changes in investment and benefits from the new financial reporting framework which has the capacity to widen and enhance their accessibility to international markets. Therefore, to maintain this benefit, a responsible committee is needed. To that end, crucibles, reliable and comparable

financial statements hinged in full disclosures helps to access corporate entities to the cheaper funds from international capital markets.

Preeti shrivastava, D.S Rawat & Deepti Maheswari (2015) in their research on Challenges and Prospects of IFRS in Indian Accounting System with the objective of studying the implications of importance of IFRS in the present situation and the process in adopting IFRS and studying the prospect of International Financial Reporting Standards will affect the Indian corporate. In result the study concludes that converging the national accounting to IFRS in India, will help the corporate financial statements be significantly changed a result of more refined measurements of performance and state of affairs, and enhanced disclosures leading to greater transparency and comparability. Similarly the study concludes that adopting IFRS mandatorily increases the comparability of financial statements internationally.

2.8. Summary and Literature gap

As stated by Demaki(2013), the adoption of IFRS brings many benefits for the Nigerian companies such as access to global market and will ensure accountability, comparability and integrity in financial reporting in Nigeria in effect it results the investment attraction to achieve economic development in Nigeria. It also helps multinational companies to prepare their consolidated financial statements at the list cost. Similarly Ramesha V (2016) concluded that, standardized accountings and financial reporting helps to be comparable in major financial markets and removes the different trade barriers. He also pointed out the different benefits of IFRS include, after adoption companies will have understandable, comparable, consistent & transparent financial statements. Different researchers stated that, attraction of foreign direct investment (FDI), bridge the communication gap with stakeholders or reduce information asymmetry and uniformity of accounting languages are benefits gained from adopting IFRS.

Besides the different benefits, adoption of IFRS is not free from challenges. Ball (2006) stated that, the cost required to training and education for investors, accountants, auditors, preparers and users of financial reports etc, development of IFRS curricula at the university and other level, adjustment of the accounting training and education to incorporate IFRS and developing the legal system in line with IFRS are challenges of adopting and implementing IFRS. Mohamed (2014) stated that, weakness of professional accountancy body, lacks of an independent oversight body, inconsistency of existing laws and regulatory frameworks of

accounting in Libya with recent development of accounting profession, economic growth in Libya, lacks technical skills and inadequate knowledge of Libyan professional accountants and weak accounting education will be the challenges of implementing IFRS in Libya.

In Ethiopian context also as a developing country, might not be out of the above challenges and prospects of adopting IFRS and the other contextual challenges of Ethiopia. There are few researches conducted regarding the challenges and prospects of IFRS adoption in financial sector of Ethiopia: Implementation of IFRS in Ethiopian Banks: An Assessment of Banks' Reluctance To Implement It, (.P.Fareedmastan Zinabu G. A.Anuradha, 2015) and IFRS Adoption Progress in Ethiopia (Teferi D., . J.S. Pasricha, 2016). (Tesfu, 2012) studies the Benefits and Challenges of adopting IFRS in Ethiopia and found that need for training, complexity of IFRS and lack of implementation guidance are the major challenges of IFRS adoption, (Mihiret, 2016) investigates the Process, Issues and Implications of IFRS Adoption in Ethiopia .The study shows that lack of commitment and low capacity among accounting Professional and lack of coordination of all concerned stakeholders are the major challenges. (Hailemichael, 2016) studies Adoption, Challenges and perception of International Financial Reporting Standards (IFRS) on the Quality of Financial Reporting of Financial Institution in Addis Ababa, Ethiopia and finds that there is a strong positive relationship between IFRS adoption and quality of Financial reporting of financial institutions and the study also highlights challenges of IFRS adoption the significant ones are cost of adoption ,IT challenge and lack of implementation agent and guidance , (Teshome, 2017) investigates Challenges and Prospects of International Financial Reporting Standards (IFRS) implementation in Ethiopia .The investigation shows that 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 key challenges facing the transition to IFRS.(Alemi,2016) conducts a research on IFRS Adoption Progress in Ethiopia and finds that shortage of qualified professionals and lack of preparedness are the major challenges of IFRS adoption and (Marenesh, 2018) conducted a research on chaleenges and prospects of IFRS adoption in Ethiopian commercial banks. The researcher found that, need of amending legal and regulatory requirement, volatility of financial position and financial performance, difficulty of obtaining source documents and data ,need of updating the existing accounting software, information system and information technology of the bank, shortage of skilled and

competent man power , shortage of strong professional bodies are the key challenges of IFRS adoption in Ethiopian Commercial Banks.

As it can be seen above, most of the above studies conclude by identifying the challenges of IFRS adoption the few in Ethiopia and many others in financial sector. But, as per the knowledge of the researcher, there is no any research conducted regarding to the challenges and prospects of IFRS adoption in the manufacturing sector of Ethiopia. It indicates that, the challenges and prospects of this sector including which will be peculiar to manufacturing sector if any are still need to be assessed to successfully adopt IFRS. Therefore, this study will be important to assess these challenges and prospects of adopting IFRS and fill those gaps.

Chapter Three

Research Methods and Design

3.1. Introduction

This chapter discusses the processes and techniques used in carrying out the study by describing 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.

3.2. Research Approach

This study targets to assess the challenges and prospects of adopting IFRS in manufacturing sector of Ethiopia. Therefore, this research follows mixed research approach. As 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 (Creswell 2009). The researcher uses both quantitative and qualitative approaches to assess the challenges and prospects of IFRS adoption in manufacturing sector of Ethiopia. The study uses both primary and secondary sources of data. Primary data sources are approached through questionnaire and interview. The questionnaire consists of both close ended and open ended questions to gather information about the challenges and prospects of IFRS adoption in manufacturing sector of Ethiopia. The secondary data will be obtained through reviewing the relevant authorized document which enables the researcher to get relevant information regarding the challenges and prospects of IFRS adoption in manufacturing sector of Ethiopia. To that end, using mixed approach helps to get comprehensive and detail information from research questions which cannot be obtained through the use of single approach in assessing challenges and prospects of adopting IFRS in manufacturing sector of Ethiopia.

3.3. Sample Selection

3.3.1. Target Population

The study focuses on identifying the prospects and challenges of the manufacturing sector of Ethiopia which are at corporate level currently operating in Addis Ababa City. However, due to economic and time constraints this study targets the companies in manufacturing sector which are only at corporate level operating in Addis Ababa city. Based on the data obtained from

Ministry of Trade, there are 40 companies at corporate level operating in Addis Ababa City. Minding the role of IFRS, this study put an effort to assess the prospects and challenges of adopting IFRS in manufacturing sector which are at corporate level.

3.3.2. Sample size determination and Sampling Technique

The researcher used census approach and taken the whole population using census method. This approach is used when the target population is small and it reduces the sampling error because it uses the entire population. Based on this, the researcher conducted the research on 40 companies at corporate level in the manufacturing sector of Ethiopia which is the total population of the study. And also three professionals or employees (including the general manager, the finance head and the internal auditor) will be purposively selected from each company believing that these employees will have direct involvement in the adoption process of IFRS to ask their perception about the challenges and prospects of adopting IFRS to their companies. In addition to that, the researcher conducted an interview with concerned members of regulatory & enforcement bodies and other professionals of IFRS to incorporate their view through in depth conversation in strengthening the information gathered through questionnaires. Therefore, a total of 120 individuals will be the selected target respondents.

3.4. Survey Design

The study is designed to be survey research, for data will be collected from primary sources (respondents) through close-ended questionnaire. According to (Fowler, 1993), survey design is a means of collecting information, usually through self-report using questionnaires or interviews because questionnaire is a common instrument for observing data beyond the physical reach of the observer (Leedy, 1989). Therefore, the researcher planned to gather relevant data through self-administered questionnaire which help to understand the perceived challenges and prospects of IFRS adoption by manufacturing sector of Ethiopia using both close-ended and open-ended questionnaires because mixed questionnaires have advantage of considerable flexibility (McNabb, 2005), with regard to the close-ended questions, the respondents were asked to indicate their level of agreement on a five point Likert scale, semi structured interview which allows the investigator some degree of flexibility at the time of interviewing for the pursuit of unexpected line of inquiry which arise at the study progresses to strengthen the data collected through questionnaire and review of relevant documents to understand legislations, directives and

other documents related to the adoption of IFRS. The study is descriptive type as it aims to describe the challenges and prospects of adopting IFRS in manufacturing sector of Ethiopia. The study follows quantitative approach to get numerical data. Quantitative research is commonly associated with surveys focused on using formalized standard questions and predetermined response options in the questioners or surveys administered to large number of respondents (Green, 2008). Quantitative approach is used to quantify the problem by way of generating numerical data or data that can be transformed into usable statistics. And qualitative approaches to get an understanding of underlying reasons, opinions, and motivations. It provides insights into the problem or helps to develop ideas or hypotheses for potential quantitative research. And here the rationale of using such a mixed approach is to gather data that could not be obtained by adopting a single method and for triangulation.

3.4.1. Data collection Instruments

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

3.4.1.1. Questionnaire

Self administered questionnaires containing three sections: the demographic part, open ended questions and closed ended questions were distributed to general managers, finance heads and internal auditors in the samples who are deemed to be knowledgeable about IFRS because of their involvement in the adoption process and could provide important perspective on the challenges and prospects of adopting IFRS in manufacturing sector. The response is expected to help understand the challenges and prospect of IFRS adoption for this sector. The research evidence was gathered by using both close-ended and open-ended questionnaires as mixed questionnaires are more flexible than employing single approach (McNabb, 2005).

These closed ended questions are intended to measure the respondents' attitude towards the challenges and prospects of IFRS adoption and to assess their perception about this global standard. These are composed of likert scale item questions. Some questions will be negatively worded so as to prevent respondents from answering randomly and crosscheck later if any. For close ended questions, the respondents are asked to indicate their levels of agreement on a five point Likert scale ranging from 1(Strongly Disagree) to 5(Strongly Agree). The five-point scale indicating the degree of agreement on the questions will be calculated and interpreted by using the following formula.

$$\text{Interval} = \frac{\text{The highest Score} - \text{The lowest Score}}{\text{Number of Interval}}$$

$$\text{Interval} = \frac{5-1}{5} = 0.8$$

The average score (mean) obtained from each item will be interpreted into degree of agreement. A mean (M) score between 4.21-5.00 means the respondents strongly agreed (SA), 3.41- 4.20 means they agreed, 2.61-3.40 means the respondents are neutral, between 1.81-2.60 means they disagreed and a mean between 1-1.80 means the respondents strongly disagreed (Marenesh 2018).

3.4.1.2. Interview

Semi structured interview with concerned members of regulatory & enforcement bodies and other professionals of IFRS were conducted to seek their perception about the challenges and prospects of IFRS adoption to substantiate data collected through questionnaire. 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.

3.4.1.3. 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, AABE'S five years strategic plan and other documents related to the challenges and prospects of IFRS adoption used. The document reviews were used to triangulate the data collected by the questionnaires and interviews.

3.5. Method of Data Analysis

The data that are collected through questionnaire is analyzed descriptively using Statistical Package for the Social Scientists (SPSS) .It is used to find out percentages, mean values, frequencies, standard deviations. The data that are collected through interview and document review are qualitatively analyzed. Descriptive analysis technique including Mean, Frequency and standard deviation were used. And also the data were presented by use of statistical tools like tables and graph charts and others. The quantitative data obtained through quantitative approach used five points likert scale rating questionnaires as to interpret the result. In addition to that, secondary data was used to more elaborate and interpret the primary data.

3.6. Validity and reliability of the study

Validity refers to the extent which the study accurately reflects the specific concept that the researcher attempts to measure or describe. In order to keep the validity of the study, the researcher 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).Whereas external validity refers the extent to which the conclusion is generalized to the population (Yin, 1994).

According to (Yin, 1994) multiple sources of evidence is used to ensure construct validity. This study uses multiple sources of data such as questionnaire, interview and document review to help cross validate the data. In addition to that the questions are tested for clarity and understandability by professionals in the area to enhance the internal and external validity. In order to keep the validity, the researcher chooses respondents which are familiar with the issue and experts in the field which enhance the external validity of the result.

Reliability is the degree to which one may expect to find the same result if a measurement is repeated. Cronbach's Alpha is used to ensure internal consistency among the items included in each of the scale.

Chapter Four

Data Analysis and Presentations

4.1. Introduction

This chapter presents the data analysis, the research findings or results, and based on the results the researcher gives discussion on the findings and also gives interpretation of the results. In order to present findings and discussions about the perception of international financial reporting standards (IFRS) in manufacturing companies at corporate level operating in Addis Ababa; the researcher uses different form of tables and figures and qualitative analysis done in prose. The results of the study are discussed by triangulating the different source results; questionnaire results, interview and document review results. The data analysis intends to accomplish the objectives of the study and answer the research questions.

The total number of questionnaires distributed to the purposively selected three employees of manufacturing companies at corporate level operating in Addis Ababa city (the general manager, finance head & internal auditor) of each companies in order to collect data about the challenges and prospects of adopting IFRS in manufacturing sector of Ethiopia were 120. Of the total questionnaires distributed only 116 responses were collected out of which 112 questionnaires were functional with the response rate of 96%. As it is said in the previous chapter three the study employed survey approach and the results obtained from Questionnaire are analyzed through descriptive statistics. Data were coded and entered in to SPSS version 20. But the data gathered through interview and document review is presented and interpreted qualitatively.

4.2. Reliability Test

The researcher uses Cronbach's Coefficient alpha estimation to measure the consistency or reliability of the items included in each of the scales. As it is suggested by (George and Mallery, 2003) Cronbach's alpha coefficient more than 0.7 is acceptable. In this study, the reliability of the measurement instrument is verified. The questionnaires used to collect the data is said to be valid, since it is composed of questions used in most previous studies. However, there also questions which are intended to capture issues specific and matter most in Ethiopian context. Chronbach's alpha is used to test how well the items used in the scale construct measure the same concept. Presented in the table as follows is the result of the Cronbach's alpha computed using SPSS.

Based on the table 1 below the reliability test Cronbach's Alpha of the challenges and prospects of IFRS adoption in manufacturing sector of Ethiopia for each scale is above 0.70 which is acceptable according to (George and Mallery, 2003) as it ranges from 0.771 to 0.873. The Cronbach's Alpha coefficient for the benefits/prospects together is 0.780 and 0.809 is for the challenges of IFRS adoption. And also the overall Cronbach's Alpha coefficient for challenges & prospects is 0.822. Therefore, according to the examination of the research scales and constructs, it can be concluded that each variable represents a reliable and valid construct.

Table 1 Reliability Test (Cronbach's Alpha)

Scale	Cronbach's alpha	Number of items making up the scale
Benefits/prospects of IFRS adoption in manufacturing sector	0.780	18
Attraction of foreign direct investment & financial support	0.873	7
IFRS bridges the communication gap b/n stakeholders	0.840	5
Uniformity of accounting language	0.803	6
Challenges of adopting IFRS in manufacturing sector	0.809	29
Conversion cost	0.771	4
Training and education	0.844	4
Legal and enforcement mechanisms	0.789	4
Employees resistance to change	0.825	6
Asset valuation	0.805	6
Professional bodies	0.810	5
Reliability of total scale	0.822	47

Source: Analysis of Survey data 2018, using SPSS 20

4.3. Demographic characteristics of respondents

Based on the information given in table 2 below, relatively, of the total respondents Bachelor's degree and Masters Degree holders counts large number of respondents, even though Bachelor's degree holders are higher in number than those Masters Degree holders which covers 51.8% & 38.4% respectively. And the rest Diploma holders & PHD holders were few in number which

counts 6.3% and 3.6% respectively. As it is shown in table 2 the minimum level of education of all respondents was Diploma.

When we come to work experience of the respondents, the higher number of respondents lied between 11-16 years, which counts 46.4% of all respondents. And the work experience between 5-10 and 17-20 counts the next large proportion of the respondents which covers 24.1% and 22.3% respectively. The rest few respondents have work experience of 1-5 and above 20 years and scored 5.4% and 1.8% of all the respondents. Based on this, by considering the level of education and work experience of all respondents they are knowledgeable and experienced enough to give reliable information on the challenges and prospects of IFRS adoption in the manufacturing sector.

Table 2: Demographic characteristics of respondents

Variable	Category	Frequency	Percentage
Gender	Male	96	85.7
	Female	16	14.3
Level of education	Certificate		
	Diploma	7	6.3
	Bachelor Degree	58	51.8
	Masters Degree	43	38.4
	PHD	4	3.6
Work experience	Less than 5 years	6	5.4
	5-10 years	27	24.1
	11-16 years	52	46.4
	17-20 years	25	22.3
	Above 20 years	2	1.8
Current position	Internal Auditor	36	32.1
	Finance head	38	33.9
	General manager	38	33.9

Source: Analysis of Survey data 2018, using SPSS 20

4.4. Information on whether the respondents have trainings regarding to IFRS adoption

As shown in the table 3 below, the respondents were asked whether the adoption of IFRS leads to economic growth of the country based on this, almost all except few which is 5.4% were agreed that adoption of IFRS will lead the country's economy to be grown and it counts 94.6% of the whole respondents. And also almost all of the respondents which could be 92% , agreed that the adoption of IFRS will be challenging even though, the few which counts 8% refused that, there will be challenges in adopting IFRS. In addition, the respondents were asked whether they have taken trainings regarding to IFRS adoption. To that end 80.4% of the respondents said that they have taken trainings regarding to the adoption of IFRS, and 19.6.7% of the respondents disagreed taking any training regarding to IFRS adoption which indicate most of the respondents have taken trainings even though no enough and this was strengthened by the result of the interview that the training is not enough. In general it can be concluded that, even though there are challenges in adopting it, IFRS will bring us economic development and to achieve this they need to take trainings so that it will be successfully adopted. Because IFRS attracts foreign direct investment and financial support and will lead to economic growth of the country.

Table 3: Summary of whether the respondents take trainings on IFRS

Variables	Category	Frequency	Percentage
Do you think that adoption of IFRS will lead to economic growth of the country?	Yes	106	94.6
	No	6	5.4
Do you think that adopting IFRS will be challenging?	Yes	103	92
	No	9	8
Have you taken trainings regarding to IFRS?	Yes	90	80.4
	No	22	19.6

Source: Analysis of Survey data 2018, using SPSS 20

4.5 Benefits/prospects of IFRS adoption in manufacturing sector

In analyzing the benefits/prospects of adopting IFRS in manufacturing sector, the researcher used related questionnaires. This data, which is related to the benefits/prospects of IFRS adoption in this sector ; attraction of foreign direct investment and financial support,bridging the communication gap with stakeholders and uniformity of accounting language will be presented and discussed separately according to the overall mean responses. Accordingly, the overall mean

(M) score between 4.21-5.00 is considered as the respondents strongly agreed (SA), if the respondents score between 3.41-4.20 means they agreed (A), the score between 2.61-3.40 is considered as the respondents are neutral(N), the respondents score between 1.81-2.60 shows that they disagreed and if the respondents score between 1-1.80 shows that they strongly disagreed.

4.5.1. Attraction of more foreign direct investment & financial support

To assess whether the adoption of IFRS attracts more foreign direct investment & financial support to manufacturing sector of Ethiopia, the researcher used seven questions and the overall mean responses was 3.79. As it falls in the scale between 3.41-4.20, the respondents agreed that the adoption of IFRS in manufacturing sector will attract foreign direct investment & financial support. To that end the respondents agreed that, the adoption of IFRS in manufacturing sector will improve their access to international market, comparability and credibility of their financial statements. In addition to that according to their response adoption of IFRS in this sector will provide better information for their decision in result it promotes cross border investments. Likewise, the interview result can be generalized as adopting IFRS in this sector will provide comparable and credible financial statements which will provide detailed information for better decision making of investors through accessing them to international market and promoting cross border investment. The overall standard deviation of this variable was 0.47. As it is less than one, it indicates that there is less variability in respondents perception regarding to the attraction of foreign direct investment by adopting IFRS .

Therefore, this result comply with the results of the study conducted by Okpala (2012),(Abel, 2011),Harteneck (1997) ,Demaki(2013) & Irvane & Lucas(2006), as they also concluded that, adoption of IFRS provides comparable and credible financial statements and it improves the country's access to international market and eases decision making for investors.They also concluded that adoption of IFRS reduces cost of capital and it promotes cross border investments.Based on this it can be generalized that, the above mentioned prospects of adopting IFRS will help them in retaining the existing shareholders and attracting foreign direct investment. Therefore, the manufacturing sector will be able to prepare financial statements in line with this international standard. In result this reliable and credible financial statements which is the main factor to attract foreign direct investment, will make the country's risk profile known

and predictable, because foreign direct investment is more attracted in a situation where there is high probability of gain than risks. This adoption of IFRS by manufacturing sector directly increases the Ethiopian foreign direct investment and in effect it improves the economic development of the country. Because of this, it will be easy to make well-informed, useful and meaningful comparison of investment portfolio in Ethiopia by international investor.

Table 4: Descriptive statistics attraction of FDI & financial support

	N		Mean	Standard deviation	Remark
	Valid	Missing			
Adoption of IFRS attracts investment & financial support	112	0	3.7946	.64568	Agree
Adoption of IFRS improves access to international market	112	0	3.7411	.62595	Agree
Adoption of IFRS improves comparability of financial statements	112	0	3.7857	.60670	Agree
Adoption of IFRS improves credibility of financial statements	112	0	3.8125	.65114	Agree
IFRS adoption result in reduced cost of capital	112	0	3.8125	.60822	Agree
IFRS provides better information for investors in decision making	112	0	3.8214	.58839	Agree
IFRS promotes cross border investment	112	0	3.7589	.66095	Agree
Overall Mean and standard deviation	112	0	3.7895	.47282	Agree

Source: Analysis of Survey data 2018, using SPSS 20

4.5.2. IFRS bridges the communication gap with stakeholders

Five questions were asked to examine whether the adoption of IFRS Ethiopia in manufacturing sector of bridges the communication gap with stakeholders. The overall mean of this variable is 3.73 which fall in the scale 3.41-4.20 and this indicates that the respondents agreed that adopting IFRS in this sector will bridge the communication gap with stakeholders. This implies that,

adopting IFRS in manufacturing sector will provide transparent and understandable financial reporting with stakeholders through accessing full and detail disclosures of financial statements. The respondents also agreed that adoption of IFRS will help in reducing the agency problems and avoid the communication barriers with stakeholders. Similarly, the interview result also strengthens this result as adoption of IFRS will solve the communication gap with stakeholders because it will provide transparent and understandable financial statements by stakeholders which will help avoiding information asymmetry and reducing different communication barriers. The overall standard deviation was also 0.607 as it is less than one implied that the respondents attitude towards adoption of IFRS will reduce the communication gap with stakeholders was close to one another.

(ATU, Oghogho Gina *et. al*, 2016). ,Okpala,(2012) ,(Armstrong et al 2007, Covrig, Defond & Hung 2007). Also revealed the same finding that, if the language of financial information preparation is internationally understandable, no need of conversation with existing and potential investors. Many users need accounting and financial information for their different purposes, to that end, the IFRS based financial information provides full information in a language that communicates effectively for those various users including Stakeholders. Additional conversion is not required as the language of preparation is internationally understood by current and potential investors. The adoption of IFRS will increase the level of confidence of global investors and investment analysts in the financial statements of manufacturing companies in Ethiopia. For the multinational companies, it will help them to fulfill the disclosure requirement for stock exchanges around the world and can use a single set of standard in preparing financial statements for all companies in different jurisdictions.

Table 5: Descriptive statistics on bridging the communication gap with stakeholders

	N		Mean	Standard deviation	Remark
	Valid	Missing			
Adoption of IFRS provides financial reporting transparency	112	0	3.7321	.75911	Agree
IFRS based financial statement is better understandable by stakeholders	112	0	3.7679	.69726	Agree
IFRS provides full & detail disclosure than the previous standard	112	0	.87857	.87857	Agree
Adoption of IFRS reduces agency problems	112	0	3.7232	.82974	Agree
Adoption of IFRS reduces communication barriers with stakeholders	112	0	3.7321	.69726	Agree
Overall Mean and standard deviation	112	0	3.73	0.607	Agree

Source: Analysis of Survey data 2018, using SPSS 20

4.5.3. Adoption of IFRS provides uniformity of accounting languages

As indicated in the table 6 below six questions were asked to assess whether the adoption of IFRS in manufacturing sector will provide uniformity of accounting language. Those questions deemed to examine the perception of respondents regarding to the accounting language they will use after the adoption of IFRS in manufacturing sector of Ethiopia. The overall mean of respondents is 3.78 which fall in the scale 3.41-4.20 and indicates that the respondents agreed as adoption of IFRS in this sector helps to achieve uniformity of accounting language. Respondents of this variable replied that the adoption of IFRS in manufacturing sector will help to avoid the confusion of different users created because of using different reporting standards. Accounting languages become uniform means understandability of financial statements revealed by manufacturing companies is improved. In addition the respondents have agreed that multinational companies will not be required to prepare their financial statements in different languages because the adoption of IFRS will decrease confusing terminologies of business languages and it enables them to prepare a single set of financial statement to different types of users. In effect accounting professionals can be employed everywhere in the world.

The overall standard deviation of respondents regarding to adopting IFRS will lead to uniformity of accounting language is 0.499 which is less than one and implies that the respondent's perception with this variable is closed to one another.

As the same time Choi (1998) (ATU, Oghogho Gina, RAPHAEL, Igbinsa Adeghe, ATU, Omimi- Ejoor Osaretin Kingsley 2016) and Abel, (2011) also found that unless it is harmonized, accounting terminologies are confusing because of differences in accounting languages of different countries. Therefore, IFRS adoption eliminates the unnecessarily complex and multiple reporting accounting languages. Adoption of IFRS will lead to uniformity in accounting language throughout the globe which is a pre requisites for the globalization of business, finance and investment with primary objective of avoiding the unnecessary complexity that exists with multiple reporting languages. Because it is common knowledge, there exist differences in the classifications of financial information, levels of disclosure and accounting concepts between countries.

Table 6: Descriptive statistics on uniformity of accounting language

	N		Mean	Standard deviation	Remark
	Valid	Missing			
IFRS avoids confusion resulting from using different reporting standards	112	0	3.7946	.71204	Agree
IFRS improves understandability of financial statements	112	0	3.7500	.67783	Agree
Adoption of IFRS could help to prepare single set of financial statements to d/t types of users	112	0	3.7857	.74045	Agree
MNCs need not prepare financial statements in d/t languages	112	0	3.7589	.81920	Agree
Accounting professionals can be employed everywhere in the world	112	0	3.7768	.71923	Agree
Decreases confusing terminologies of business languages	112	0	3.7946	.50472	Agree
Overall Mean and standard deviation	112	0	3.777	.499	Agree

Source: Analysis of Survey data 2018, using SPSS 20

4.6. Challenges of adopting IFRS in manufacturing sector of Ethiopia

As examining the challenges of IFRS adoption in manufacturing sector of Ethiopia is of the main objectives of this study, the researcher used related questionnaires to analyze it. This data, which is related to the challenges of IFRS adoption in this sector ; conversion cost, training and education, legal and enforcement mechanisms, employees resistance to change, asset valuation and professional bodies will be presented and discussed separately according to the overall mean responses. Accordingly, the overall mean (M) score between 4.21-5.00 is considered as the respondents strongly agreed (SA), if the respondents score between 3.41-4.20 means they agreed (A), the score between 2.61-3.40 is considered as the respondents are neutral(N), the respondents score between 1.81-2.60 shows that they disagreed and if the respondents score between 1-1.80 shows that they strongly disagreed.

4.6.1. Conversion cost of adopting IFRS in manufacturing sector

To examine the respondent's level of agreement on the challenge conversion cost of IFRS adoption in manufacturing sector the researcher used four related questionnaires which deemed to assess their perception this factor as a challenge. The overall mean of respondents for this issue is 3.89 which fall in the scale 3.41-4.20 and indicates that the respondents agreed as conversion cost IFRS adoption is a challenge. Shifting to IFRS will lead to different costs like the cost of training personnel to understand the new standard, cost of acquiring new accounting packages, cost of discarding former accounting packages which will not fit with the IFRS are the costs which will be challenges of adopting IFRS. Therefore, the respondents perceived that the cost required to adopt IFRS will put its negative impact on successfully complying with this new globally accepted standard. Respondents also agreed that the cost followed because of the unavailability of the required resources, will make the manufacturing companies to hesitate whether to adopt IFRS.

The overall standard deviation of this data on challenge of IFRS adoption conversion cost is 0.53 which is less than one and indicates that the respondent's perception on this issue is not varied. In line with this, (Udofia & Ikpantan 2015), (Teferi Deyuu Alemi, J.S. Pasricha 2016) and Ball (2006) also found that the conversion cost of IFRS is the main challenge of its adoption. And training materials on IFRS are not readily available at affordable costs to train such a large group which poses a great challenge to IFRS adoption. IFRS training materials are the main challenges of adopting IFRS in Ethiopia because of foreign currency problem and these materials are

updated regularly. Based on this the respondents perceived that conversion cost of IFRS will be the main challenge of adopting it in manufacturing sector of Ethiopia.

Table 7: Descriptive statistics on conversion cost of IFRS

	N		Mean	Standard deviation	Remark
	Valid	Missing			
Cost of adoption of IFRS challenges its successful conversion	112	0	3.8661	.63665	Agree
Adoption of IFRS is costly	112	0	3.9643	.70938	Agree
Companies hesitate to adopt IFRS b/c of its cost	112	0	3.8839	.69419	Agree
The required resource to adopt IFRS is not available	112	0	3.8304	.70887	Agree
Overall Mean and standard deviation	112	0	3.8862	.52941	Agree

Source: Analysis of Survey data 2018, using SPSS 20

4.6.2 Training and Education to adopt IFRS in manufacturing sector

In this section ,to analyze the respondent’s level of agreement on the challenge training and education required to adopt IFRS in manufacturing sector the researcher used four related questionnaires which deemed to assess their perception that whether training and education is a challenge. The overall mean of respondents for this issue is 3.97 which fall in the scale 3.41-4.20 and indicates that the respondents agreed as training and education required for successful IFRS adoption is a challenge. Respondents have agreed that, adoption of IFRS will be challenging because of inadequacy of training materials and academic courses related to IFRS adoption. Respondents also perceived that to be able to understand, interpret and the make use of the standards, IFRS requires high level of education, competency and expertise which will be a challenge for manufacturing sector. And the respondents also agreed that institutions and professional bodies should facilitate and provide trainings to successfully adopt and practice international standards.

The overall standard deviation of respondents regarding to the trainings and education required to adopt IFRS is 0.591 which is less than one and implies that the respondent's perception whether trainings and education is a challenge of adoption of IFRS in manufacturing sector is closed to one another. At the same time Ball (2006), Armstrong et al.,(2007) and Soderstrom & Sun (2007) and (Rong-Ruey, 2006) also found that, the training and education for investors, accountants, auditors, preparers and users of financial reports etc, development of IFRS curricula at the university and other levels, adjustment of the accounting training and education to incorporate IFRS are challenges of adopting IFRS. In addition to that, timely interpretation of standards, continuous amendment to IFRS, accounting knowledge and expertise possessed by financial statement users, preparers, auditors and regulators are also identified as implementation challenges of IFRS. Similarly the interview result also revealed that, unless training and education on IFRS is given broadly provided and get more concern, it will be the main challenge of not only in the adoption but also the same will happen in its implementation in manufacturing sector of Ethiopia. This implies that the training and education provision in manufacturing sector of Ethiopia regarding to the adoption of IFRS is inadequate.

Table 8: Descriptive statistics on training and education requirement for IFRS adoption

	N		Mean	Standard deviation	Remark
	Valid	Missing			
Lack of training facilities and academic course on IFRS will also pose challenge in the implementation process.	112	0	3.9911	.72901	Agree
Implementation of IFRS requires high level of education, competency and expertise to be able to understand, interpret and the make use of the standards	112	0	3.9464	.70824	Agree
The existence of institution that facilitate & provide training on IFRS and also certified members of professional body shall facilitate the practice of international standards.	112	0	3.9821	.74715	Agree
Adoption of IFRS in manufacturing sector requires employees to take adequate training.	112	0	3.9554	.67635	Agree
Overall Mean and standard deviation	112	0	3.97	.591	Agree

Source: Analysis of Survey data 2018, using SPSS 20

4.6.3. Legal and enforcement mechanism

In this section ,to analyze the respondent's level of agreement on the legal and enforcement mechanisms to adopt IFRS in manufacturing sector of Ethiopia, the researcher used four related questionnaires which deemed to assess their perception that whether legal and enforcement mechanism of Ethiopia is a challenge. The overall mean of respondents for this issue is **3.89** which fall in the scale 3.41-4.20 and indicates that the respondents agreed as legal and enforcement mechanism of Ethiopia for successful IFRS adoption is a challenge. Respondents agreed that directives & regulatory laws of ministry of trade requires the manufacturing companies to provide annual financial statement in compliance with requirement of commercial code which will be challenging to comply with IFRS requirements. According to Commercial code of Ethiopia(1960) Art.67.2 the commercial code requires manufacturing companies to prepare only balance sheet and profit and loss accounts which will be a challenge as IFRS requires to prepare profit and loss account, balance sheet, cash flow statement and statement of changes in equity to be included in financial statements. Respondents have also agreed that commercial code of Ethiopia need to be amended with the ministry of trade directives to comply with requirements of IFRS. They also responded that as there has not been specific reporting standard in the country complying with requirements of IFRS will be challenging. The legal system must be conversant with the new IFRS standards as it applies to tax issues and other applications of laws.

The overall standard deviation of respondents regarding to the trainings and education required to adopt IFRS is **.49987** which is less than one and implies that the respondent's perception whether legal and enforcement mechanism of Ethiopia is a challenge for adoption of IFRS in manufacturing sector is closed to one another. In line with this, Cairns, (2001), Hail, Leuz & Verdi, (2008) and ball (2006) & Ball (2006) also found the same result that, the enforcement mechanism of IFRS will be the major challenge especially in country's enforcement agencies and institutions are weak and also the most IFRS adoptions are inconsistent with IASB's prescriptions because these adoptions are in labels and with various versions. Because of the necessary reforms in a country's regulatory, legal and economic structures and adaption of its culture to the Westerns, insisted by embracing globalization and adopting IFRS, countries face challenges in adopting and implementation of IFRS.

Table 9: Descriptive statistics on legal and enforcement mechanisms of IFRS adoption

	N		Mean	Standard deviation	Remark
	Valid	Missing			
Directives & regulatory laws of ministry of trade require the manufacturing companies to provide annual financial statement in compliance with requirement of commercial code.	112	0	3.8929	.59057	Agree
The existing proclamation requires manufacturing organizations to provide financial statement in compliance with GAAP	112	0	3.8661	.63665	Agree
The existing accounting provision in commercial code and in ministry of trade needs to be amended in order to implement IFRS in the manufacturing companies.	112	0	3.8750	.65931	Agree
The existing regulatory law & directives of ministry of trade for preparation of financial statement for manufacturing sector need to be updated per international practices in order to establish sound financial reporting standard.	112	0	3.9107	.66514	Agree
Overall Mean and standard deviation	112	0	3.8862	.49987	Agree

Source: Analysis of Survey data 2018, using SPSS 20

4.6.4. Employees resistance to change to adopt IFRS in manufacturing sector

In this section ,to analyze the respondent’s level of agreement on the employees resistances to change to adopt IFRS in manufacturing sector of Ethiopia, the researcher used five related questionnaires which deemed to assess their perception that whether employees resistances to change in manufacturing sector is a challenge. The overall mean of respondents for this issue is **3.7536** which fall in the scale 3.41-4.20 and indicates that the respondents agreed employee’s

resistance in manufacturing sector for successful IFRS adoption is a challenge. Respondents have also agreed that, employees do not have positive perception regarding to the new internationally accepted standard IFRS because they perceived that this new standard will require them to exert additional effort and changing the local standard they mastered to the new that they do not know well is challenging. Therefore, much of the respondents have agreed that absence of conducive environment to adapt experience the new standard makes them to resist changing and overlook the benefits of IFRS adoption in manufacturing sector. Respondents also perceive that employees feel threaten of making mistakes and unhelpful if they adopt the new standard and practice it.

The overall standard deviation of respondents regarding to the trainings and education required to adopt IFRS is **.55148** which is less than one and implies that the respondent’s perception whether employees resistance to change is a challenge for adoption of IFRS in manufacturing sector is closed to one another. In line with this, Teferi Deyuu Alemi & J.S. Pasricha(2016) also revealed the finding which strengthen the respondents perception as Ethiopians are practicing accounting where there is no standard and enforcement, and they are new to standards but, now, when monitoring and follow up with actions are going to be taken on non-compliant, challenges are expected.

Similarly Bareil (2013), Giangreco and Peccei (2005), Delassus Vandelannoite and Lorraine (2014) also found that resistance originates from individuals’ threatening and unhelpful perception of the change. Cross-border comparability, increase reporting transparency, less information costs, increasing the liquidity, increasing competitive advantage etc are benefits of adopting IFRS, but it is impossible to realize these benefits unless individuals and countries can have the right perception about IFRS to minimize the negative outcome which is the result of negative perception of IFRS. This reveals the implementation of the international accounting standards will present the resistance phenomenon, as technological changes are needed, as well as training, communication and people’s commitment.

Table 10: Descriptive statistics on employee’s resistances to adopt IFRS in manufacturing sector

	N	Mean	Standard
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	Valid	Missing		deviation	Remark
IFRS is negatively perceived by employees and owners	112	0	3.6786	.74995	Agree
Employees do not need to shift & confront the new standard	112	0	3.8393	.69170	Agree
Updating oneself to the new standard requires conducive environment	112	0	3.8571	.69564	Agree
Employees do not perceive the benefit of IFRS	112	0	3.7143	.75252	Agree
There is employees threatening & unhelpful perception of the change	112	0	3.6786	.73784	Agree
Overall Mean and standard deviation	112	0	3.7536	.55148	Agree

Source: Analysis of Survey data 2018, using SPSS 20

4.6.5. Asset valuation to adopt IFRS in manufacturing sector

In this section, to analyze the respondent's level of agreement on the challenge Asset valuation to change to adopt IFRS in manufacturing sector of Ethiopia. The researcher used five related questionnaires which deemed to assess their perception that whether asset valuation to change in manufacturing sector is a challenge. The overall mean of respondents for this issue is **3.9137** which fall in the scale 3.41-4.20 and indicates that the respondents agreed asset valuation in manufacturing sector for successful IFRS adoption is a challenge. Respondents have agreed that, unavailability of required documents will make the adoption of IFRS challenging in manufacturing sector. They also agreed that accessing fair value measurement for all assets will be difficult as it will be exposed to high volatility and subjectivity in financial statements. In addition to that respondents agreed observable market transaction to measure fair values of assets and measuring non financial assets will also be challenging. The other difficulty they agreed is collecting, classifying and presenting financial data by finance departments to comply with IFRS standards.

The overall standard deviation of respondents regarding to the challenge of asset valuation to adopt IFRS is **.44631** which is less than one and implies that the respondent's perception whether asset valuation is a challenge for adoption of IFRS in manufacturing sector is closed to one

another. In line with this, (Mukti Bapna 2017) & (. Preeti shrivastava, D.S Rawat & Deepti Maheswari 2015) found that asset valuation is another challenge in adopting IFRS as companies are not well documented and problem of observable market transaction. The use of fair value accounting can bring volatility and subjectively to the financial statements it is very difficult to arrive at the fair value and valuation experts also feel difficulty to shift from historical method to fair value method. . Moreover, adjustments to fair value results in gains or losses which are reflected in the income statements.

Table 11: Descriptive statistics on Asset valuation to adopt IFRS in manufacturing sector

	N		Mean	Standard deviation	Remark
	Valid	Missing			
The required documents to reevaluate assets are not available	112	0	3.8839	.53264	Agree
The fair value measurement can bring a lot of volatility and subjectivity in financial statements	112	0	3.8393	.66514	Agree
Difficult to access fair value for all assets	112	0	4.0089	.66435	Agree
Observable market transaction or market information is not available	112	0	3.9196	.67301	Agree
Measuring non financial assets is difficult	112	0	3.9911	.59268	Agree
Complying with IFRS standards requires a number of significant changes in the way that finance departments collect, classify and present financial data.	112	0	3.8393	.62318	Agree
Overall Mean and standard deviation	112	0	3.9137	.44631	Agree

Source: Analysis of Survey data 2018, using SPSS 20

4.6.6. Professional bodies to adopt IFRS

In this section, to analyze the respondent's level of agreement on the challenge the availability of professional bodies to adopt IFRS in manufacturing sector of Ethiopia. The researcher used five related questionnaires which deemed to assess their perception that whether the availability of professional bodies in manufacturing sector is a challenge. The overall mean of respondents for

this issue is **3.8339** which fall in the scale 3.41-4.20 and indicates that the respondents agreed the availability of professional bodies in the country to adopt IFRS in manufacturing sector is a challenge. Respondents have agreed that the role of professional bodies to successfully adopt and implement IFRS is crucial but it is very challenging to do that with limited professional bodies in the country. Most of the respondents have also agreed that the existence of strong professional bodies in the country play important role because of their engagement and consultation of these professional bodies will facilitate the adoption and implementation of IFRS. In addition to that professional bodies also will help to provide and practice good international standard and provide expected quality assurance.

The overall standard deviation of respondents regarding to the challenge availability of professional bodies to adopt IFRS is **.53009** which is less than one and implies that the respondent's perception whether the availability of professional bodies in the country is a challenge for adoption of IFRS in manufacturing sector is closed to one another. Similarly, (Schachler, Al-Abiyad, & Al-Hadad, 2012; Laga, 2012; Masoud, 2014) & Mohamed (2014) also strengthen the above idea and concluded that, weakness of professional accountancy body, lacks of an independent oversight body, inconsistency of existing laws and regulatory frameworks of accounting in Libya with recent development of accounting profession, economic growth in Libya, lacks technical skills and inadequate knowledge of Libyan professional accountants and weak accounting education will be the challenges of implementing IFRS in Libya. In line with this (UNCTAD, 2008), concluded that African countries are affected by challenges of adopting and implementing IFRS such as the gap between education and the requirements of IFRS, the lack of training and inability of accountants and professional bodies to remain shoulder to shoulder of the standards issued by IASB.

Table 12: Descriptive statistics on professional bodies to adopt IFRS in manufacturing sector

	N		Mean	Standard deviation	Remark
	Valid	Missing			
For successful implementation of IFRS the support of professional bodies is very great.	112	0	3.8839	.66773	Agree
The adoption and implementation of IFRS in a country with having limited professional bodies is very challenging.	112	0	3.7857	.74045	Agree
The existence of strong professional bodies plays important roles in implementation of IFRS.	112	0	3.9018	.74688	Agree
The engagement & consultation of professional bodies facilitate implementation of IFRS.	112	0	3.8036	.68233	Agree
The existence of strong professional bodies enables members to provide and practice good international standard and provide expected quality assurance.	112	0	3.7946	.67301	Agree
Overall Mean and standard deviation	112	0	3.8339	.53009	Agree

Source: Analysis of Survey data 2018, using SPSS 20

Chapter Five

Conclusion and Recommendations

5.1. Introduction

In this chapter the conclusions and recommendations are discussed based on the discussions in chapter four. Conclusions are discussed based on the research objectives of the study. Based on the findings of the study recommendations are made to government bodies, to professional bodies, to manufacturing sector, employees and suggestions for other researchers.

5.2. Conclusion

Based on the objectives and findings of the study, the following conclusions are worth drawn:

The result of the study regarding to the adoption of IFRS in manufacturing sector of Ethiopia whether it attracts foreign direct investment & financial support showed that, it improve access to international market, comparability and credibility of their financial statements. In addition to that, adoption of IFRS in this sector will provide better information for their decision and in result it promotes cross border investments. Therefore, it is safe to conclude that the adoption of IFRS in manufacturing sector will attract foreign direct investment and financial support. On the other aspect, the result of this study regarding to adopting IFRS in this sector whether it will bridge the communication gap with stakeholders showed that, adoption of IFRS will provide transparent and understandable financial reporting with stakeholders through accessing full and detail disclosures of financial statements. Similarly, this study revealed that, the adoption of IFRS in manufacturing sector will help in reducing the agency problems and avoid the communication barriers with stakeholders. Based on this result it is also possible to conclude that, adoption of IFRS in manufacturing sector of Ethiopia will bridge the communication gap with stakeholders.

In the result of this research regarding to the adoption of IFRS in this sector whether it will help to achieve uniformity of accounting language revealed that, IFRS adoption will avoid the confusion of different users created because of using different reporting standards. Accounting languages will become uniform which will improve understandability of financial statements revealed by manufacturing companies. In addition, multinational companies will not be required to prepare their financial statements in different languages because the adoption of IFRS will decrease confusing terminologies of business languages and it enables them to prepare a single

set of financial statement. In effect accounting professionals can be employed everywhere in the world. Therefore, it is possible to conclude that, the adoption of IFRS in manufacturing sector of Ethiopia will provide uniformity of accounting languages.

On the other hand, the result of this study regarding to the adoption of IFRS in manufacturing sector of Ethiopia whether conversion cost of IFRS is a challenge showed that, conversion cost of adopting IFRS in this sector will affect its successful adoption. Accordingly the conversion cost to shift to IFRS is costly and companies in this sector will hesitate to adopt IFRS because of its cost. And also it was responded that unavailability of the required resources to convert in to IFRS makes it costly. Therefore, it is safe to conclude that, conversion cost is a challenge of the adoption of IFRS in manufacturing sector of Ethiopia.

on the other aspect the result of the study regarding to the adoption of IFRS in manufacturing sector of Ethiopia whether the training and education required for adoption of IFRS is a challenge showed that, training and education required for successful IFRS adoption is difficult because of lack of training materials and academic courses related to IFRS adoption. To be able to understand, interpret and the make use of the standards, IFRS requires high level of education, competency and expertise which will be a challenge for adoption of IFRS in manufacturing sector. And it is responded that adoption of IFRS requires the institutions and professional bodies to facilitate and provide trainings to successfully adopt and practice international standards. Therefore, it is possible to conclude that the required training and education for adoption of IFRS in manufacturing sector of Ethiopia is a challenge.

The result of this study regarding to the adoption of IFRS in manufacturing sector of Ethiopia whether the Legal and enforcement mechanisms of Ethiopia will be a challenge for successful IFRS adoption showed that, the directives & regulatory laws of ministry of trade requires the manufacturing companies to provide annual financial statement in compliance with requirement of commercial code which will be challenging to comply with IFRS requirements. And it is responded that the existing proclamation of Ethiopia requires the manufacturing sector to provide financial statements in compliance with local GAAP where there is no specific financial reporting standard in the commercial code of Ethiopia. The commercial code of Ethiopia requires to prepare balance sheet and profit and loss account only will be challenge to comply with IFRS requirements as it requires profit and loss account, balance sheet, cash flow statement and statement of changes in equity to be included in financial statements. Therefore, it can be

concluded that the legal and enforcement mechanism of Ethiopia in adopting IFRS is a challenge in this sector. Similarly the result of this study regarding to the adoption of IFRS in manufacturing sector of Ethiopia whether the employees resistance to change is also a challenge revealed that, employees do not have positive perception regarding to the new internationally accepted standard IFRS because they perceived that this new standard will require them to exert additional effort and changing the local standard they already mastered to the new that they do not know well is challenging. The absence of conducive environment to adapt and experience the new standard makes them to resist the change and overlook the benefits of IFRS. Moreover, employees feel threaten of making mistakes and unhelpful if they adopt the new standard and practice it in this sector. Therefore, it possible to conclude that, employee's resistance to change will be challenge to adopt IFRS in manufacturing sector of Ethiopia.

Based on the result of the study regarding to the adoption of IFRS in manufacturing sector of Ethiopia whether asset valuation in the process of IFRS adoption is a challenge showed that, unavailability of required documents, accessing fair value measurement for all assets, high volatility and subjectivity in financial statements, absence of observable market transactions, and difficulty of measuring non financial assets will make the adoption of IFRS challenging. Therefore, it is possible to conclude that valuation of asset will be another challenge in adopting IFRS in manufacturing sector of Ethiopia. Lastly the result of this study regarding to the adoption of IFRS whether the availability of professional bodies is a challenge showed that, professional bodies in the country is limited which makes the strong support of these professional bodies engagement and consultation to successfully adopt IFRS will be difficult. Therefore, it is possible to conclude that the availability of professional bodies to successfully adopt IFRS in manufacturing sector of Ethiopia will be challenging.

5.3. Recommendation

Based on the study results, the researcher gives the following recommendations:

The manufacturing sector of Ethiopia, and even other sectors and countries, to adopt IFRS successfully, it is important to be aware of the potential prospects and challenges of IFRS adoption ahead as it will help them in reducing extra costs, time and resources and get well prepared.

In reducing the conversion cost of IFRS adoption, the government and professional bodies should access trainings for large number of professionals so that these professionals can in turn address this access to other professionals to share the cost of manufacturing companies that they should have paid. The government also should provide resources and training materials to save companies from currency problem.

In order to adopt this new standard successfully not only in manufacturing sector but also in all over the country, training and education should be broadly addressed and incorporated in academic courses by developing IFRS curriculum at college and university levels. To do this, professional bodies should play the major role. Providing sufficient training materials should be the responsibility of government and companies accordingly.

Laws, regulations, proclamation and directives of ministry of trade should be amended and must be fit with the requirements of IFRS. The commercial code of Ethiopia also should be explicitly put specific accounting standard in the country so that companies can prepare financial report based on IFRS requirements.

Conducive environment should be created so that employees can have positive and right perception regarding to IFRS adoption and they should not feel threaten and unhelpful in the process of its adoption in case they make mistakes. It requires the companies to make their employees psychologically get ready and the right perception regarding to the adoption process of IFRS.

Companies should be willing to provide the required documents to value assets. And accessing observable market transaction or information as possible should be the responsibility of the sector and government.

Above all the engagement and consultation of professional bodies play a great role to successfully adopt IFRS therefore, these bodies need to be strong and conduct independent oversight. To that end the accounting and auditing board of Ethiopia should take the lion's share in encouraging and increasing limited number of professional bodies.

5.4. Suggestion for Future Researches

This study focused on the challenges and prospects of IFRS adoption in manufacturing sector of Ethiopia. Therefore, it would be highly appropriate for future studies to be conducted on quality of financial reports of manufacturing sector after IFRS adoption, the overall impact of IFRS adoption on Foreign Direct Investment and to the economy of the country broadly.

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Appendix

Arefainie Ayalew Temesgen (MSC student)
Addis Ababa University
College of Business and Economics
Department of Accounting and Finance
Dear Respondent,

The aim of this questionnaire is to seek information regarding the adoption of International Financial reporting Standard (IFRS) in manufacturing sector .The results of the study are expected to supply to the understanding on *The Challenges and Prospects of International Financial Reporting Standards (IFRS) adoption in manufacturing sector*. I would like to assure you that the information you provide will be used only for the purpose of achieving academic award.

Thank you for your participation

Kind regards,

Arefainie Ayalew

PART-I Demographic background

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

1. Gender:

Female

Male

2. Level of education

Certificate

Bachelor's Degree

Diploma

Master's Degree

Others (specify)_____

3. WorkS experience:

Less than 5 years

16 - 20 years

5 - 10 years

over 20 years

10 -16 years

4. Current position _____

PART II: Adoption and practice of International Financial Reporting Standards (IFRS)

5. Do you agree that adoption of IFRS in manufacturing sector of Ethiopia will lead to economic growth?

- Yes No

6. Have taken trainings regarding to IFRS adoption ?

- Yes No

7. Do you think that adopting IFRS will be challenging?

- Yes No

8. If your answer to question number '8' is yes, what will be the main challenges of adopting IFRS in manufacturing sector?

9. How these challenges will be addressed?

PART III: In this section the researcher is seeking your perceptions towards the challenges and prospects of IFRS adoption in manufacturing sector .Please kindly tick (√) your appropriate answer based on the following scale ranging from “Strongly Agree” to “Strongly Disagree” .The scales are: SA=Strongly Agree, A=Agree, N=Neutral, DA=Disagree an SD=Strongly Disagree.

A. Benefits/prospects of IFRS adoption in manufacturing sector

	I. Attraction of more foreign direct investment & financial support	S A	A	N	D	S D
1	Adoption of IFRS attracts investment & financial support					
2	Adoption of IFRS improves access to international market					
3	Adoption of IFRS improves comparability of financial statements					
4	Adoption of IFRS improves credibility of financial statements					
5	IFRS adoption result in reduced cost of capital					

6	IFRS provides better information for investors in decision making				
7	IFRS promotes cross border investment				
	II. IFRS bridges the communication gap with stakeholders				
1	Adoption of IFRS provides financial reporting transparency				
2	IFRS based financial statement is better understandable by stakeholders				
3	IFRS provides full & detail disclosure than the previous standard				
4	Adoption of IFRS reduces agency problem				
5	Adoption of IFRS reduces communication barriers with stakeholders				
	III. Uniformity of accounting language				
1	IFRS avoids confusion resulting from using different reporting standards				
2	IFRS improves understandability of financial statements				
3	Adoption of IFRS could help to prepare single set of financial statements to d/t types of users				
4	MNCs need not prepare financial statements in d/t languages				
5	Accounting professionals can be employed everywhere in the world				
6	Decreases confusing terminologies of business languages				

B. Challenges of adopting IFRS in manufacturing sector

	I. conversion cost				
1	Cost of adoption of IFRS challenges its successful conversion				
2	Adoption of IFRS is costly				
3	Companies hesitate to adopt IFRS b/c of its cost				
4	The required resource to adopt IFRS is not available				
	II. Training and Education				
1	Lack of training facilities and academic course on IFRS will also pose challenge in the implementation process.				
2	Implementation of IFRS requires high level of education, competency and expertise to be able to understand, interpret and the make use of the standards				

3	The existence of institution that facilitate & provide training on IFRS and also certified members of professional body shall facilitate the practice of international standards.				
4	Adoption of IFRS in manufacturing sector requires employees to take adequate training.				
	III. Legal and enforcement mechanisms				
1	Directives & regulatory laws of ministry of trade requires the manufacturing companies to provide annual financial statement in compliance with requirement of commercial code.				
2	The existing proclamation requires manufacturing organizations to provide financial statement in compliance with GAAP				
3	The existing accounting provision in commercial code and in ministry of trade needs to be amended in order to implement IFRS in the manufacturing companies.				
4	The existing regulatory law & directives of ministry of trade for preparation of financial statement for manufacturing sector need to be updated per international practices in order to establish sound financial reporting standard.				
	IV. employees resistance to change				
1	IFRS is negatively perceived by employees and owners				
2	Employees do not need to shift & confront the new standard				
3	People by nature is resistant to change				
4	Updating oneself to the new standard requires conducive environment				
5	Employees do not perceive the benefit of IFRS				
6	There is employees threatening & unhelpful perception of the change				
	V. Asset valuation				
1	The required documents to revalue assets are not available				
2	The fair value measurement can bring a lot of volatility and subjectivity in financial statements				

3	Difficult to access fair value for all assets					
4	Observable market transaction or market information is not available					
5	Measuring non financial assets is difficult					
6	Complying with IFRS standards requires a number of significant changes in the way that finance departments collect, classify and present financial data.					
	VI. Professional bodies					
1	For successful implementation of IFRS the support of professional bodies is very great.					
2	The adoption and implementation of IFRS in a country with having limited professional bodies is very challenging.					
3	The existence of strong professional bodies plays important roles in implementation of IFRS.					
4	The engagement & consultation of professional bodies facilitate implementation of IFRS.					
5	The existence of strong professional bodies enables members to provide and practice good international standard and provide expected quality assurance.					

MINISTRY OF TRADE

List of manufacturing companies at corporate level in Addis Ababa city					
	BusinessName	LEGAL STATUS	TOWN	WOREDA	MAJOR DIVISION
1	አውቶሞቲቭ ማኑፋክቸሪንግ ካምፓኒ አፍ ኢትዮጵያ ሼር ካምፓኒ	የአክሲዮን ማህበር	አዲስ አበባ	ቦሌ	3. ማኑፋክቸሪንግ
2	ቃሊቲ ምግብአክሲዮን ማህበር	የአክሲዮን ማህበር	አዲስ አበባ	አቃቂ ቃሊቲ	3. ማኑፋክቸሪንግ
3	ጥቁር አባይ ጭጭአክሲዮን ማህበር	የአክሲዮን ማህበር	አዲስ አበባ	ኮልሬ ቀራንዮ	3. ማኑፋክቸሪንግ
4	አዲስ ሞጅ የ ምግብ ዘይት ኮፕሌክስ አክሲዮን ማህበር	የአክሲዮን ማህበር	አዲስ አበባ	አዲስ ከተማ	3. ማኑፋክቸሪንግ
5	አዲስ አበባ ጦር ማኅና ብር ጭቆ አክሲዮን ማህበር	የአክሲዮን ማህበር	አዲስ አበባ	ኮልሬ ቀራንዮ	3. ማኑፋክቸሪንግ
6	ኢስት አፍሪካ ቦትሊንግ አክሲዮን ማህበር	የአክሲዮን ማህበር	አዲስ አበባ	ልደታ	3. ማኑፋክቸሪንግ
7	ሞካ የ ለስላሳና ማጠቃለያ ኢንዱስትሪ አክሲዮን ማህበር	የአክሲዮን ማህበር	አዲስ አበባ	ቦሌ	3. ማኑፋክቸሪንግ
8	አምባ ማዳ ድን ወህ አክሲዮን ማህበር	የአክሲዮን ማህበር	አዲስ አበባ	ቂርቆስ	3. ማኑፋክቸሪንግ
9	አቃቂ የ ማላ ዋወጫ ቃዎችና የ እጅ ማሳሪያዎች አክሲዮን ማህበር	የአክሲዮን ማህበር	አዲስ አበባ	አቃቂ ቃሊቲ	3. ማኑፋክቸሪንግ
10	እድገት ድርና ማግ የ ስፊት ክር አክሲዮን ማህበር	የአክሲዮን ማህበር	አዲስ አበባ	ንፋስ ስልክ ላፍቶ	3. ማኑፋክቸሪንግ
11	ፀሐይ ኢንዱስትሪ አክሲዮን ማህበር	የአክሲዮን ማህበር	አዲስ አበባ	ቂርቆስ	3. ማኑፋክቸሪንግ
12	የ ኢትዮጵያ ሞድሪኒንግ ፋብሪካ አክሲዮን ማህበር	የአክሲዮን ማህበር	አዲስ አበባ	ንፋስ ስልክ ላፍቶ	3. ማኑፋክቸሪንግ
13	ፋፋ ምግብአ ልሲዮን ማህበር	የአክሲዮን ማህበር	አዲስ አበባ	አቃቂ ቃሊቲ	3. ማኑፋክቸሪንግ
14	አዲስ ኢንተርናሽናል ኬተሪንግ አክሲዮን ማህበር	የአክሲዮን ማህበር	አዲስ አበባ	ንፋስ ስልክ ላፍቶ	3. ማኑፋክቸሪንግ
15	የ ኢትዮጵያ አትክልትና ፍራፍሬ ገበያ አክሲዮን ማህበር	የአክሲዮን ማህበር	አዲስ አበባ	ቂርቆስ	3. ማኑፋክቸሪንግ
16	ጠፍ ምግብአ ምራቾች አክሲዮን ማህበር	የአክሲዮን ማህበር	አዲስ አበባ	አቃቂ ቃሊቲ	3. ማኑፋክቸሪንግ
17	ፒታር ድስ ፕሮዳክትስ ማኑፋክቸሪንግ አክሲዮን ማህበር	የአክሲዮን ማህበር	አዲስ አበባ	ንፋስ ስልክ ላፍቶ	3. ማኑፋክቸሪንግ
18	ናዝሬት ልብስ ስፊት አክሲዮን ማህበር	የአክሲዮን ማህበር	አዲስ አበባ	ቂርቆስ	3. ማኑፋክቸሪንግ
19	ሄይነ ከን ብሪዌሪስ አክሲዮን ማህበር	የአክሲዮን ማህበር	አዲስ አበባ	ቂርቆስ	3. ማኑፋክቸሪንግ
20	ሆራይዘን አዲስ ጎ ማክሲዮን ማህበር	የአክሲዮን ማህበር	አዲስ አበባ	አቃቂ ቃሊቲ	3. ማኑፋክቸሪንግ
21	ራያ ቢራ አክሲዮን ማህበር	የአክሲዮን ማህበር	አዲስ አበባ	ቦሌ	3. ማኑፋክቸሪንግ

22	ኢንፎራ ሲሊኬት እና ኮንስትራክሽን ማቴሪያ ልስ ማጥፋት ማህበር	የአክሲዮን ማህበር	አዲስ አበባ	ቦሌ	3. ማጥፋት ማህበር
23	አቢጃታ-ሻላ ሶዳ አሽ አክሲዮን ማህበር	የአክሲዮን ማህበር	አዲስ አበባ	ቂርቆስ	3. ማጥፋት ማህበር
24	አልኪድ ሬዝን አ.ማ	የአክሲዮን ማህበር	አዲስ አበባ	አቃቂ ቃሊቲ	3. ማጥፋት ማህበር
25	ቢ.ኤምኢትዩ ጽድቅ የልብስና ጨቋ ጨቋ አ.ማ	የአክሲዮን ማህበር	አዲስ አበባ	ንፋስ ስልክ ለፍቶ	3. ማጥፋት ማህበር
26	ገማ ምጣቅ ላላ ንግድ ሥራ አ/ማህበር	የአክሲዮን ማህበር	አዲስ አበባ	ጉለሌ	3. ማጥፋት ማህበር
27	ክሪስታል ቆዳ ፋብሪካ አ.ማ	የአክሲዮን ማህበር	አዲስ አበባ	ቦሌ	3. ማጥፋት ማህበር
28	ፎረምሲስ የትምህርት ስልጠና ሰ አክሲዮን ማህበር	የአክሲዮን ማህበር	አዲስ አበባ	አራዳ	3. ማጥፋት ማህበር
29	አባይ የቴክኒክና ንግድ አ.ማ	የአክሲዮን ማህበር	አዲስ አበባ	ቂርቆስ	3. ማጥፋት ማህበር
30	ኪሮስ ሀብት ምጣታ ስራ ማህበር	የአክሲዮን ማህበር	አዲስ አበባ	የካ	3. ማጥፋት ማህበር
31	አቃቂ የልብስ ስፊት ፋብሪካ አክሲዮን ማህበር	የአክሲዮን ማህበር	አዲስ አበባ	አቃቂ ቃሊቲ	3. ማጥፋት ማህበር
32	ኢትዮ ቤቶን አክሲዮን ማህበር	የአክሲዮን ማህበር	አዲስ አበባ	አቃቂ ቃሊቲ	3. ማጥፋት ማህበር
33	ዋልፋና ቢዝነስ ግሩፕ አክሲዮን ማህበር	የአክሲዮን ማህበር	አዲስ አበባ	ንፋስ ስልክ ለፍቶ	3. ማጥፋት ማህበር
34	ኢትዮጵያን ባሌስትራ ፋብሪካ ኤም.ቢ. አ/ማህበር	የአክሲዮን ማህበር	አዲስ አበባ	አቃቂ ቃሊቲ	3. ማጥፋት ማህበር
35	ሚዊት ማህበር ቤት አክሲዮን ማህበር	የአክሲዮን ማህበር	አዲስ አበባ	ጉለሌ	3. ማጥፋት ማህበር
36	ሙቅደስ የሮምኦታግ ንግድ ጓደኞቻቸው የኮንስትራክሽን ግብአት አምራች ህብረት ሽርክና ማህበር	የአክሲዮን ማህበር	አዲስ አበባ	ጉለሌ	3. ማጥፋት ማህበር
37	ንጋት የሚኒካል ምህንድስና አክሲዮን ማህበር	የአክሲዮን ማህበር	አዲስ አበባ	አዲስ ከተማ	3. ማጥፋት ማህበር
38	ካስፕ ኮንስትራክሽን አክሲዮን ማህበር	የአክሲዮን ማህበር	አዲስ አበባ	አራዳ	3. ማጥፋት ማህበር
39	ኤርታሌ ማጥፋት ማህበር ማሸነጊ እና ግንባታ ግብአት አምራች	የአክሲዮን ማህበር	አዲስ አበባ	ቂርቆስ	3. ማጥፋት ማህበር
40	ኒዮ አታሚዎች አክሲዮን ማህበር	የአክሲዮን ማህበር	አዲስ አበባ	ቂርቆስ	3. ማጥፋት ማህበር