



**INTERNATIONAL FINANCIAL REPORTING STANDARD (IFRS) ADOPTION  
CHALLENGE IN ETHIOPIAN PUBLIC UTILITY ENTERPRISES**

By

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**June 2019**

**ADDIS ABABA UNIVERSITY**  
**SCHOOL OF GRADUATE STUDIES**

**INTERNATIONAL FINANCIAL REPORTING STANDARD (IFRS) ADOPTION  
CHALLENGE IN ETHIOPIAN PUBLIC UTILITY ENTERPRISES**

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

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June 2019

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This is to certify that the thesis prepared by Yitagesu Terfa entitled: International Financial Reporting Standard (IFRS) implementation challenges in public utility enterprises in Ethiopia and submitted in partial fulfillment of the requirements for the degree of Master of Science in Accounting and Finance complies with the regulations of the University and meets the accepted standards with respect to originality and quality.

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## **Statement of Declaration**

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of my advisor Temesgen Worku. (PHD), all sources of materials used for the thesis; have been duly acknowledged, I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any degree.

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## **Acronyms and Abbreviation's**

AABE Accounting and Auditing Board of Ethiopia

ACCA Association of Chartered Certified Accountants

EPAAA Ethiopian Professional Association of Accountants and Auditors

EU European Union

GAAP Generally Accepted Accounting Principles

IAS International Accounting Standards

IASB International Accounting Standards Board

IASC International Accounting Standards Committee

IFRIC International Financial Reporting Interpretations Committee

IFRS International Financial Reporting Standards

ISAR International Standards of Accounting and Reporting

MoFED Ministry of Finance and Economic Development

NBA National Bank of Ethiopia

NIFRSHD National IFRS help Desk

ROSC Report on the Observance of Standards and Codes

SME Small and Medium size Enterprises

## ABSTRACT

*International Financial Reporting Standards (IFRS) are set of Accounting Standards developed by the International Accounting Standard Board (IASB) that is the global standards recognized for the preparation of companies' financial statements. The adoption of International Financial Reporting Standards (IFRSs) in Ethiopia represents perhaps the most important accounting regulatory change in Ethiopia Accounting and finance history. International financial reporting standard (IFRS) has a lot of challenges as it was, this paper tends to look at these challenges that face implementing of International Financial Reporting Standards (IFRS) by public utility enterprises in Ethiopia and gave appropriate recommendations that will aid effective implementation of the international financial reporting standards (IFRS). To achieve the objective, both primary and secondary data were collected from IFRS implementation team members who were selected purposively based on their role and involvement in the implementation process. Primary data were collected through questionnaire and interview whereas secondary based were collected through documentary evidence and analyzed by using different descriptive statistical tools. Finally, the result of the study revealed that IFRS adoption by public utility sector has faced some obstacles such as higher cost of adoption, lack of implementation guideline which support to apply procedures, lack of valuation experts and lack of knowledge policy. The findings suggest that a rigorous IFRS capacity building program should be embarked by the government, all regulatory bodies, enterprises and training institutions in order to provide the needed manpower for IFRS implementation.*

Keywords: IFRS, public interest, Adoption, challenges.

# CHAPTER ONE

## 1. INTRODUCTION

### 1.1. Background of The Study

The International Accounting Standards Board (IASB) has been largely responsible for developing a set of financial reporting standards that can be used internationally. The need for convergence of International Financial Reporting Standards (IFRS) has been supported by the assertion that a single set of high-quality accounting standards is an important means, for example, of enhancing the comparability of financial reporting. International Financial Reporting Standards (IFRS) have been adopted with more than 143 countries around the world. (IASB, 2016).

Tsunogaya, Hellmann, and Scagnelli (2015) suggest that, as more countries implement IFRS for financial reporting, the convergence of accounting practice has become an irrevocable facet of business globalization. Despite the adoption of IFRS across the globe, different challenges from different countries are reported by companies (Outa, 2013). These challenges are an interaction between country factors and the introduction of foreign accounting standards (Gernon & Wallace, 1995; Outa, 2013). Adoption of international accounting standards became an important topic of interest after 1973 when variations in accounting practices and financial information asymmetry became concerns for accounting professionals and investors (Carlson, 1997). These concerns have deepened as the globalisation of businesses has continued to evolve.

Following the EU adoption of IFRS, other countries such as Australia, New Zealand, Canada, South Africa and Nigeria have made similar changes to their accounting systems at the national level (Cai, Rahman, & Courtenay, 2014; Nobes & Zeff, 2015; Olamide & Ajibade, 2016). However, there have been controversies, such as practical difficulties in IFRS application among the companies required to adopt IFRS and among international accounting researchers about the changes in accounting systems across the countries complying with IFRS requirements (Ball, 2006; Lin, 2012; Outa, 2013). The adoption of IFRS is often justified by the expected economic benefits for preparers of financial statements (Brüggemann, Hitz, & Sellhorn, 2013; Isenmila &

Adeyemo, 2013; Madawaki, 2012). Notwithstanding the benefits, accounting researchers are concerned whether the adoption of IFRS, a product of a monopolistic accounting standards setter is the right decision towards global accounting practice, since accounting is related to culture, (Sunder, 2009) and culture is dynamic around the world.

Countries adopting IFRS have considered the opportunities available to domestic companies aiming to attract foreign investors. Thus, the adoption of IFRS requires a process of being internationally competitive in the quality of IFRS financial statements (Oheneba, Ali, & Ahmed, 2011; Perumpral, Evans, Agarwal, & Amenkhienan, 2009). This is one of the reasons the Ethiopian government considers IFRS as favorable accounting standards to ensure quality and comparable financial statements are produced by companies in Ethiopia.

As a result of this global trend toward convergence, the Ethiopian banking business proclamation no. 592/2008 that permits banks to prepare their reports using International Financial Statement Standards. Accordingly, there were handfuls of companies that have started using IFRS voluntarily for the preparation of their financial statements since then. The IFRS adoption of such companies was marred by poor preparation, lack of knowledge, devotion of resources and resulted in an impotent adoption. However, but nationally IFRS is adopted in Ethiopia officially through proclamation no. 847/2014 and the related Council of Ministers Regulation setting-up the oversight Board – the Accountants and Auditors Board of Ethiopia (AABE). The Proclamation sets out financial reporting frameworks applicable to different reporting entities and mandated AABE with the responsibility of regulating the accountancy profession and ensuring its development in the country. Accordingly, the Board plans a three-phase transition over a period of three years for reporting entities in Ethiopia.

First phase will include the companies which have Significant Public Interest Entities - Financial Institutions and public enterprises owned by Federal or Regional Governments. July 8, 2016 is recommended as the date for adoption of IFRS for all financial institutions and large public enterprises. Mandatory reporting for these reporting entities was July 7, 2017. This means that all financial institutions and government owned (Federal and Regional) public enterprises in Ethiopia must be statutorily be required to issue IFRS based financial statements for the year ending July 7, 2017.

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

Rest of the firms IFRS for SMEs will mandatorily be adopted as at July 8, 2018. This means that all Small and Medium-sized Entities in Ethiopia will statutorily be required to issue IFRS based financial statements for the year ending July 7, 2019. (AABE Five Year Strategic Plan (Fiscal years 2016-2021 pp 86-87)

## **1.2.Statement of the problem**

The adoption and implementation of international standards in a country takes place in an environment that is affected by factors unique to that country; for example, the economy, politics, laws and regulations and cultures. Due to this the adoption of IFRS may face several challenges and obstacles. Since, no articles and books about the adoption of accounting standards by public sectors in Ethiopia exist (Zeghal and Mhedhbi, 2006). The process of the adoption presented many challenges especially for most of the African countries. The cases study some countries shown that Regulatory system enforcement mechanisms and lack of technical capacities are the major challenges (UNACTED, 2008).

A reason that seems to cut across countries for not fully incorporating IFRS is the irresistible urge to amend the international standards to rove for national specificities and the various challenges be it financial and otherwise that the convergence will bring. Thus, the objective of this paper is to look at the practical challenges of Adopting International Financial Reporting Standards in public utility enterprise.

## **1.3.Research Questions**

The aim of the research is to examine the adoption challenges faced by public utility enterprises in doing so, the study specifically addressed the following basic research questions;

**RQ1.** What are the practical difficulties public utility enterprises face in transiting IFRS?

**RQ2.** what are the factors affecting the implementation of IFRS? (Institutional readiness, Enforcement capacity/ mechanism and availability of the required human /technical capacity)

**RQ3.** What are the challenges in the implementation of International Financial reporting Standard (IFRS) in public utility?

## **1.4.Objective of the study**

### **1.4.1. General objective**

The general objective of this study is to investigate the practical challenges of IFRS adoption process in public interest enterprises in Ethiopia including the factors that challenge the adoption, with reference to public utility enterprises which adopted in phase one.

### **1.4.2. Specific objectives**

Specific objective of the study is to assess the challenges that encountered during the conversion stage of IFRS in public enterprises.

To discuss the ways through which these problems can be addressed

- To assess the challenges that faced during the practical implementation of IFRS in public utility sectors in Ethiopia.
- To investigate the factors affecting the adoption of IFRS by public utility enterprises

## **1.5.Significance of the study**

The result of this study expected to provide a better understanding about the practical challenges and their impacts on IFRS implementation to financial statement preparers, auditors, regulators and managers.

The findings of the study are expected to provide useful and timely information to the regulatory body (AABE) on the activities to be done for the realization of the IFRS adoption by the second and third phase adopters.

The findings of this study may also help the second and third phase adopters to prepare and get ready for implementing IFRS through taking proactive actions on potential challenges that may happen in their adoption.

This study will have knowledge contribution, provides an important introduction to the areas of IFRS adoption in public interest sectors and will add valuable contributions to the existing body of literature and assist the future researchers in obtaining new ideas and perspectives for their study.

It would also enable the managements of enterprise to be aware of the real challenges faced in conversion to International Financial Reporting Standards and give insight on how to approach the implementation process of these international standards most efficiently.

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

It would be vital conducting a study in the case of all significant public interest entities which are the first phase IFRS adopters in Ethiopia. However, due to time and finance constraints and seeking the flexibility of the data collection this study is covered IFRS adoption the case of public utility enterprise in Ethiopia. The reasons for the selection of public utility sector are, they are government regulated enterprises. They are operating under the government regulatory environment and their IFRS adoption is handled at the same time with the formation of similar adoption strategies. It helped the researcher to avoid the biasness of the data that may create in connection with the difference of above-mentioned cases. The study focuses on the assessment of IFRS implementation challenges of public utility enterprises during conversion stage. It does not discuss the post IFRS implementation challenges.

One of the public utility enterprises the Addis Ababa water and sewerage authority is exclude from this study as it does not start implementation of IFRS.

## **CHAPTER TWO**

### **2. LITREATURE REVIEW**

This chapter mainly focuses on review related literatures which are related to the concept of IFRS and challenges of IFRS incorporated empirical study of various researchers and theoretical framework of IFRS.

#### **2.1.Theoretical Literature**

##### **2.1.1. The concept of IFRS**

IFRS stands for International Financial Reporting standards and they are standards for reporting financial results and are applicable to general purpose financial statements and other financial reporting of all profit oriented entities. The term IFRS comprises issued by IASB, IAS issued by IASC; and interpretations issued by the standing Interpretations Committee (SIC) and the International Financial Reporting Interpretations committee (IFRIC) of the IASB (Holye B., 2011, Baker E. ,2009 and Larsen E.2008).

Alistair (2010 cited in Ojeka and Mukoro, 2011) defined International Financial Reporting Standards (IFRS) as a series of accounting pronouncements published by the International Accounting Standards Board (IASB) to help preparers of financial statements, throughout the world, produce and present high quality, transparent and comparable financial information.

Since 2001, International Financial Reporting Standards (IFRS) are being developed and approved by the International Accounting Standards Board (IASB). The IASB is a standalone, privately funded accounting standard setting body established to develop global standards for financial reporting. It is the successor to the International Accounting Standards committee (IASC), which was created in 1973 to develop International Accounting Standards (IAS). Based in London the IASB assumed accounting standard setting responsibilities from the IASC in 2001 (Hoyle B., et al, 2011, Baker E. et al., 2009 and Larsen E. 2008).

One of the basic features of IFRS is that it is a principle based standard and seeks to avoid a rule based mentality (Hlacuc et. Al., 2009). Instead, the application of IFRS requires exercise of

judgment by the preparer and the auditor in applying principles of accounting on the basis of the economic substance of transactions.

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

IFRS get recognition, measurement, presentation and disclosure requirements dealing with transactions and other events and conditions that are important in general purpose financial statements. IFRS are based on the Framework, which addresses the concepts underlying the information presented in logical formulation of IFRS. It also provides a basis for the use of judgment in resolving accounting issues (IASB, 2009).

### **2.1.2. International Financial Reporting Standards (IFRS)**

The International Financial Reporting Standards (IFRS) started with the formation of the International Accounting Standards Committee (IASC) in 1973 as a result of an agreement by professional accountancy bodies of major countries (United Kingdom and Ireland, United States, Australia, Canada, France, Germany, Japan, The Netherlands and Mexico) to develop a set of accounting principles across the globe. In its early days, the IASC were aimed at promoting best practices in the preparation of financial statements while permitting different treatments for given transactions and events. Aghator & Adeyemi (2009) stated that with the dawn of globalization and increasing demand for transparent, comparable financial information in the markets, the IASC was restructured in the year 2001 by creating the International Accounting Standards Board (IASB), among other changes. The IASB is responsible for developing, in the public interest, a single set of high quality, comprehensive and enforceable global accounting standards that require transparent and comparable information in general purpose 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. Consequently, the IASB has since inception issued a number of IFRS and interpretations. In pursuance of its objectives, the IASB cooperates with national accounting standards setters to achieve convergence in accounting standards in the world. IFRS are developed through an international due process that involves accountants, financial analysts and other users of financial statements., the business community, stock exchanges, regulatory and legal authorities, academia and other interested individuals and organizations from around the world. Aghator & Adeyemi (2009) discussed that International Financial Reporting Standards (IFRS) refers to a series of accounting pronouncements published by the International Accounting Standards Board to help preparers of financial statements, throughout the world, produce and present high quality, transparent and comparable financial information. Currently, most financial statements prepared for reporting in Ethiopia especially for financial institutions drawn up in accordance with requirements of IFRS, with this Ethiopian reporting entities are using the same frame work as their peers worldwide, which would enhance the relevance of their reports in the international arena. In recent times, we have seen many countries in Africa as well as in European Union countries adopting IFRS as the financial reporting framework, though this adoption is subjected to some modifications in alliance to countries GAAP to aid credible and reliable information.

### **2.1.3. Development of International Financial Reporting Standards**

The development of IFRS became an important topic of interest after 1973 when variations in accounting practices and differences in financial statements became a concern among accounting professionals and other users of financial statements (Camfferman & Zeff, 2007; Zeff, 2012). Accounting standards are developed by different bodies around the world and the development depends on the country's financial reporting environment and financial information needs. It is believed that the globalisation of businesses, specifically the move towards convergent capital markets has led to the need for a single set of international accounting standards developed by IASB and endorsed by IOSCO (Christensen, Lee, Walker, & Zeng, 2015; Oheneba , 2011).

Early civilisations recognised the need for defined weights and measures to promote commerce with a natural language (Sunder, 2009). The identification of the essential weights and measures creates a common language and Sunder (2009) reported that a common language in financial reporting makes business communication possible.

In confirmation of Sunder (2009) report, differences in language can lead to misunderstanding and consequently misinterpretation of IFRS. The motivation towards international accounting standards' development is directed towards its immediate impact on capital markets, particularly in a voluntary disclosure regime (Khlif & Chalmers, 2015; Khlif & Hussainey, 2016). It can be deduced that the motivation led to the provision of uniform financial reporting standards for the comparability of financial statements and investors' decision support as reported in prior studies by Misirlioglu, Tucker, and Yükseltürk (2013).

The movement to converge international accounting standards led to the formation of the International Accounting Standards Committee in 1973. Subsequently, the debate on international accounting standards' convergence attracted international capital market institutions and led to an agreement between IOSCO and IASB to develop accounting standards for companies trading in international capital markets (Baker & Barbu, 2007).

The agreement between IOSCO and IASB provided research opportunities for international accounting scholars from 1990-2004. These researches focused on comparative studies of different international accounting standards and IFRS, capital market reactions and discussion of the socioeconomic factors influencing accounting practices and development of international accounting standards (Baker & Barbu, 2007).

#### **2.1.4. Importance for International Financial Reporting Standards' Adoption**

Proponents of IFRS claim that IFRS possess many advantages over the domestic accounting standards of individual countries. Several studies report improvements in accounting quality following voluntary IFRS adoption (Barth, Landsman & Lang 2008) as well as mandatory IFRS adoption (Daske. 2008). For example, Barth. (2008) provided evidence from 21 countries, showing that firms applying international accounting standards generally had less earnings

management, more timely loss recognition, and more value relevance of accounting amounts than others. Prior researchers provided many reasons for a higher accounting quality in the financial statements under IFRS: They were originally designed for developed capital markets and therefore, more relevant to investors (Ball 2006); they reduce the alternative accounting methods, leading to lower earning management (Jeanjean&Stolowy 2008); They require higher quality measurement and recognition rules (De Franco, Kothari & Verdi 2010) that better reflect a firms underlying economic position, hence more transparent than local GAAP (Ding. 2007)and they require higher disclosure levels, thereby mitigating information asymmetries between firms and their shareholders (Healy & Palepu 2001). Besides the higher financial reporting quality argument, advocates of IFRS also claim that IFRS reporting increases comparability of firms across markets and countries (DeFond. 2010), thus, facilitating cross-border investment (Lee & Fargher 2010) and integration of capital market (Saudagaran 2008). In light of the IFRS effects on the capital market, the promoters of IFRS often argue that companies could access the international capital market more easily (Christensen, Hail &Leuz 2011), especially the ones with high level of internationalization such as trading or raising fund in overseas markets (Daske 2009) . In addition, there are also the intangible advantages that adopting firms might be able to benefit from, when they implement additional disclosure policy under IFRS (Florou& Pope 2012). For example, the firm may more easily access capital market (Soderstrom& Sun 2007), charge higher price for products (Ray 2010), and attract more experienced staff (Naoum, Sykianakis & Tzovas 2011) thanks to the reputation of more transparency than their competitors (Fox 2013). In the same line of argument, prior researchers reported that „serious. IFRS adopters experienced significant declines in their cost of capital and substantial improvements in their market liquidity compared to label, adopters (Daske. 2009). Accordingly, it is predicted that the IFRS related effects for first-time adopters are likely to be greater in countries with higher quality institutions and countries with higher divergence between domestic GAAP and IFRS (Ding. 2007).

Daske and Gebhardt (2006) state that IFRS financial statements are more value relevant, transparent and comparable in comparison with financial statements prepared in accordance with the GAAPs. However, later studies have shown there is no increase in the quality of financial statements following IFRS adoption (Callao, Jarne, & Laínez, 2007; Jeanjean & Stolowy, 2008;

Soderstrom & Sun, 2007). Therefore, the high-quality perception of IFRS financial statements has led to mixed results from different studies.

International Financial Reporting Standards are believed to reduce information cost as capital flow becomes more internationalised. Therefore, it is cheaper to have one set of single financial statements without translation and easier for investors to understand than statements prepared with different GAAPs (Barth, 2008; Leuz, 2003). Some of the literature investigating the factors contributing to IFRS adoption believed that IFRS enhance the capital market and have the potential to attract foreign investors and a wide range of capital resources into an economy (Pricope, 2016).

Different benefits have been documented following IFRS adoption. Some of these findings are consistent while others are not. In Taiwo and Adejare (2014) study, financial statement preparers perceived that financial benefits can be derived from IFRS adoption, although, such benefit could be derived from less cost of restating financial statements for companies trading internationally. It was observed that the cost of restatements of financial statements for international trade purposes was eliminated due to the comparability of IFRS financial statements.

However, if there is a reduction in the cost of preparing financial statements, the impact will result in an increase in management's financial performance if the cost of producing financial statements reduces and the company's profit increases exponentially (Li, 2010; Bova & Pereira 2012). In Li and Bova & Pereira's studies, IFRS adoption has been linked to an increase in foreign direct investment (Li, 2010).

There is a general perception that IFRS is a set of principle based accounting standards. Therefore, it provides more reliable and transparent financial statements. This was particularly discussed in Jermakowicz, Reinstein, and Churyk (2014). On the other hand, an earlier study has discredited IFRS as accounting standards that provide more transparent financial statements (Sunder, 2009). It suggests that if there is a lack of transparency in IFRS financial statements, companies' resistance to adopting IFRS is very likely.

One of the main reasons developing countries such as Nigeria, Ghana, Indonesia, and Fiji implemented IFRS is based on the “network effects” (Odia & Ogiedu, 2013, p. 389). The network effect is the international trade relationship between companies from different countries using a similar accounting approach for recognition, measurement, and disclosure. The major motivation towards IFRS adoption is the comparability effects perceived by IFRS adopters.

The justification for, and benefits from IFRS adoption are not similarly reported in the literature. However, some of the studies identified comparability of financial statements, transparency and an increase in accountability which come in the form of increased disclosure, foreign investments and elimination of financial statements’ translation issues as some common justifications. Other reasons include legitimacy, globalisation of business, reliability, relevance and high-quality accounting standards.

The perceived benefits from IFRS do not come without initial costs. A previous study revealed that the process of IFRS adoption and IFRS accounting practice is often too expensive for some companies (Irvine & Lucas, 2006). It is believed that if the perceived benefits do exist, the difficulties in applying IFRS and a multiplicity of laws and cultural differences will not permit the achievement of the perceived benefits (Dahawy & Conover, 2007). Therefore, the need to identify the factors that could hinder such achievement requires an investigation and regulatory policies (Brüggemann , 2013).

### **2.1.5. Issues in International Financial Reporting Standards’ Adoption**

Extant literature investigating challenges in IFRS adoption focuses on three perspectives. These include:

1. Analysis of the practical difficulties companies experience when applying IFRS requirements to financial statements
2. Assessment of IFRS against industries’ accounting information needs, and
3. Factors related to the financial reporting environment that influences preparers of financial statements’ decisions to adopt IFRS

First, the practical difficulties include: (1) recognition of accounting items such as the declaration of income or liability, (2) measurement of accounting items. For example, the carrying amount of an asset and the market value of the asset, and (3) disclosures of financial transactions, for example, an item to be included in published financial statements. These challenges are described as practical difficulties in IFRS adoption.

There are also several reasons why the expected benefits of IFRS may not be achieved. Reducing accounting alternatives may result in a less true and faithful representation of the firms, underlying economics (Barth, Landsman & Lang 2008).

As a result of the principle-based nature of IFRS (Hong 2008), professional judgment may create the opportunities for earning management (Chand, Patel & Patel 2005; Jeanjean & Stolowy 2008).

- Weak enforcement mechanisms of adopting nations can reduce financial reporting quality, even when high-quality accounting standards are implemented (Brown & Tarca 2007; Chen & Cheng 2007)

Furthermore, capital market effects of IFRS are more pronounced in countries with stricter enforcement regimes and therefore better IFRS implementation (Chen & Cheng 2007; Hail & Leuz 2006). Wang & Yu (2009) and Leuz (2006) showed that capital market effects were also apparent when stronger reporting incentives and thus higher quality financial reporting were evident. A higher divergence between IFRS and local GAAP and therefore larger change of domestic accounting rules (Byard, Li & Yu 2011; Daske . 2008) are also relevant factors. Regarding the capital market effects, prior authors suggested that the introduction of IFRS reporting can improve stock market liquidity (Narayan & Zheng 2010) and reduce cost of capital (Ahmed, Neel & Wang 2010; Li 2010) although many other authors argued that this may not always be the case (Armstrong. 2010; Daske 2006; Hail & Leuz 2009; Karamanou & Nishiotis 2009; Lambert, Leuz & Verrecchia 2008).

In addition to the potential disadvantages, previous authors also expressed some concerns regarding the costs of transitioning to IFRS. Smith (2009) expressed that transition costs may vary from firm to firm, and some may be common to all firms across many countries. For

example, according to the report “EU implementation of IFRS and the Fair Value Directive” (ICAEW 2007), the ten common costs of conversion to IFRS include: IFRS project team, Software and systems changes, iii. Additional external audit costs, External technical advice, Training of staff, Training other staff (such as IT staff, internal audit and management), Communications with third parties, Tax advice, Additional external data costs and Costs arising from changes such as renegotiating debt covenants surveys of accounting firms (Larson & Street 2004; PWC 2011) unveiled that most companies hire extra staff or use subcontractors for IFRS project team, therefore the real costs of resources could be higher than the reported figures. The survey results in ICAEW (2007) also observed that, depending on the size of the company, the ranking of cost of preparing the first set of IFRS financial statements and recurring costs varies depending on the size of the firm, and these costs can represent up to 24 percent of turnover. Other less tangible costs also become apparent when disclosures which create a concern in the investors about the abilities or reputation of the reporting firms and disclosed information supply other firms with a competitive advantages are present (Fox et al., 2013) Despite some costs of IFRS, implementation is obvious such as those discussed in ICAEW (2007); Fox et al. (2013) argued that other costs are less tangible. They provided examples of these intangible costs occurring when: Disclosures which create a concern in the investors about the abilities or reputation of the reporting firms and Disclosed information supply other firms with a competitive advantages In summary, the key arguments in favor of IFRS adoption focus on the effects on capital and investors; and the less favorable arguments give emphasis to the costs occurring during and after the transition period. Though the evidence of economic consequences of IFRS implementation in the literature is mixed and inconclusive, there is a growing demand for IFRS and potentially a single set of global accounting standards.

The applicability of IFRS to accounting items in some industries is another aspect of the challenges in IFRS adoption. International Financial Reporting Standards are in some cases industry specific. The challenges companies in a particular industry will experience may be different from challenges in other industries. For example, IAS 41 is applicable to the agricultural industry and the problem companies in the agricultural industry could experience may include substance over form in terms of biological assets (Wentzel, Reilly, & Reilly, 2008). Similarly, IFRS 6 application to the oil and gas industry could be a challenge to preparers of

financial statements. The IFRS 6 application in the oil and gas industry may result in two different financial performances if applied using the successful effort or the full cost methods (Ibrahim, 2014; Kurniawan, 2014).

Lastly, IFRS adoption has been generally predicted to confront challenges during adoption based on the companies' preference for accounting practice and perceptions of financial statement preparers in relation to cultural differences. For example, some companies are perceived to be more transparent than other companies. Therefore, the type of accounting system preferred by some companies may contradict the IFRS requirements.

Given the perception that IFRS provides more transparent financial statements, companies that perceive financial transactions to be reported in a transparent form are more likely to consider IFRS to be favourable. However, most of the accounting value perceptions are linked to cultural factors at the organisation level. This is referred to as accounting value dimensions according to Gray (1988) and Ebrahim (2014). It is often problematic to discuss cultural factors outside the scope of business organisations. Therefore, investigation of cultural issues in IFRS adoption focuses in the context of the companies' culture that influences IFRS adoption. The following sections discuss empirical studies examining the challenges in IFRS adoption.

### **2.1.6. Practical Issues in IFRS Adoption**

The move to a new reporting system (like IFRS) brings many challenges for different stakeholders involving in the process such as regulators, preparers, auditors and users. In particular, the challenge for regulators is to identify to what extent national GAAP will be similar or distant from IFRS (Heidhues & Patel 2008). This, in turn, requires the practitioners to develop or obtain an in-depth analysis what changes in hardware, software, reporting processes are required; what transitional workload adding to the normal day-to-day activities (AICPA 2011). Managing public perceptions around the changes in financial statements are another challenge for the management of adopting firms (PWC 2011). From the perspective of auditors, they need to well plan so that their professional staff have the necessary skills at the time their clients begin the process of conversion, but not so early that the knowledge is out of date or

forgotten from lack of use (Deloitte 2008). Furthermore, Jermakowicz (2004) listed some key challenges in the process of adopting IFRS including: The complicated nature of some standards of IFRS (e.g. impairment test in IAS 36); the lack of guidance of first time IFRS reporting (e.g. IFRS 1); the underdevelopment of capital market and the weak enforcement of law and regulations. Tokar (2005) added that for the country that has a different official language other than English, timely IFRS translation into the national language is another obstacle during the transition period. The task of implementing IFRS is further complicated by the fact that IFRS are continually evolving, and not yet finalised (Fox et al. 2013).

This challenge makes it more difficult for a smooth transition to the status of full compliance under IFRS (Joshi. 2008). Several authors have also expressed their concerns about how IFRS will be taught to students and how professionals will keep up to date with new standards (Heidhues & Patel 2008; Wong 2004). Education for both professional and non-professional resources also then becomes an important barrier for making IFRS convergence with national accounting standards happening. Other challenges according to Egberé (2013) include: Increased vitality of earnings; High cost of implementing IFRS; Complex nature of IFRS; Lack of IFRS implementation guidance and Tax driven nature of national standards

Firdawek (2017) study found that preparers of financial statements were confused about the inconsistency between IFRS requirements and other disclosure requirements from different government agencies following IFRS adoption in Ethiopia. Further, the lack of training of accountants, inadequate skills among the accountants, lack of awareness about IFRS adoption and lack of training programs for future changes in IFRS were identified as challenges in IFRS adoption in Ethiopian companies. These findings are different from the challenges identified earlier in IFRS adoption in developed countries.

One of the practical difficulties in IFRS adoption is the high cost of adoption. Aytnew (2018) and Thompson (2016) reported that the cost of training employees and the time it takes for new standards to be learned, the cost of restructuring internal control systems and the increase in the cost of auditing due to lack of knowledge among the audit firms are some practical difficulties companies are likely to experience. Other practical difficulties reported in IFRS adoption include the lack of reliable markets to determine the fair value of assets and liabilities, incompatibility,

subjectivity in judgement, lack of understanding of IFRS, particularly for bond and derivatives and an inadequate supply of IFRS certified accountants (Landsman, 2007; Laux & Leuz, 2009; Quagli & Avallone, 2010). “This is an overview, hitting some common practical issues, and is meant to illustrate the difficulties and diverse challenges faced by many” companies in IFRS adoption (Thompson, 2016, p. 11).

The practical difficulties identified in the extant studies can be summarised to include difficulties in the management accounting system, calculation of accounting values, changes in information technology systems, understanding procedures in applying IFRS, implementation of appropriate internal control systems with IFRS, staff knowledge and experiences, costs of adoption and understanding IFRS accounting policies.

## **2.2. Empirical Evidence**

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

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

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

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

The consequences of implementing IFRS will undoubtedly go far beyond a simple change of accounting rules by the companies concerned (Eichhorst, Steen, van der Tas, & Smits, 2002). It further suggests that European standard-setters and legislators act now to determine the future of accounting and financial reporting in their countries. But the future of financial reporting will also be shaped by the preparers themselves. Many decisions as to the process of implementation of IFRS have been left to the companies. It is vital that company management recognize the far-reaching impact that IFRS will have on business. A number of issues raised in this study that would benefit from further research. Some respondents expressed doubts as to whether common standards within the EU can be achieved due to differences in interpretation and the lack of implementation guidance. Research is needed to analyse the impact of differences between IFRS and national GAAP on accounting convergence. Finally, common Accounting standards create the need for a common approach to auditing and enforcement within the EU, currently determined at the national level.

## **CHAPTER THREE**

### **3. RESEARCH METHODOLOGY AND DESIGN**

#### **3.1.Introduction**

This chapter discusses 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. It also describes the research design and the data used to answer the research questions. The aim of this study is to investigate the challenges influencing public utilities companies' transition to adopt IFRS. The discussion includes descriptive statistics. In order to examine the factors influencing IFRS adoption, a survey questionnaire was developed to obtain data from the selected enterprises.

#### **3.2. Research Approach**

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

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

and to neutralize limitations of applying any of a single approach. According to Creswell (2009) the mixed research approach uses separate quantitative and qualitative methods as a means to offset the weaknesses inherent within one method with the strengths of the other method.

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

### **3.3. Research design**

Conducting an Empirical study on the adoption of IFRS which is new to Ethiopia requires the researcher to discover various kinds of data to enable him to draw conclusions based on the findings. Therefore, to achieve this objective and to address the research questions the researcher uses mixed approach that encompasses a combination of both qualitative and quantitative methods. The quantitative data used to substantiate and support the qualitative data that would be collected using different data collection methods and tools. Hence, employing the mix of qualitative and quantitative research methods would enable the researcher to consolidate, triangulate and cross-check the data collected, which in turn allows formulating a holistic interpretive framework of the study. Bryman (2006) stated that mixed method provides a wealth of data and help the researcher to discover findings that they had not anticipated (as cited saunders , 2009).

### **3.4. Target Population, Sampling Techniques and Sample Size**

The researcher selects three public utility service enterprises in Ethiopia which are Ethiopian power utility, Ethio-telecom and Addis Ababa water and sanitation as population of this study. But the Addis Ababa water and sewerage authority are yet to start conversion to IFRS, the researcher exclude from the sample. This is due to all staffs have no hands-on information on IFRS conversation.

The selection of the sampling method is based on the findings of Tongco (2007) revealed a purposive non-probability sampling technique is most effective when one needs to study a certain cultural domain with knowledgeable experts within. Cresswell and Plano (2011) added that purposive sampling techniques employed when identifying and selecting individuals or groups of individuals that are especially knowledgeable about or experienced with a phenomenon of interest (as cited Palinkas, 2015).

As IFRS is a new terminology to Ethiopia in general and public enterprises in particular, the participants of this study need to have specialized expertise and Knowledge in the areas of IFRS to enable the researcher to answer the research questions and to meet the research objectives. Zeghal & Mhedhbi (2006) argued that the adoption of IFRS is a very Strategic and critical decision; it requires a high level of education, competence, and expertise to be able to understand, interpret, and then make use of these standards.

Therefore, based on their role and close involvement in the process of IFRS adoption, the target populations of this study were IFRS project implementation team members of the two enterprises. The researcher believed that those who have close involvement in the adoption has better knowledge than others. Consequently, the participant selected for these studies were all IFRS project implementation team members of the two utility enterprises. Hence, the researcher has distributed questionnaires to 23 IFRS project team members of the two public utility enterprises and in-depth semi-structured interviews conducted with key actors involved in conversion.

### **3.5. Data Collection Instruments**

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

#### **3.5.1 Questionnaire**

Questionnaires were distributed to key employs involving in transition to IFRS, who are deemed to be knowledgeable about IFRS and could provide important perspective on its implementation. The response is expected to help understand the perceived and actual challenges faced at the

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

The questionnaires were structured based on those used by Iyoha and Faboyede (2011), and Sharif (2010). With regard to the close-ended questions, the respondents were asked to indicate their level of agreement on a five point Likert scale with the following ratings.

### **3.5.2 Interview**

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

## **3.6. Data Analysis Method**

To collect the data for this study, survey questionnaires were prepared and distributed to respondents based on reviewed literature. The actual challenges of IFRS adoption in factory was presented by descriptive statistics using software statistical package for social science (SPSS) version 20 used to analyze and present data by chart, table, frequency distribution and percentage to give a condensed picture of the data. According to Malhotra (2007) using descriptive survey method helps the researcher in picturing the existing situation and allows relevant information using appropriate data collecting instrument.

## **3.7. Ethical Considerations**

An extra care was given for the manner the data were secured from the respondents. The respondents were assured that data was collected only for the research purpose, their anonymity and the confidentiality of any information obtained is strictly kept secret. We should give a top propriety for participants wellbeing whenever we make research on people and the research

question should be second on our priority. This means that if we choose to harm participant on the interest of our research, the harm will further affect our research. (Mackn. woodsong, Macqueen, Guest and Namey, 2000)

### **3.8. Validity and Reliability**

The validity of research is conceived as the precision or correctness of the research finding. A number of measures were taken to enhance the reliability of the research, including first the researcher was extra careful in identifying the study target as the study topic was current and unprecedented, second structured questionnaire survey was used, third survey instruments were adopted from the extant literature to the extent available, fourth Likert like scale was used in the survey instruments.

Finally, the entire research findings were extracted through due analysis and rigor considerations in frequent occasions the researcher seek consultation with experts in the professional and academic world to pin the right position of the respondents. In such endeavor, a panel of IFRS Trainers was consulted in the data collection phase and analysis phase of the study to triangulate the survey response with independent verifiers and the real practice.

# CHAPTER FOUR

## 4. DATA PRESENTATION, ANALYSIS AND INTERPRETATION

### 4.1. Introduction

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

A total of 23 questionnaires which dealt with the implementation of International Financial Reporting Standards and related challenges were distributed to a sample enterprise expert which are involved in the implementation of this international financial reporting standard. However, only 22 questionnaires were collected one questioner was not returned. All the survey respondents were located in Addis Ababa.

#### *4.1.1. Demographic characteristics of the respondents*

It has an importance to analyze the background of the respondents to put the study in context as these factors are cross-cutting determinants of responses given by respondents.

##### 4.1.1.1. Gender Distribution of the Respondents

One of the demographic characteristics of the respondents to be analyzed was their gender distribution. Accordingly, the researcher gathered and presented the demographic characteristics of the respondents covering their gender distribution in Table 4.1 below:

Table 4.1 Demographic characteristics of the respondent

	Frequency	Percent	Valid Percent	Cumulative Percent
Female	9	40.9	40.9	40.9
Valid Male	13	59.1	59.1	100.0
Total	22	100.0	100.0	

Source: Own survey, April 2018

As it is shown in the above table, majority of the respondents (59%) are male and the remains 41% female. The male dominance in the developing economy professional work context is a well settled fact.

#### 4.1.1.2. Academic Level of Respondents

The challenges of International Financial Reporting Standards (IFRS) in public utility enterprises are better articulated by professionals who have attended high level education and professional training. In this respect the researcher gathered and presented the data in Table 4.2 below:

Table 4.2 Academic Level of Respondents

What is your highest accounting education or professional qualification?					
	Frequency	Percent	Valid Percent	Cumulative Percent	
Valid	Diploma	1	4.5	4.5	4.5
	BA/BSC	18	81.8	81.8	86.4
	Maters	3	13.6	13.6	100.0
	Total	22	100.0	100.0	

Source: Own survey, April 2018

It is clear from the above table that majority (82%) of the respondents are Bachelor degree holders, followed by master's Degree holders (3%), Diploma holders (1%). It is an impressive combination of professionals ranging from high-level specialists to low level technicians. This academic cocktail should have assisted the company in realizing the perceived challenges of IFRS and mitigating it. It should also result in a valid data that precisely represent the benefits actualized by adopting IFRS. This would also assist the generalization of lessons learned to other companies.

#### 4.1.1.3. Work Experience of Respondents

In studying the benefits and challenges of IFRS, the experiences of the respondents play a significant role. The participant's exposure to both previous GAAP and to IFRS enables them to quickly pinpoint the major benefits that were realized or could be realized in their perception.

Further, they easily indicate the key challenges faced and techniques of overcoming them from their ample experience. Accordingly, the researcher gathered the data summarized in Chart 4.1 below:

Chart 4.1 Professional Experiences of the Respondents



As it is shown in Chart 4.1 above, majority of the respondents (36%) have a work experience of 11 to 15 years, followed by respondents with less than 5 years' experience. Participants with experience of over 20 years, 6-10 and 16-20 yrs were 13.6%. This indicates, overall, the participants are relatively well experienced and exposed both with previous GAAP and IFRS. In addition, due to the nature of the accountancy profession the more experience employees have the more they refine their proficiency. This could yield them the ability to easily assimilate themselves with the new standard as they could build on what they possess the new requirements. In contrast, having seasoned professionals by itself could cause a challenge as experience and age are negatively correlated with change acceptance.

The results obtained show that participants of the IFRS conversation have different occupations from accountant to division head as shown in table 4.3.

Table 4.3 Current position of Respondents

	Frequency	Percent	Valid Percent	Cumulative Percent
Accountant	4	18.2	18.2	18.2
acting budget supervisor	1	4.5	4.5	22.7
cost analyst	1	4.5	4.5	27.3
district manager	1	4.5	4.5	31.8
expert	1	4.5	4.5	36.4
ifrs expert	7	31.8	31.8	68.2
Valid ifrs team head	1	4.5	4.5	72.7
manager	2	9.1	9.1	81.8
section head	1	4.5	4.5	86.4
Section manager	1	4.5	4.5	90.9
senior Accountant	1	4.5	4.5	95.5
senior budget officer	1	4.5	4.5	100.0
Total	22	100.0	100.0	

### General information on IFRS Adoption

This section describes the general information about the companies' awareness of IFRS adoption on the two firms. As it was discussed in previous section the target population is public utility enterprises which are eligible to adopt IFRS. So that, the two enterprises are aware that they are defined as public interest entities. The survey result shows 100 percent of the respondents revealed they are public interest entities. This implies that the participants who required to adopt IFRS consider IFRS important.

The companies included in this study have different viewpoints on the importance of accounting standards. The survey result shows 99 percent of the companies indicate that accounting standards are very important to their companies while 1 percent disagreed that accounting standards are important. Even though the companies required to adopt IFRS were not adequately

informed about the importance of IFRS adoption to the enterprises and their responsibilities in adopting the IFRS requirements. From the survey, some companies were unaware of the adoption of IFRS (Addis Ababa water and sanitation). This implies the companies were not informed that IFRS was mandatory from 2017 onwards.

Table 4.4 Rational for Complying IFRS

<b>\$section_2Q3</b>			
why did your company comply with IFRS? <sup>a</sup>	Responses		Percent of Cases
	N	Percent	
To attract foreign investors	18	12.4%	85.7%
Concerned about being penalised by accounting regulators	14	9.7%	66.7%
It provides financial benefits to my company	15	10.3%	71.4%
It provides non-financial benefits to my company	7	4.8%	33.3%
It enhances my company's legitimacy	12	8.3%	57.1%
It eases the cost of raising capital internationally	15	10.3%	71.4%
It provides the opportunity to be listed on the International Stock Market	11	7.6%	52.4%
It is a proof of transparency in my company	15	10.3%	71.4%
It increases my company's financial performance indicators	16	11.0%	76.2%
It is the best determinant of my company's financial performance	14	9.7%	66.7%
IFRS accounting value is more value relevant than other standards	8	5.5%	38.1%
<b>Total</b>	<b>145</b>	<b>100.0%</b>	<b>690.5%</b>

a. Dichotomy group tabulated at value 1.

Following the response to the importance of accounting standards, there were a strong expectation that IFRS adoption will lead to foreign investment attraction to their firms the survey result shows only 86 percent of the companies reported that IFRS adoption was very important to attract foreign investment. This is consistent with Fond, Hu, Hung, and Li (2011) findings that most IFRS adopters perceived IFRS adoption would increase the level of foreign investors' interests in the company's business activities. Since the government has started preparations to privatize mega public enterprises fully or partially after decision to embark on privatization was announced last June having an international financial standard will support the decision.

### *Rationale behind IFRS preference*

Analyzing the general preference towards IFRS was made to identify the factors that the participants realized more under IFRS. In such attempt the researcher captured the participant's reasons as summarized in table 4.4 below:

Table 4.5 Rational for IFRS Preference

<b>\$sec_2quest8 Frequencies</b>				
		Responses		Percent of Cases
		N	Percent	
what is the reason for preference of IFR <sup>a</sup>	Comparability	16	36.4%	80.0%
	Relevance	11	25.0%	55.0%
	Faithful	14	31.8%	70.0%
	Cost	3	6.8%	15.0%
Total		44	100.0%	220.0%

a. Dichotomy group tabulated at value 1.

Source: Own survey

As it is depicted in the above table, majority of the respondents 80% identified IFRS preferred over previous standard because of its comparability. Comparability is one of the qualitative characteristics of information that enables users of information to differentiate one alternative than other. The other reason participants indicated for their preference is the faithful representation and relevance with frequency distribution of 70% and 55% respectively. Faithful representation means that the information reflects the real-world economic phenomena that it purports to represent. Relevance and faithful representation make financial statements useful to the reader. Relevance will exist if information is timely, if it has predictive and confirmatory values. As a result, this result should not be a surprise due to the fair value attributes unique to measurement in IFRS. The participants indicated cost to be the least in their preferences with frequency distribution of 15%.

### **Challenges of IFRS adoption**

The theoretical assumption supported by the research results that there is significant impact that professional bodies contribute for the compliance of IFRS adoption. However, according to the respondent support from AABE on the preparation of adoption is not sufficient enough. According to the respondents, the road map may enforce Enterprises to adopt and implement IFRS as early as possible but looking the fact most of the respondent agrees with that the transition period and support from the board was not adequate to comply with IFRS. This indicates that professional bodies influence the adoption of IFRS and the result is consistent with the theoretical assumption of the study. Mir and Rahman (2005), Aljifri and Khashaarmeh, (2006) and Chamisa (2000) found similar result. Chamisa (2000) for example found that professional bodies have played a significant role in supporting the adoption of IFRS.

There are plenty of inhibitors encountered in adopting IFRS. The most prominent ones may include adoption cost, complex financial reporting framework, and lack of implementation guidance, lack of awareness and training institutions. Accordingly, the researcher gathered the data presented to identify and analyze the challenges encountered in IFRS adoption in tables 4.6

Table 4.6 Challenges of IFRS adoption

	Strongly Agree		Agree		Disagree		Neutral		Strongly Disagree			
levels of agreement about the challenges prohibit smooth IFRS Adoption	Frequency		Frequency		Frequency		Frequency		Frequency			
	Count	%	Count	%	Count	%	Count	%	Count	%	Total	%
Adoption of IFRS is costly	18	82%	4	18%		0%		0%		0%	22	100%
Absence of structured market	16	73%	3	14%	1	5%	1	5%	1	5%	22	100%
IFRS increases the complexity of financial reporting	11	50%	4	18%	2	9%	3	14%	2	9%	22	100%
lack of training institution	8	36%	8	36%	0	0%	3	14%	3	14%	22	100%
There is lack of IFRS implementation guidance	6	27%	8	36%	3	14%	3	14%	2	9%	22	100%
proper instruction from regularity bodies	10	45%	7	32%	3	14%	2	9%		0%	22	100%
Lack of availability of competent specialists	9	41%	5	23%	6	27%		0%	2	9%	22	100%
Problem with IT system in handling the transition to IFRS	5	23%	4	18%	3	14%	9	41%	1	5%	22	100%

Source Own survey, April 2019

As it can be seen from the above table, 82% of the respondents strongly agreed that adoption of IFRS is costly and 18% of the respondents also agreed on the proposition that IFRS is costly. This indicates that one of the significant challenges that could explain poor adoption is its implementation cost.

Also 50% of the respondents strongly agree on the proposition that complexity of IFRS based financial reporting 18% of the respondents agree on complexity of financial reporting and 9% of respondent strongly disagree on such proposition that IFRS complicate financial reporting and

14% of the respondents were neutral. From this we can say that respondent's perception was far away from one another but this is due to the complex and less understandable nature of IFRS and it is especially the case for developing and least developed countries. This complexity requires consultation and support from experts from the field.

According to Jermakowicz, (2004), one of the reasons is the complex nature of some of the IFRS, including standards related to hedge accounting (IFRS 9) and impairment tests (IAS 36). For some businesses, criteria for the capitalization of development costs seem to be away from economic reality (IAS 38).

The above table shows that 27% of the respondents strongly agreed on the proposition that lack of IFRS implementation guidance, 36% of the respondents agree on lack of IFRS implementation and 9% of respondents strongly disagree, 14% disagree on lack of IFRS implementation and 14% of the respondents were neutral and this show that lack of IFRS implementation guidance.

on the issue that lack of training institution that 36% of the respondents strongly agree on lack of training institution, 36% of respondents agreed on lack of training institution and 14% of respondent strongly disagreed on the idea of lack of training institution , 14% were neutral from this respondent result that training program for staff across the company is also another costly investment and of course one of the most important factors that increase the adoption of IFRS.

There is lack of IFRS implementation guidance and IFRS brings about increased volatility of earnings, Tax driven nature of previous standards is a challenge for IFRS adoption. In the survey of Caramanis and Papadakis (2008), the respondents indicated a number of difficulties that relate with the application of IFRS. In particular, they have the opinion that a major source of the difficulties regarding the technical aspects of the application of IFRS is the lack of comprehensive training and lack of adequate IFRS implementation guidance this lack of guidance creates risks for different local or national interpretations of IFRS and increases the risk for manipulation in interpretation of financial statements.

Table 4.6 also shows 45% of respondent strongly agree on proposition that lack of proper instruction from regulatory bodies, 32% also agree on lack of proper instruction from regulatory bodies and 14% of respondent were disagree on lack of proper instruction from regulatory bodies and 9% of respondent were neutral from this there is problem in get instruction from regulatory bodies.

In the table shows that 42% of respondents strongly agree on proposition that lack of availability of competent specialists, 39% of respondents also agree on proposition, 3% were neutral and 5% of respondents strongly disagree on the proposition while 11% of the respondents disagree on the issue. The respondents also believe that lack of availability of competent specialists the most significant challenges.

The Respondents stated there are challenges in their IT system in handling the transition to IFRS. In this regard, 34% of the respondents strongly agree, and 23% of the respondents agree that their IT system cannot handle the transition to IFRS and 23% of the respondents strongly disagree, 11% of the respondents disagree and 8% of the respondents were neutral from this we understand that problem with IT system is challenge to adoption of IFRS.

Also 73% of the respondents strongly agreed on the absence of structured market, 14% of the respondents agree with the idea of absence of structured market and 5% of respondents strongly disagree, 5% of respondents disagree and 5% of the respondents were neutral so problem with structured is another challenge to adoption of IFRS.

## Difficulties in Applying International Financial Reporting Standards

Table 4.7 levels of agreement about the challenges prohibit smooth IFRS Adoption

	Very important		important		Not important		Neither important nor unimportant		Not at all important			
levels of agreement	Frequency		Frequency		Frequency		Frequency		Frequency			
	Count	%	Count	%	Count	%	Count	%	Count	%	Total	%
Lack of valuation experts	19	86%	3	14%		0%	0	0%	0	0%	22.00	100%
Lack of knowledge	14	64%	7	32%	1	5%	0	0%	0	0%	22.00	100%
Difficult to ascertain fair value	16	73%	5	23%	1	5%	0	0%	0	0%	22.00	100%
Presence of fully depreciated asset	16	73%	0	0%	6	27%	0	0%	0	0%	22.00	100%
Lack of land ownership law	9	41%	7	32%	3	14%	2	9%	1	5%	22.00	100%
Inconsistency with tax standards	6	27%	10	45%	4	18%	1	5%	1	5%	22.00	100%
Presence of judgment	8	36%	10	45%	4	18%	0	0%		0%	22.00	100%
Lack of sectorial implementation guidance	13	59%	5	23%	2	9%	2	9%		0%	22.00	100%
Training of relevant professionals	12	55%	8	36%	1	5%	1	5%		0%	22.00	100%
Accounting knowledge and expertise possessed by financial statement users	4	18%	12	55%	5	23%	0	0%	1	5%	22.00	100%
Compliance and enforcement	11	50%	8	36%	3	14%	0	0%		0%	22.00	100%
Amendment to existing laws	7	32%	12	55%	2	9%	0	0%	1	5%	22.00	100%
Timely interpretation of standards	4	18%	14	64%	3	14%	0	0%	1	5%	22.00	100%
Complexity of conversion	14	64%	6	27%	2	9%	0	0%		0%	22.00	100%
Use of fair value as measurement base	13	59%	7	32%	2	9%	0	0%		0%	22.00	100%
Continuous amendment to IFRS	6	27%	8	36%	6	27%	0	0%	2	9%	22.00	100%

Source own survey

From the inquiry regarding how important is lack of valuation expert that 86% of respondents agreed that it is very important, 14% of respondent expressed it as important from response of questioner we can see that almost all of the respondent agrees on lack of valuation expert and lack of knowledge were prohibiting IFRS adoption.

It can also be seen from the table above 59% of the respondents strongly agree and 32% of the respondents agree on problem with IFRS use of fair value accounting and 5% were neutral, 16% of respondents strongly disagree and 11% of respondent were disagree on the problem with the fair value accounting in handling the transition to IFRS, increased volatility of earnings as a result of IFRS and Tax driven nature of previous standards as challenges of adopting IFRS. Most of the respondents believe that the adoption of IFRS which uses fair-value financial reporting approach introduce significant volatility in the balance sheet and, more importantly, in earnings. Company management will have to learn how to deal with volatility in reported performance. This is also supported by the results of the 2004 survey carried out by Jermakowicz, according to which adoption IFRS brings about increased volatility of earnings.

Similarly, the respondent result reveals that since the fair value accounting incorporates more information into the financial statements than historical costs it is a major challenge for developing countries particularly Ethiopia. Since some conditions in developing countries like Ethiopia are not favorable for implementing fair value accounting such as achieving observable market prices and accurate estimates of liquid market prices that cannot be materially influenced by managers due to less perfect market liquidity, IFRS use of this accounting method can be considered as a challenge.

As particularly listed in Ball, (2006), IFRS are instilled into fair value accounting: IFRS 2 requires share-based payments to be accounted at fair value; IFRS 3 provides for minority interest to be recorded at fair value; IAS 16 provides a fair value option for property, plant and equipment; IAS 36 requires asset impairments (and impairment reversals) to fair value; IAS 38 requires intangible asset impairments to fair value and some others; IAS 39 requires fair value for financial instruments other than loans and receivables that are not held for trading, securities held to maturity; and qualifying hedges (which must be near-perfect to qualify); and IAS 40 provides a fair value option for investment property.

Consistent with the findings of this study, Jermakowicz, 2004; Jermakowicz. (2007); Susana, 2007; Robyn and Graeme, 2009; and William, 2010 examined the challenges of the adoption of IFRS in different countries of the world. Jermakowicz (2007) particularly studied the challenges of adoption of IFRS in Germany based on a questionnaire sent to company executives.

They find that increased volatility of earnings after adopting IFRS, high cost of adopting, complexity and lack of guidance are among the main challenges of IFRS adoption.

Table 4.7 shows that 73% of respondent were say it is very important that difficult to ascertain fair value and the rest 27% of respondent were not important of respondent were prohibiting IFRS adoption in presence of fully depreciated asset. So, from response of respondent there is presence of fully depreciated asset prohibit in challenge of IFRS adoption. One of the mechanisms through which IAS/IFRS are expected to affect the quality of financial reporting is fair value accounting.

Fair value accounting is supposed to ensure a higher degree of transparency in financial statements, which should lead to a higher value-relevance of accounting data and a better capability of financial markets to reflect the actual value of a firm. However, critics argue that fair value accounting based on models is not reliable, therefore raising some doubts regarding its usefulness to investors (penman,2007,Benston,2008 koleve,2009,Gohetal,2009 and palea and maino).

From table 4.7 we can see that 41% of respondent were very important that lack of land ownership law, 32% of respondent were important and 14% of respondent were not important and 9% were neither important nor unimportant also there is inconsistency with tax standards 27% of respondent were very important, 45% of respondent were important and 18% of respondent were not important and 5% of respondent were neither important nor unimportant. From this lack of land ownership law and inconsistency with tax standards were prohibiting in challenge of adoption IFRS. Studies also show that the amount of public enterprise land had never been determined with precision this makes conversion more tough.

The results show that 73% of respondent were prohibiting IFRS adoption in presence of fully depreciated asset, wear as 27% of respondent were not important. So, from response of respondent there is presence of fully depreciated asset prohibit in challenge of IFRS adoption. One of the mechanisms through which IAS/IFRS are expected to affect the quality of financial reporting is fair value accounting.

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It can also be seen from the table above 36% of respondent say that presence of judgment is very important, 45% of respondent say important and 18% of respondent say not important also 59% of respondent were say lack of sectoral implementation guidance very important to prohibiting adoption of IFRS,23% of respondent were say important,9% of respondent were not important and 9% of respondent were neither important nor unimportant so presence of judgment and lack of sectoral implementation were very important in prohibiting in adoption of IFRS.

### **Practical issues in Applying International Financial Reporting Standards**

The companies were presented with a series of practical difficulties identified in the literature and archival. These were presented in the form of multiple response questions. The results are presented in Table 4.8 based on the frequency analysis and show 81.8% of the respondent financial difficulties such as the cost of adopting IFRS and 77% of respondents experienced difficulties in understanding IFRS accounting policies. A similar result was reported in Jones & Higgins (2006) in the case of Australian companies' adoption of IFRS.

Table 4.8 Practical Issues in IFRS Adoption - IFRS Adopters

What difficulties has your company face?

What difficulties has your company encountered in complying with IFRS adoption? <sup>a</sup>	Responses		Percent of Cases
	N	Percent	
Staff knowledge and experiencesp	19	11.5%	86.4%
Costs of adoption	18	10.9%	81.8%
Understanding IFRS accounting policies	17	10.3%	77.3%
Understanding procedures in applying IFRS	15	9.1%	68.2%
Calculation of accounting values	15	9.1%	68.2%
Increases in my company taxes	13	7.9%	59.1%
Management accounting system	10	6.1%	45.5%
Implementation of appropriate internal control systems with IFRS	10	6.1%	45.5%
Changes in Information Technology (IT) system	9	5.5%	40.9%
Increases in cost of producing financial statements	9	5.5%	40.9%
Inconsistency with different accounting regulators requirements	8	4.8%	36.4%
Difficulty in forecasting profitability from IFRS financial statements	7	4.2%	31.8%
Inability of stakeholders to understand financial statements	5	3.0%	22.7%
Difficulty in forecasting future cash flow from IFRS financial statements	4	2.4%	18.2%
Conflict of interest between management and stakeholders	4	2.4%	18.2%
Negative reactions from subordinates	2	1.2%	9.1%
Total	165	100.0%	750.0%

a. Dichotomy group tabulated at value 1.

The results showed 86.4% of the respondent faced inadequate knowledge and experience in IFRS adoption. This implies that staff will be required to undergo some training and development which could possibly increase the cost of IFRS adoption. Interestingly, there were mixed reactions among IFRS adopters on the experience with the cost of IFRS adoption. The result shows that most of the company's experts have limited understanding on policies and procedures 77% and 62% respectively. The study by Zakari (2014) and Istrate (2015) also shows that many of the companies required to adopt IFRS in Libya were unable to understand IFRS requirements.

Table 4.8 also shows that 68% of the respondent experienced challenges in calculating accounting values according to IFRS policies. In addition, 34% of respondent indicated

inconsistency with different accounting regulatory requirements as challenges in adopting IFRS and 46% of respondent experienced difficulties in the implementation of appropriate internal control. Further, 46% of respondent experienced difficulties in the management accounting practices while 40% of the respondent agree with that difficulties in meeting the information technology (IT) requirements to adopt IFRS

### *Summary of Major Findings*

Both companies in the study are still in the conversion stage. However, IFRS reporting periods elapse to phase one implementer. Further, financial services are the dominant industry with the majority of the companies adopting IFRS. The survey results also showed that supervision from the regulatory agent is said to be low. most companies used external consultants' firms to get support on their decisions regarding IFRS adoption.

The descriptive statistics showed that both enterprises are aware of their requirements to adopt IFRS. In terms of the importance of international accounting standards, almost all reported accounting standards were very important to their businesses. This implies the respondent consider accounting standards as important.

Even if the two firms are monopolized by the government majority of the respondents believed that IFRS are important in attracting foreign investors to their firms. Such expectation is derived from the government intention to privatized some public properties. The descriptive statistics indicated the majority of the respondent had no prior experience in applying IFRS in preparing financial statements before IFRS were implemented in their firms.

The results in terms of the practical difficulties in IFRS adoption varied among the companies. The descriptive statistics indicate both enterprises faced the same challenge. The final results show that factors that affects include valuation of accounting items, absence of valuation experts, staff knowledge and experience, costs of adoption, presence of fully depreciated items and difficulty to ascertain fair value. These factors in addition to understanding of the procedures and policies inhibit IFRS adoption.

The lack of staff knowledge is one of the most practical difficulties in IFRS adoption among the participant. The survey results show that knowledge of IFRS is key challenge for IFRS adoption. This is due to the lack of IFRS professional expertise.

The main challenges in the process of adopting IFRS include significant cost of adoption of IFRS; require intensive training, the complex nature of some of the IASB's standards and the lack of adequate implementation guidance. This lack of guidance creates risks for different local or national interpretations of IFRS and increases the risk for manipulation in interpretation of financial statements.

In terms of valuation of assets and liabilities, the calculation of accounting values following IFRS requirements impacted on the companies' decisions whether or not to adopt IFRS. This means companies that face difficulties in calculating accounting values are less likely to adopt IFRS.

## **CHAPTER FIVE**

### **5. CONCLUSIONS AND RECOMMENDATION**

#### **5.1. Introduction**

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

#### **5.2. Conclusions**

This study assessed the implementation of International Financial Reporting Standards (IFRS) and its challenges in the implementation process of public utility sectors with particular reference to the smooth transition to IFRS. The government of Ethiopia has expressed an initiative to integrate its financial statements with international standards. Intention of the government to adopt IFRS is manifested by the recently issued proclamation called “Financial Report Proclamation of Ethiopia” which obliges “public interest entities” to follow IFRS in their financial reporting. The results of the survey reveal that IFRS should have been implemented earlier in Ethiopia due to the greater benefits it has compared to the associated problems.

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

The main challenges in the process of adopting IFRS include significant cost of adoption of IFRS, need for training, the complex nature of some of the IASB’s standards and the lack of adequate implementation guidance. This lack of guidance creates risks for different local or national interpretations of IFRS and increases the risk for manipulation in interpretation of financial statements.

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

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

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

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

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

As the conclusions reveal since the benefits are longer lasting than the costs of adopting IFRS, there is an urgent need to adopt and implement IFRS and prepare financial statements based on this international standard. This implies that the government of Ethiopia specifically ministry of public enterprises continue their follow up for the proper and timely execution of IFRS in public enterprises. Public Enterprises themselves put their effort and should present IFRS based financial statements and announce in earliest possible time.

The conclusions also reveal that there is a serious problem in relation to the detailed application of the adopted standards in public Enterprise. This implies that the concerned regulatory bodies such as the Accounting and Auditing Board of Ethiopia/AABE/, Audit Service Corporation, the Institute which is the Institute of Certified Public Accountants of Ethiopia and others stakeholders should strictly follow the application of all the standards. Thus, the effort to implement IFRS in Ethiopia specifically in public enterprises should be given more attention by the government, AABE, Ministry of public enterprises, public enterprises and other stakeholders.

On the other hand to fine tune with the main problems of IFRS adoption, adoption and implementation of IFRS should be supported by all stake holders. Moreover, IFRS capacity building program should be embarked upon by the regulatory body, Universities, enterprises and training institutions in order to provide the needed manpower for IFRS implementation.

The findings of interview and focused group discussions reveal that there are numerous factors that impact adoption of IFRS in Public Enterprises in Ethiopia. Based on the findings of the study, it is essential that the government has increased its support for the adoption of IFRS. The government should also encourage intensive training for accountants, auditors and relevant stake holders about IFRS and encourage its adoption, since adoption of IFRS could attract foreign direct investment, help to build confidence to lenders and enable enterprises get loan from local and international lenders, facilitate for capital market which in turn may lead to economic growth.

Finally, it could be summarized as under proclamation no. 847/2014 and regulation no. 332/2015 among other duties AABE has given a responsibility and power to the proper adoption and

implementation of IFRS, to discharge its responsibility it required the government support, that is AABE should be well organized and staffed for proper accomplishment of its duties. On the other hand, enterprises need strong support from AABE and AABE should give its rigorous support to the enterprises. Enterprise may not have access to the standards and do not keep up to date with standards so that AABE design a means to provide the standards on time.

Countries experience tells us launching IFRS implementation committee is useful for the proper implementation of IFRS and it is advisable and it is done in public enterprises.

Actively participation of all stake holders has great contribution to the proper implementation of IFRS. Triangular relationship among Ministry, AABE and Public Enterprises facilitate the proper adoption and implementation of IFRS. We can generalized that today globalization needs transparent, comparable and reliable financial statements, which is also lead to harmonization of accounting standards, therefore adoption of IFRS is inevitable. The processes tell us the need for establishment of capital market in the country. Moreover, IFRS based financial statements increase harmonization of financial statements all over the globe, therefore it increase investors, lender and donors confidence to relay on financial statements.

### **5.3. Recommendations**

The adoption of IFRS continues with many business units according to AABE stated timetable or roadmap for adoption expecting to reap the benefits of IFRS adoption. Nevertheless, there are numerous challenges a country must confront and overcome. To accomplish the ongoing task, it is recommended that there would be a triangular relationship among the ministry of public enterprise, public enterprises and AABE in order to facilitate the implementation.

Effective implementation of IFRS requires careful planning and extensive public education, the allocation of resources, a legal and regulatory support system and institutional support with strong management systems. Unless the various stakeholders are integrally involved and included in development plans and how they are affected, they will be reluctant to support the change and IFRS adoption may not succeed.

Integrating IFRS into university accounting education and updating the curricula for the training of accountants by tertiary institutions and professional accounting bodies in Ethiopia. There should be hiring and training of staff/faculty knowledgeable in IFRS and massive publication of accounting textbooks. Educational institutions must alter their teachings to account for the foreseen transition to IFRS and to adequately prepare students. This is because businesses will depend on universities and the accounting professions to bridge the IFRS knowledge gap and provide leadership.

Human-resources-development program and mechanisms should be established at national level. There should be accredited and qualified training institutions to alleviate the skill gaps of preparers of financial statements in a short run and change the accounting education curriculums of universities. Addis Ababa University has tried to include IFRS in its accounting education curriculum. Therefore, this lesson should be shared to other universities and forced them to integrate IFRS module in their curriculum without any delay.

On the other hand there are challenges on the adoption and implementation IFRS, which required timely solution, and need experts. Enterprises may be unable to give solution and they may need support from AABE. Therefore AABE should be well organized to give support on time to the Public Enterprises and the country at large for the proper implementation of IFRS.

Continual training of auditors, regulators, analysts and other users is an important factor in the transition to IFRS. In fact, capacity building of the various stakeholders by the accounting profession is a necessity. In addition to strengthening local capacity building institutions, there should be state sponsored scholarship program to train property valuers and actuaries abroad. Besides, there should be made efforts to establish stock markets in order to determine financial instruments objectively. Other ways in the absence of liquid market and professional Valuers, the quality of financial reports would be impaired due to high subjective and may lead the country to financial crisis.

The preparation and transition period given to reporting entities should not be far from the realities of nation. The length of the period should take in to account of the state of readiness of the reporting entities and countries reporting infrastructure. For instance, if there no adequate

number of skilled and qualified professionals who can implement IFRS, the length of the preparation time should take in to consideration of times required for getting trained staffs. Besides, there are number of activities required to be accomplished a prerequisite to produce the first IFRS based financial statement. For example, Recognition and derecognition of assets and liabilities, measurement of assets and Liabilities, classification of assets and liabilities and preparation of necessary adjustments so as a reporting entity will prepare opening balance sheet, comparative financial state and comparative statements. Therefore, the greater challenge witnessed by the first phase adopters was inadequacy of transition period

Adequate resources must be put in place to support the sustainable implementation of IFRS. This includes having consultative groups available to respond promptly to concerns by users and to provide for their ongoing training. Assisting key stakeholders, including regulators with training, and possessing the required resources to interpret and apply the requirements of IFRS is a critical element underlying the successful implementation of IFRS.

Strong accounting institutional framework must be in place to champion and manage the IFRS change process. And also, a system for adoption of standards and monitoring should be developed that can work on a consensus view of all the interested parties. Therefore, exposure drafts are to be circulated for comments from various professionals and the general public at large. This often has resulted in minimizing dissensions and increasing acceptance of accounting standards (Hove, 1990).

Implementation of certain requirements of IFRSs should be a gradual process because adopting IFRSs is not just an accounting exercise but transition that requires that everyone concerned has to learn a new language and new way of working. In fact, implementation of IFRS is not a one-time process, but rather an on-going effort that requires continued institutional support.

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# Appendices

## Appendix a

### Questionnaire

Dear Respondent,

You are invited to participate in a survey that constitutes part of my MSC thesis at Addis Ababa university. This is part of my research project entitled An Investigation of the Challenges in International Financial Reporting Standards' Adoption: Evidence from public utility enterprises in Ethiopian

The aim of this questionnaire is to seek information regarding the adoption challenges of International Financial Reporting System (IFRS) in public utility enterprises in Ethiopia. The questionnaire is distributed to accountant and finance officer of Ethiopian Electric Power utility, Ethio-telecom and Ethiopian water and sanitation authority. The information you provide in response to the item in the questionnaire will be used as part of the data needed for study on adoption challenges of IFRS in public utility enterprises.

I would like to assure that the information you provide will be accessible only to academic purpose. Your involvement is regarded as a great input to the quality of the research results. Hence, I believe that you will enlarge your assistance by participating in the study. Your honest and thought full response is invaluable. Please return your completed questionnaire within three days from the date of receipt.

Thank you for your kind co-operation and assistance.

Kind regards

**Yitagesu Terfa**

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## Challenges in IFRS Adoption

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

### Section 1. Demographic Characteristics of Respondents (for All Respondents)

1. Please put "X" mark to your answer in the appropriate box

Gender

Female [       ]                      Male [       ]

2. What is your highest accounting education or professional qualification?

- |                                    |           |
|------------------------------------|-----------|
| 1. No formal education             | [       ] |
| 2. Primary school                  | [       ] |
| 3. Secondary school                | [       ] |
| 4. College certificate             | [       ] |
| 5. Diploma                         | [       ] |
| 6. Bachelor degree                 | [       ] |
| 7. Master                          | [       ] |
| 8. PhD                             | [       ] |
| 9. Other(s) (Please specify) ..... |           |

3. Work experience:

- |                      |           |
|----------------------|-----------|
| 1. Less than 5 years | [       ] |
| 2. 6 to 10 years     | [       ] |
| 3. 11 to 15 years    | [       ] |
| 4. 16 to 20 years    | [       ] |
| 5. Over 20 year"s    | [       ] |

4. Current position in your organization-----

5. Which of the following Industries applies to your company.

- |                         |           |
|-------------------------|-----------|
| 1. Electrical power     | [       ] |
| 2. Telecommunication    | [       ] |
| 3. Water and sanitation | [       ] |

**Section 2. General Information about IFRS Adoption (for ALL respondents)**

1. Do you think your company is a public interest company?
  1. Yes [ ]
  2. No [ ]
  3. Don't know [ ]
  
2. To what extent do you consider accounting standards important to your company?
  1. Very important [ ]
  2. Somewhat important [ ]
  3. Not important at all [ ]
  
3. Why did your company comply with IFRS adoption? *(Tick all that apply)*
  1. To attract foreign investors [ ]
  2. Concerned about being penalized by accounting regulators [ ]
  3. It provides financial benefits to my company [ ]
  4. It provides non-financial benefits to my company [ ]
  5. It enhances my company's legitimacy [ ]
  6. It eases the cost of raising capital internationally [ ]
  7. It provides the opportunity to be listed on the International Stock Market [ ]
  8. It is a proof of transparency in my company [ ]
  9. It increases my company's financial performance indicators [ ]
  10. It is the best determinant of my company's financial performance [ ]
  11. IFRS accounting value is more value relevant than other standards [ ]
  12. Other(s) (Please specify) \_\_\_\_\_
  
4. To what extent is IFRS adoption important for your company?
  1. Very important [ ]
  2. Somewhat important [ ]

3. Not important at all [ ]
5. What accounting standards did your company use to prepare 2018 financial statements?
1. IFRS [ ]
  2. GAAP [ ]
  3. Others (*Please specify*) \_\_\_\_\_
6. To what extent is previous Accounting Standards similar to IFRS?
1. Very similar [ ]
  2. Somewhat Similar [ ]
  3. Not similar at all [ ]
  4. Don't know [ ]
7. If u compare the previous standard to the IFRS is IFRS preferable?
- 1.Yes [ ]
  - 2.No [ ]
8. What is reason for your preference?
1. comparability
  2. Relevance
  3. Faithful
  4. cost
  5. Other (s) (*Please specify*) \_\_\_\_\_

### Section 3. Benefits of IFRS Adoption (for ALL respondents)

In this section the researcher is seeking your specific perception toward the adoption of IFRS and its benefit.

Please CIRCLE Levels of your agreement about the benefit of adopting IFRS on a scale of 1 to 5, with 1=Strongly agree and 5 = strongly disagree.

No	Questions	Strongly agree	agree	disagree	neutra	strongly disagree
1	Adoption of IFRS improves the efficiency of financial reporting	1	2	3	4	5
2	Financial statement based on IFRS are reliable	1	2	3	4	5
3	Adoption of IFRS improves effectiveness of financial reporting	1	2	3	4	5
4	IFRS makes external financing easier	1	2	3	4	5
5	It enable greater effectiveness of the internal audit	1	2	3	4	5
6	Reduce cost of capital	1	2	3	4	5
7	IFRS provides greater credibility	1	2	3	4	5
8	It provides better financial reporting	1	2	3	4	5
9	Financial statement based on IFRS are comparable	1	2	3	4	5
10	IFRS enables improved economic prospect for the accounting profession	1	2	3	4	5
11	IFRS enhance value of information with different aspect of business	1	2	3	4	5
12	It improves transparencies	1	2	3	4	5



4. Please CIRCLE how concerned you are about the adoption of IFRS on a scale of 1 to 5, with 1 = very concerned and 5 = not concerned at all

	Very Concerned	Concerned	Neutral	Not Concerned	Not Concerned at All
1. Level of IFRS disclosure requirements	1	2	3	4	5
2. Changes in IFRS policies and procedures	1	2	3	4	5
3. Availability of IFRS experts	1	2	3	4	5
4. IFRS Accounting measurement	1	2	3	4	5
5. IFRS Accounting Valuation	1	2	3	4	5
6. Changes in your company's financial performance	1	2	3	4	5
7. Increase in cost of financial statement production	1	2	3	4	5
8. Stakeholders' ability to understand your Financial statements	1	2	3	4	5
9. Increases in company's taxes	1	2	3	4	5

5. What difficulties has your company encountered in complying with IFRS adoption? (Tick all that apply)

1. Understanding procedures in applying IFRS [ ]
2. Understanding IFRS accounting policies [ ]
3. Calculation of accounting values [ ]
4. Changes in Information Technology (IT) system [ ]
5. Management accounting system [ ]
6. Implementation of appropriate internal control systems with IFRS [ ]
7. Staff knowledge and experiences [ ]
8. Costs of adoption [ ]
9. Increases in cost of producing financial statements
10. Negative reactions of main business partners [ ]
11. Negative reactions from subordinates [ ]
12. Inability of stakeholders to understand financial statements [ ]
13. Difficulty in forecasting future cash flow from IFRS financial statements [ ]
14. Difficulty in forecasting profitability from IFRS financial statements [ ]
15. Inconsistency with different accounting regulators requirements [ ]
16. Conflict of interest between management and stakeholders [ ]
17. Increases in my company taxes [ ]
18. Other(s) (Please specify) \_\_\_\_\_

6. Which of the following accounting professionals provides your company with assistance or guidance when converting to IFRS?

1. External auditors to my company [ ]
2. Different consultants [ ]
3. Company staff [ ]
4. Other(s) (Please specify) \_\_\_\_\_

7. Did you receive any help from regulators (accounting and Audit Bored of Ethiopia/AABE/) on how to adapt IFRS to your company?

1. Yes [ ]
2. No [ ]

8. Was the transition period for your company to adopt IFRS adequate?

1. Yes [ ]
2. No [ ]

9. What has been (or will be) included in assessing the impact of IFRS adoption on your company?

*(Tick all that apply)*

- |  |   |   |
|--|---|---|
| 1. Procedures in applying IFRS to financial statements preparation   | [ | ] |
| 2. Effects on company's taxes  | [ | ] |
| 3. Changes in accounting policies                                    | [ | ] |
| 4. Impact on financial statements                                    | [ | ] |
| 5. Effects on financial performance indicators                       | [ | ] |
| 6. Effects on Information Technology (IT) system                     | [ | ] |
| 7. Effects on the management accounting system                       | [ | ] |
| 8. Effects on internal control system and the documentation produced | [ | ] |
| 9. Staff training needs  | [ | ] |
| 10. Costs involved   | [ | ] |
| 11. Reactions of main business partners                              | [ | ] |
| 12. Level of disclosure requirements                                 | [ | ] |
| 13. Changes in company's taxes                                       | [ | ] |
| 14. Other(s) (Please specify) _____                                  |   |   |

10. Which of the followings IFRS adoption factor(s) has or have affected your company's financial reporting? *(Tick all that apply)*

- |   |   |   |
|---|---|---|
| 1. Changes my company accounting system                                     | [ | ] |
| 2. Increases my company's taxes   | [ | ] |
| 3. Changes my company's financial policies                                  |   |   |
| 4. Reduces financial statement performance indicators                       | [ | ] |
| 5. Increases financial statement performance indicators                     | [ | ] |
| 6. Required new Information Technology (IT) system                          | [ | ] |
| 7. Changes in the management strategic financial reporting                  | [ | ] |
| 8. Causes complexity in the internal control system                         | [ | ] |
| 9. Increases staff training needs   | [ | ] |
| 10. Increases costs of preparing financial statements                       | [ | ] |
| 11. Increases stakeholders' demands for financial statement interpretations | [ | ] |
| 12. Increases the level of disclosure                                       | [ | ] |
| 13. Reduces the level of disclosure   | [ | ] |
| 14. Other(s) <i>(specify please)</i> _____                                  |   |   |

11. Please CIRCLE levels of your agreement about the following challenges are key in prohibiting IFRS adoption on a scale of 1 to 5, with 1 = Strongly agree and 5 = strongly disagree

No.	Questions	Strongly agree	agree	neutral	neutral	strongly disagree
1	Adoption of IFRS is costly	1	2	3	4	5
2	IFRS increases the complexity of financial reporting	1	2	3	4	5
3	There is lack of IFRS implementation guidance	1	2	3	4	5
4	lack of training institution	1	2	3	4	5
5	proper instruction from regularatroy bodies	1	2	3	4	5
6	Lack of availability of competent specialists	1	2	3	4	5
7	Problem with IT system in handling the transition to IFRS	1	2	3	4	5
8	Absence of structured market	1	2	3	4	5

12. How important are the following challenges in prohibiting IFRS adoption?

No.	Questions	very important	Important	Not important	Neither important nor unimportant	Not at all important
1	Lack of valuation experts	1	2	3	4	5
2	Lack of knowledge	1	2	3	4	5
3	Difficult to ascertain fair value	1	2	3	4	5
4	Presence of fully depreciated asset	1	2	3	4	5
5	Lack of land ownership law	1	2	3	4	5
6	Inconsistency with tax standards	1	2	3	4	5
7	Presence of judgment	1	2	3	4	5
8	Lack of sectorial implementation guidance	1	2	3	4	5
9	Training of relevant professionals	1	2	3	4	5
10	Accounting knowledge and expertise possessed by financial statement users	1	2	3	4	5
11	Compliance and enforcement	1	2	3	4	5
12	Amendment to existing laws	1	2	3	4	5
13	Timely interpretation of standards	1	2	3	4	5
14	Complexity of conversion	1	2	3	4	5
15	Use of fair value as measurement base	1	2	3	4	5
16	Continuous amendment to IFRS	1	2	3	4	5

*Your participation in this survey is greatly appreciated. Thank you for your time and effort. If you have further comments about IFRS adoption, please feel free to write these in the space provided below. Once again, we assure you that your identity will remain **STRICTLY CONFIDENTIAL**.*

## Appendix (B)

### Interview Guide

Yitagesu Terfa (MSc student)  
Department of Accounting and finance  
Addis Ababa University  
Tel: (+251)-911069368  
E-mail: yita.dce@gmail.com

Dear sir/madam

The intent of this interview is to explore information regarding the adoption challenges your company encountered on International Financial Reporting Standards (IFRS) and to have sufficient response to the research problem in addition to questionnaires distributed to IFRS implementation teams. The interview will be made with financial managers and team leaders of the selected companies. The information you provide in response to the items in the interview will be used as part of the data needed for a study on *The Adoption challenges of International Financial Reporting Standards in public utility enterprises*.

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

Your honest and thought full response is invaluable

Thank you for your participation

Kind regards

1. What is the main challenges through the transition step to IFRS?
2. Do you think you get sufficient support from regulatory agent /AABE/?
3. Do you agree knowledge gap of the team influence the adoption process?
4. From your point of view how beneficial are your companies practicing IFRS?
5. What are the ways through which these problems can be addressed? Please recommend some solutions to overcome the problems.