ST. MARY'S UNIVERSITY

SCHOOL OF GRADUATE STUDIES

CHALLENGES AND PROSPECTS OF ADOPTING INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) BY ETHIOPIAN COMMERCIAL BANKS

BY

ADDISU TIBEBU ASEGID

MBA-AF/0447/2008A

JUNE 2017

ADDIS ABABA ETHIOPIA

CHALLENGES AND PROSPECTS OF ADOPTING INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) BY ETHIOPIAN COMMERCIAL BANKS

BY

ADDISU TIBEBU ASEGID

MBA-AF/0447/2008A

A THESIS SUBMITTED TO ST. MARY'S UNIVERSITY SCHOOL OF GRADUATE STUDIES IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION IN ACCOUNTING AND FINANCE

JUNE 2017

ADDIS ABABA ETHIOPIA

ST.MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES
FACULTY OF BUSINESS

CHALLENGES AND PROSPECTS OF ADOPTING INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) BY ETHIOPIAN COMMERCIAL BANKS

BY

ADDISU TIBEBU ASEGID

MBA-AF/0447/2008A

APPROVED BY BOARD OF EXAMINERS

______________________________	________________
Dean, Graduate Studies	**Signature**
______________________________	________________
Advisor	**Signature**
______________________________	________________
External Examiner	**Signature**
______________________________	________________
Internal Examiner	**Signature**

DECLARATION

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of **Abebaw Kassie (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.

________________________________ ____________________

Name **Signature**

St. Mary's University College, Addis Ababa **June, 2017**

ENDORSEMENT

This thesis has been submitted to St. Mary's University, School of Graduate Studies for examination with my approval as a university advisor.

________________________________	____________________
Advisor	Signature

St. Mary's University College, Addis Ababa June, 2017

Contents

ACKNOWLEDGEMENTS

I am indeed grateful to God Almighty who gave me physical and mental strength and knowledge to enable me complete this research work successfully.

I wish to render my thanks to Abebaw Kassie(Ph.D.) my advisor, for his advice, suggestions and guidance that he made in the writhing of this thesis. Also my sincere and deepest gratitude goes to my family and friends for their support and encouragement during my study.

It is a pleasure to convey my thanks go to employees and higher officials of the sampled commercial banks and NBE for their cooperation in providing me the necessary documents and reflections required for the study.

List of Tables

List of Acronyms

AABE - Accounting and auditing Board of Ethiopia

ACCA - Association of Chartered and Certified accountants

EU - European Union

FASB - Financial Accounting Standards Board

FDRE - Federal Democratic Republic of Ethiopia

GAAP - Generally Accepted Accounting Principles

IAS - International Accounting Standards

IASB - International Accounting Standards Board

IASC - International Accounting Standards Committee

IFRS - International Financial Reporting Standards

IOSCO - International Organization of Securities Commissions

MoFED - Ministry of Finance and Economic Development

NBE- National Bank of Ethiopia

OECD - Organization for Economic Co-operation and Development

ROSC - Report on the Observance of Standards and Codes

SPSS - Statistical package for social science

UN - United Nations

UNCTAD - United Nations Conference on Trade and Development

WB - World Bank,

ABSTRACT

Now IFRS is in use by most countries of the world and being adopted increasingly around the globe. The goals of the IFRS is to develop, in the public interest, a single set of high-quality, understandable, enforceable and globally accepted financial reporting standards based upon clearly articulated principles. In Ethiopia, IFRS is adopted officially in December 5, 2014 through enactment of Proclamation. The main objective of this study was to assess the challenges and prospects of international financial reporting standards (IFRS) by Ethiopian commercial banks to provide an input for financial institution, governmental and policy makers and serve as a basis for future researches on this field of study. A sample of seven commercial banks had been selected from the existing seventeen. The study employed a mixed research approach. Both primary and secondary sources of data have been used for the study. Primary data were collected using structured questionnaires whereas secondary data were collected from different governmental organization reports, scientific papers and proceedings relevant to the study, and proclamations and regulations that deal with financial reporting issues in Ethiopia. The collected primary data was coded, edited and cleaned for processing using Statistical Package for Social Sciences (SPSS) – version 20.0. Descriptive statistics such as means, standard deviations and frequency distributions were used to analyses the data. Data presentation was done by use of, percentages and frequency tables. The Results of the study indicates that, the respondents believes the Adoption of IFRS have valuable benefits for both internal and external users. Whereas, legal and regulatory requirements, inadequacy well trained and strong professional bodies and poor IT infrastructure are among the challenges that hindered the adoption process. The study suggests the early adoption of IFRS is fundamental to give credibility for the financial statements. It also suggests the need for upgrading of IT infrastructures, the need to facilitate large training and education opportunities, establishment of strong professional bodies and effective communication with standard setters.

CHAPTER ONE

INTRODUCTION

1.1. Background of the study

The increasing integration of world's markets for goods, services and capital between countries as a result of globalization, pose a problem on Companies reliance on domestic reporting standards (International GAAP , 2016).

To make accounting reports / financial statements relevance, reliable, comparable and understandable by interested users located in different jurisdictions, developing a single set of high quality, understandable and enforceable global accounting standards becomes a necessity. It was to address/ deal with this issue/ demand that the International Accounting Standards Committee (IASC) was formed in 1973 by professional accounting bodies of Australia, Canada, France, Germany, Ireland, Japan, Mexico, Netherland, United Kingdom (UK) and United States of America (USA) (Tesfu, 2012).

During its existence from 1973 to 2001 the International Accounting Standards Committee (IASC) issued 41 International Accounting Standards (IAS) as well as a framework for the preparation and presentation of financial statements in the year 1989. The first International Accounting Standards (IAS 1) were published in 1974. However, In the year 2001 International Accounting Standards Committee restructured and grown into board and renamed as the International Accounting Standards Board (IASB). Subsequent to adopting the existing 41 International Accounting Standards (IAS) the International Accounting Standards Board (IASB) continued to develop Accounting Standards calling the new standards International Financial Reporting Standards (IFRSs). The first IFRS (IFRS 1), First-time Adoption of International Financial Reporting Standard was issued in 2003 (IFRS Foundation, 2010).

International Financial Reporting Standards (IFRSs) are accounting rules ('standards') issued by the International Accounting Standards Board (IASB), an independent organization based in London, UK. They purport to be a set of rules that ideally would apply equally to financial reporting by public companies worldwide (Ball, 2006).

Developing an internationally acceptable set of high quality financial reporting standards is a common goal of both the International Accounting Standards Board (IASB) and its predecessor body the International Accounting Standards Committee (IASC). The issuing of principles based standards, the steps taken to remove allowable accounting alternatives and its requirement of accounting measurement that better reflect a firms economic position and performance facilitate the way of achieving its goal (Barth et al, 2008).

International Financial Reporting Standards (IFRSs) are Accounting rules (standards) intending to harmonize accounting standards, regulations, and procedures by narrowing the differences between countries relating to the preparation and presentation of financial statements (Bhattacharjee & Islam, 2009) and (IFRS Foundation, 2010).

Through time the adoption of International Financial Reporting Standards (IFRSs) is wide spreading around the world. Compared to national accounting standards (domestic GAAPs) IFRSs are regarded as a set of high quality accounting standards (Dimos, 2011).

Most of the national standards that adopt IFRS are word-for-word, but some have made some significant modifications (IFRS in your pocket 2013). For example, domestic listed companies of about 120 nations and reporting jurisdictions permit or require IFRS, although 90 countries have fully confirmed with IFRS as promulgated by the International Accounting Standards Board (IASB) (www.ifrs.com/ifrs-faqs.htm , 2017).

The growing value of IFRS "network" can be a reason to the increase in the adoption of IFRS across countries (Ramanna & Sletten, 2009).

According to IFRS Foundation 2016 report, in Africa there are about twenty countries out of the fifty three countries in the continent that adopt IFRS.

Ethiopia is moving to integrate its financial statements with IFRS within the next five years (Hailemichael, 2016). The government of Ethiopia by recognizing the importance of high quality financial reporting and its contribution to improved business which is necessary to attract investment issued the financial reporting proclamation in 2014 (AABE, 2014).

Financial Report Proclamation No 847/2014, (2014) of the FDRE describe that "having a uniform reporting law enhance transparency and accountability by centralizing the hitherto decentralized financial reporting structures of Ethiopia." In order to meet and sustaining the economic growth potential of the country, implementing high quality financial reporting standard i.e. IFRS is fundamental (AABE, 2014).

Even though the International Financial Reporting Standards will have significant benefit, but it may also entail a number of problems (Tesfu, 2012). As evidenced by the global experience, convergence with IFRS would have significant challenges common to all countries and companies. Additionally, there are also certain specific challenges that are unique to particular countries (Robyn and Graeme, 2009 cited in (Mihret, 2016)).

Currently, there are seventeen commercial banks in Ethiopia. Among them sixteen Are private commercial banks i.e. Enat Bank, Dashen Bank, Zemen Bank, Awash International Bank, United Bank, Wegagen Bank, Bank of Abyssinia, Nib International Bank, Lion International Bank, Oromia International Bank, Cooperative Bank of Oromia, Berehan International Bank, Buna International Bank, Addis International Bank, Abay Bank and Debub Global Bank & only publicly owned commercial bank i.e. Commercial bank of Ethiopia.

1.2. Statement of the problem

Ethiopia is a country with one of Africa's fastest growing economies. Banks are one of the most important institutional representatives of the financial system. Through engaging themselves in an intermediary role (between savers and investors) which enhances investment and growth, banks play a critical role in economic development of a nation (Lelissa, 2014).

Strong financial reporting infrastructure will support the Government's agenda of increasing the role of private investment in the economy by providing quality financial information, which will facilitate investment decisions and help to reduce risk of financial crises and corporate failures (ROSCE, 2007). For banks to be effectively discharge their responsibilities of availing funds to customers, they must be in a healthy condition.

The FDRE on its Financial Reporting Proclamation number 847/2014 describe that "having a uniform reporting law enhance transparency and accountability by centralizing the hitherto decentralized financial reporting structures of the country." In order to meet and sustaining the economic growth potential of the country, implementing high quality financial reporting standard i.e. IFRS is fundamental (AABE 2015). And the National Bank of Ethiopia has already required the banks to prepare their financial statements in accordance with IFRS.

The convergence of IFRS is likely to create significant impact on the banking industry. It shall affect the reporting practices of net worth, capital adequacy, position of advances, valuation of derivatives, financial instruments and so on. It shall also affect the measurement of financial performance of the banking industry (Firoz et. al, 2011).

Studies suggest that, Countries that decide to adopt IFRS have faced challenges, but it is believed that the IFRS widespread adoption is because of the benefits acquired outweigh its costs (Hailemichael, 2016). In order to benefit fully from the implementation of IFRS, the challenges that may be faced as a result of adopting the system need to be identified and addressed. Lack of proper understanding will increase the cost. Because of that, it is important to have a clear understanding of the consequences of its adoption.

To the best of the researcher's knowledge published research or journal article is limited on this issue particularly in case of Ethiopia. For example, Hailemichael, (2016) studied about

Adoption, Challenges and perception of International Financial Reporting Standards (IFRS) on the Quality of Financial Reporting of Financial Institution in Addis Ababa Ethiopia. But his study was focused only on private financial institutions in Addis Ababa and he recommends further studies on the area by including the public institutions. Therefore in this research the researcher tried to assess and analyze the expected benefits and the challenges that both private and public Ethiopian commercial banks will face while adopting the new system.

1.3. Basic research questions

Some of the basic research questions that were addressed during the construction of this research are:

RQ1. What are the expected benefits of adopting IFRS by commercial banks to the companies, investors, management and the stakeholders?

RQ2. What are the major Challenges that Ethiopian commercial banks face in the process of adoption of IFRS?

RQ3. Why the need for adopting IFRS by commercial banks in Ethiopia?

1.4. Objective of the Study

1.4.1. General Objective

The main objective of this study was to assess the benefits and the challenges of adoption of IFRS by the commercial banks in Ethiopia.

1.4.2. Specific Objectives

The Specific objectives of the study were to find out the following:

1. To investigate factors that motivate commercial banks in Ethiopia to adopt IFRS;
2. To assess benefits of adopting IFRS for commercial banks.
3. To assess challenges of adopting IFRS for commercial banks.

1.5. Significance of the problem / the study

This study would expect to insight potential issues relevant to the adoption of IFRS by Ethiopian commercial banks and its implications. This study highlights the implications, challenges and possible solutions of IFRS implementation in Ethiopia based on the collected data and international best practices from literatures thereby the effective implementation of IFRS and its expected result could be materialized.

This study will contributes to knowledge as IFRS is very recent reporting standard especially to Ethiopia, by increasing awareness about its prospects and challenges. It would also be useful for organization's management and investors because of their curiosity on how their operation and investment would be affected with adoption of IFRS would be answered by providing information about the theoretical, empirical, and actual benefits and challenges of adopting the system.

Academic research is an important tool for standard setters and policymakers as it can provide evidence helpful to informing the debate and the decision-making process on financial reporting issues. This study will be potentially relevant to current policy debates relating to possible use of IFRS by Ethiopian financial institutions in general and commercial banks in particular. It will also provoke empirical researches on IFRS particularly in commercial banks.

1.6. Scope of the Study

This study was concerned with assessing the adoption of IFRS by Ethiopian commercial banks examining the benefits and key challenges of IFRS by collecting data from senior accountants, finance managers and deputy finance managers located at the head office of sampled commercial banks. The units of analysis for this study were staffs of head office finance departments because of their more access and proximity to information concerning the ongoing practices and expected changes of accounting and financial reporting activities in their respective organizations. The study analyzes the benefits and challenges of adoption of IFRS and draw genuine results using both qualitative and quantitative data. Therefore, mainly due to resource limitation this study was limited to commercial banks only.

1.7. Limitation of the study

The major limitation of this study was that it covers only the financial industry in Ethiopia particularly commercial banks and excludes all other industries and non- commercial banks. In addition, data was collected from a small convenience sample of staffs of commercial banks i.e. this study participates those finance directors, finance managers, and senior accountants. Therefore this research study was, also limited only to the perspective of the preparers (producers) of these financial reports. Hence the focus was on the banks' financial managers and senior accountants. Also, the difficulty to get such research study conducted particularly about commercial banks in Ethiopia and the absence of adequate journals related to the study were also found a challenge for this research work.

1.8. Organization of the Paper

This study was organized in to five chapters. Chapter one introduced the study. It covered the background of the study, statement of the problem, the basic research questions of the study, the objectives of the study, significance of the problem/ study, scope of the study, limitation of the study and organization of the paper.

Chapter two presents the literature review regarding the research area of International Financial Reporting Standards and its adoption and therefore would set out the theoretical and empirical foundations for the research.

The third chapter outlines the research methodology. The chapter described how the data were collected and the expected research method used. The research analysis and discussions are presented in the fourth chapter. The last/ The fifth chapter windups the paper by summary of conclusion and recommendation for the major findings followed by recommendations for further studies.

CHAPTER TWO

LITERATURE REVIEW

INTRODUCTION

This chapter presents the assessment of prevailing literature related to the research topic. The Chapter is concerned with the review of materials in books, articles, journals and other sources where worthwhile information can be gathered for the study. An attempt is made such that some associated literature that underpins the study is reviewed. This chapter synthesized existing empirical research in the area of international accounting standards.

2.1 Overview of banking history in Ethiopia

Financial institutions that act as a mediator for both the debt and capital markets facilitates the flow of fund in an economy. Financial institutions classified into two, Banking & Non-banking financial institutions.

Banking financial institutions are financial institutions or organizations that have permission from the regulating body to collect deposits, to retain depositors' money and carryout to settle up such deposit when requested (Mansulu, 2015).

Banks are financial institutions that play intermediary role in the economy through channeling financial resources from surplus economic units to deficit economic units (Tesfaye, 2012). In the course of the financial inter-mediation role, commercial banks reactivate the idle funds borrowed from the lenders (depositors) by investing such funds in different classes of portfolios (Yimer, 2016).

The NBE on its proclamation No. 592/2008 define bank as a company licensed by the National Bank to undertake banking business or a bank owned by the government. And banking business as activities of Receiving funds and using this funds for loans or investment in a manner acceptable to the National Bank, Buying and selling of gold & silver and foreign exchange, the transfer of funds, the discounting and negotiation of promissory note, drafts, bills of exchange and other debt instruments and any other activity recognized as a customary banking business (NBE, 2008).

The first modern bank in Ethiopia, bank of Abyssinia was inaugurated by Emperor Menelik II in 1906. It was a private bank since Emperor Haile Selassie introduced reforms in 1931 into the banking system and replaced the bank into Bank of Ethiopia, fully government owned bank providing central and commercial banking services until the Italian invasion of 1936. But, after few years , during the Italian invasion in 1936, Bank of Italy was formed (NBE, 2008).

After Ethiopia regains its independence from fascist Italy, the State Bank of Ethiopia was established In 1943, with two departments performing the separate functions of an issuing bank and a commercial bank. In 1963, a new banking law split the functions of the state bank of Ethiopia in to central and issuing (National Bank of Ethiopia) and commercial bank of Ethiopia. In the period up to 1974, several other financial institutions emerged including the state owned as well as private financial institution such as Addis Ababa Bank, Banco di Roma and Banco di Napoli (NBE, 2010).

In 1974 After the fall of the imperial government, the Dergue regime declared Ethiopia to be a socialist state. Following the declaration of command economy the government extended its control and nationalized all of previously established private banks and merged into one bank (Commercial Bank of Ethiopia).

After nationalization the Dergue regime leave only three government banks; the National Bank of Ethiopia, the Commercial Bank of Ethiopia and agricultural and Industrial Development Bank (Mortgage Bank) (NBE, 2010).

After the fall of the Dergue regime in 1991, the ruling government keeps the three government banks in 100% government ownership (Harvey, n\d, pp. 13-14). But, gradually private banks came back to existence in Ethiopia after the issuance of Monetary and Banking Proclamation No.83/1994 and License and Supervision of Banking Business Proclamation No. 84/1994. During the last thirty years, sixteen private commercial banks have been opened.

The competition in the banking industry of Ethiopia becomes increasing from time to time as more new private domestic banks are joining to the industry. Even, the private commercial banks vigilant the public banks to actively compete in the resource mobilization through expanding branch networks and implementation of new strategies.

The private banking sector together with the public owned banks has been playing important role in the economic development of the country. Banks Channel financial resources from surplus economic units to deficit economic units. Especially in developing countries like Ethiopia, the role of capital market is nil, and as a result commercial banks become the most dominant financial institutions in the financial system (Yimer, 2016).

2.2 International Financial Reporting Standards (IFRS)

International Financial Reporting Standards (IFRS) have been known long time ago under the name International Accounting Standard (IAS) (Zakari, 2014).

In 1966 the professional accountancy bodies in Canada, the United Kingdom and the United States proposed to form the Accountants International Study Group (AISG) with the intention of developing /so as to develop/ comparative studies of accounting and auditing practices. Soon in 1967, the AISG was founded and this marks the commencement of the move towards accounting standards convergence.

The three AISG countries together with representatives of professional accountancy bodies in Australia, France, Germany, Japan, Mexico and the Netherlands, discussed and agreed to establish the International Accounting Standards Committee (IASC). The IASC was established in 1973 with the aim of issuing a single set of high quality and globally accepted International Accounting Standards (IASs) (Mihret, 2016). IAS was issued in order to fix the global accounting standard thus there would be better financial understanding of all companies (Zakari, 2014).

In 2001, the IASC was replaced by the International Accounting Standard Board (IASB) with an objective to develop global standards and related interpretations that are now collectively known as IFRS (Akpaka, 2015).

Between the years 1973-2000, the IASC issued 41 International Accounting Standards (IASs). In 1997, Standing Interpretations Committee (SIC) was established to consider continuous accounting issues (Mihret, 2016). IAS are the older standards that IFRS replaced.

IFRS are a set of accounting standards issued by the international accounting standards board(IASB), an independent private sector not for profit organization based in London;

UK (Ray Ball, 2006 ; IFRS pocket guide, 2015). IASB took the position from its predecessor body IASC to bridge the existing gap of accounting standards between countries due to the unevenness of accounting standards (IFRS pocket guide, 2015).

Standards issued by the International Accounting Standards Board (IASB), include standards issued not only by the IASB but also by the IASC, some of which have been amended by the IASB (Barth et al, 2008).

IFRS refers to all accounting standards and related interpretations issued by the International Accounting Standards Board and its predecessor, the International Accounting Standards Committee (IASC) (ROSCE, 2007).

The term IFRS comprises IFRS issued by IASB; IAS issued by IASC; and interpretations issued by the Standing Interpretations Committee (SIC) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB (Hoyle B., et al., 2009, Baker E. et al., 2009 and Larsen E. 2008 as cited by (Tesfu, 2012)).

Gradually IFRS is recognized as a set of standards for the preparation of financial statements by business entities. Those standards prescribe: The items that should be recognized as assets, liabilities, income and expense; How to measure those items; How to present them in a set of financial statements; and Related disclosures about those items. (IFRS pocket guide, 2015).

IFRSs are intended to be applied by profit-orientated entities. These entities' financial statements give information about performance, position and cash flow that is useful to a range of users in making financial decisions (Akinleye, 2016).
Alistair, 2010 (cited in Ojeka & 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.

2.3 IFRS and Financial Reporting Quality

The move from country specific Generally Accepted Accounting Standards (local GAAPs) to an internationally accepted financial reporting standard will result in a big change in the business environment (International GAAP , 2016). Providing value worthy and useful for decision making financial information about an economic entity's asset, mainly financial in nature is the principal aim of preparing a financial report (IFRS, 2008). The value of accounting information increases when the information is assist for making important economic decision (Ionaşcu et.al, 2014).

IFRS aim to prepare financial situations, performance and cash flow of business in the most realistic way; to correctly display each operation affecting the financial statements; and to present the information in a suitable, reliable, comparable and understandable manner (Kahan, 2016).

Studies suggest that, the timely disclosure of relevant information minimizes the unevenness of the financial statement. In this regard International Accounting System will give us a remarkable condition to evaluate the economic consequences of heterogeneity in financial reporting and economic effectiveness among countries. Analysis of the determinants of accounting quality has important policy implications.

The accounting standards in practice, the legal and political system employed and incentives of financial reporting all have an impact on the accounting quality (Soderstorm & Sun Ear, 2007).

Even though the importance value of high quality financial report is stressed by both FASB and IASB, But there was a problem on how to operationalize and measure this quality because of its context specificity since users will perceive the importance of an identical information in their own way (Van best et.al, 2009).

By referring the works of (Barth et. al.,2008; Schipper and Vincent,2003; Cohen et, al., 2004) Van best et.al, 2009 stated that, consequently, many researchers measure the quality of financial reporting indirectly by focusing on attributes that are believed to influence quality of financial reporting indirectly by focusing on attributes that are believed to influence quality of financial reports, such as earnings management, financial restatements, and timelines.

IFRS is believed to be of high quality financial reporting standard. The call for (the necessity of having) higher comparability, better transparency and quality of financial reporting throughout the globe, provoked the forceful adoption of IFRS. The higher quality of financial report obtained from IFRS offer an opportunity to obtain market gain, improve stock market liquidity and lowers the cost of capital (Kahan, 2016).

Barth et. al. 2006 suggests that, eliminating alternative accounting methods used by managers to manage earnings is the way to improve accounting quality.

2.4 Approaches to IFRS Adoption

Kulikov, (2007) Consider that the positive effects of increasing value-relevance in accounting reports of countries with less developed accounting system and the existing advantages for all investors investing in the international capital market are among the benefits of developing international accounting standards and accounting harmonization worldwide.

It is believed that accounting harmonization is necessary for the globalization of capital markets (Quigley, 2007). On the international front, the World Bank, the International Monetary Fund (IMF), the G8, the G7 Finance Ministers and Central Bank Governors, International Organization of Securities Commissions (IOSCO), Basel Committee on Banking Supervision, the United Nations (UN) and the Organization for Economic Co-operation and Development (OECD) have publicly recommended the adoption of a single set of global accounting standards or the IAS (Odia And Ogiedu, 2013).

The term harmonization means "the reconciliation of different accounting and financial reporting systems by fitting them into common broad classification so that form becomes standard while content retains significant differences" (Mathews and Perera, 1996, P.322; cited by (Odia & Ogiedu, 2013).

The number of countries that require or allow the use of IFRS for the preparation of financial statements by publicly held companies has continued to increase (an AICPA Background, 2011). Earlier the year 2016 the IASB reported 116 of the 140 jurisdictions they have researched require the use of IFRS for all or most listed companies and financial institutions, and a further 12 permit the use of IFRS (Earnest and Young, 2016).

A country can change its existing accounting system to a globally recognized accounting standard called IFRS either by totally replacing or customizing it with IFRS over time. The first approach is known as adoption or "Big bang" approach while the later is called a Convergence Approach. Adopting IFRS to lower information costs is conceptually distinct from adopting IFRS due to its "network benefits" (Ramanna and Sletten, 2009).

2.4.1 Adoption or "Big Bang" Approach

Under this approach once IFRSs are adopted, all IFRS should be compiled while preparing financial statements and the existing accounting standard should be replaced with IFRS. Adoption is a strategic decision to adopt IFRS on a single date or, perhaps a serious of dates applied to companies of different sizes (Hailemichael, 2016).

Adoption of IFRS is more than just an accounting exercise. This is because accounting and reporting represent only a small part of the conversation efforts. Necessary preparation and planning should begin at least 18 months prior to the planned adoption date (AABE 2015).

Practical experience from other countries has proved that transition to IFRS can take 18-24 months to fully embed and implement. And according to IFRS Foundation, for a large multinational company depending on the complexity of the entity, the transition to IFRS generally takes at least three years (IFRS insight, 2008).

The trustees of IASB on there 2012 report stated that that the adoption of IFRS is a voluntary public-interest decision by the legislative and regulatory authorities in individual jurisdictions. Neither the IFRS Foundation nor the IASB has the authority to mandate or supervise adoption.

Since every country has its own mix of expertise professional infrastructure and regulatory interest, the IASB does not has a standard approach that adopting countries shall follow. But, making policy decision, preparing plan about the targets and deadlines and identifying the available and required resources to adopt the system are the three steps that new adopters should pass through (IFRS Adoption guide 2013).

Countries need to establish their own mechanisms for bringing IFRS formally into national law and for ensuring consistent and rigorous application. Regardless of the mechanics of IFRS adoption, the end result should be the same—full adoption of IFRS as issued by the IASB (IFRS, 2015).

2.4.2 Convergence approach

Convergence refers to the process of narrowing differences between IFRS and the accounting standards of countries that retain their own standards. Under this approach, before IFRS are applied a gradual customizing of the existing accounting standard needs to be done.

Converging a few local standards to IFRSs each year can allow local preparers and auditors to learn a few topics at a time rather than immersing themselves in the full set of IFRSs. In addition convergence approach can also allow time for necessary changes in local legal frameworks (IFRS, 2013).

Convergence is not a substitute for adoption. Convergence may be an appropriate short-term strategy for a particular jurisdiction and may facilitate adoption over a transitional period. Convergence, however, is not a substitute for adoption.

Adoption mechanisms may differ among countries and may require an appropriate period of time to implement but, whatever the mechanism, it should enable and require relevant entities to state that their financial statements are in full compliance with IFRS as issued by the IASB (IFRS, 2015).

As part of conversion process an entity should take in to consequence not only the IFRS that is currently applicable but also future changes in them. The convergence of International Financial Reporting Standards shall change the entire picture of the organization structure of the company. It will transform the method of evaluation of company's performance including earnings management information & control system, reporting practices, valuation policies. The convergence is not the sole responsibility the finance and accounts department. It required a combined effort of all departments of the organization. (Firoz et. al, 2011).

2.5 Challenges of Adopting IFRS

Accounting Professionals across the world have listed various benefits of adopting IFRS. In spite of these benefits, adoption of IFRS is a difficult task and has many challenges (Tesfu, 2012). The pre-adoption conformity of national GAAP to IFRS determines the significance, and therefore the benefit, of IFRS adoption (Hailemichael, 2016).

IFRS is more complex to adopt because it is a principle-based standard requiring interpretation ("the devil is in the detail") & IFRS is more than an accounting issue and can have a major impact on an entire organisation (not just the finance function) (Akpaka, 2015).

As evidenced by the global experience, convergence with IFRS would have significant challenges common to all countries and companies. Additionally, there are also certain specific challenges that are unique to particular countries (Robyn and Graeme, 2009 cited in (Mihret, 2016)).

The principal impeding factors in the adoption process of IFRS in the developing country are technical, cultural issues, mental models, legal impediments, educational needs and political influences (Obazee, 2007). According to Rong- Ruey Duh (2006), the implementation challenges include: timely interpretation of standards, continuous amendment to IFRS, accounting knowledge and expertise possessed by financial statement users, preparers, auditors and regulators, and managerial incentive (Ball et al, 2000).

Although IFRS has the potentials to facilitate cross-border comparability, increase reporting transparency, decrease information costs, reduce information asymmetry and thereby increase the liquidity, competition and efficiency of markets (Ball 2006, Choi & Meek 2005), Armstrong et al. (2007) and Soderstrom & Sun (2007) have found that cultural, political and business differences may also continue to impose significant obstacles in the progress towards a single global financial communication system because a single set of accounting standards cannot reflect the differences in national business practices arising from differences in institutions and cultures.

The adoption of IFRS must involve the strengthening of the various institutions which will enhance its effective implementation such as: preparers (managers) and enforcers (auditors (status, independence, training, compensation, and tough judgment), legal systems and courts, regulators, accounting boards, ownership structure/block shareholders, politicians, law-makers, analysts, rating agencies, accounting professional bodies, tax authorities and capital market regulators),corporate governance structure, the press, public, educational institutions and business schools, financial market (structure, depth and intermediation) etc (Ball, 2006). The practical challenges that may be faced in Ethiopia as a result of implementing the IFRS need to be identified and addressed in order to benefit fully from the introduction of IFRS.

2.6 Benefits of Adopting IFRS

Accounting Professionals across the world have listed various benefits of adopting IFRS. IFRS might provide the following benefits: organization problem between management and shareholders can be substantially reduced through implementation of IFRS as increased transparency causes managers to act more in the interests of the shareholders and IFRS adoption could reduce the cost of investors for processing financial information and the improving financial reporting quality in turn allows the small investors to compete better with professionals, and hence reduces the risk they are trading with a better-informed professional (known as "adverse selection") (Bhattacharje and Islam, 2009).

The perception of IFRS quality by users is critical to IFRS adoption. Gordon, 2008) listed the benefits from adaptation of IFRS in the world as: better financial information for shareholders and regulators, enhanced comparability, improved transparency of results, increased ability to secure cross border listing, better management of global operations and decreased cost of capital in the world cited by (Mihret, 2016).

The degree of IFRS harmonization in a country is an increasing function of the perceived value of its IFRS network which refers to perceived lower transactions costs given the community of IFRS adopters worldwide. The presence of network effects in the adoption of IFRS is significant because it means a country can adopt IFRS even if its domestically developed accounting standards are particularly well-suited to its domestic institutions (Ramanna and Sletten, 2013).

By adopting a common body of international standards, countries can expect to lower the cost of information processing and auditors of financial reports can be expected to become familiar with one common set of international accounting standards than with various local accounting standards (Barth, 2007).

According to Lawrence Udofia and Itoro Ikpantan 2015 benefits of IFRS includes

i. Assurance of useful and meaningful decisions on investment portfolio.
ii. Attraction of direct foreign investment.
iii. Assurance of easier access to external capital for local companies.
iv. Reduction of the cost of doing business across borders by eliminating the need for supplementary information.
v. Facilitation or easy consolidation of financial information of the same company with offices in different countries.
vi. Easier regulation of financial information of entities.
vii. Enhanced knowledge of global financial reporting standards.
viii. Additional and better quality financial information for shareholders and supervisory authorities.
ix. For government to be able to better access the tax liabilities of multinational companies.

The IFRS pocket guide 2015, stated that, benefits obtained from IFRS grouped into three. This are:-

- **Transparency-** The internationally comparable and quality financial information obtained through IFRS allow investors and other market participants to make informed economic decisions.
- **Accountability-** IFRS provide information that is needed to hold management to account by reducing the information gap between the providers of capital and the people to whom they have entrusted their money.
- Economic **Efficiency-** The use of a single trusted accounting language lowers the cost of capital, improves capital allocation and reduces international reporting costs.

The adoption of the standard has greatly expanded the disclosure requirements of most financial institutions as IFRS regards consolidated financial statement as the main financial statement thereby upgrading transparency in accounting standards and the quality of overall financial information (Mgbame et.al, 2015). The ultimate decision to adopt IFRS or not, however largely depends on certain motivating or discouraging factors which exist in a particular country or group of countries.

2.7 Fair Value Measurement

IFRS 13, Fair Value Measurement was issued in May 2011 and defines fair value, establishes a framework for measuring fair value and requires significant disclosures relating to fair value measurement. The IASB's definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is focused on the assumptions of the market place, is not entity specific and so takes into account any assumptions about risk (www.accaglobal.com accesed on21.05.2017).

Fair value is currently defined under U.S. Generally Accepted Accounting Principles (U.S. GAAP) as an 'exit price', which is the price that would either be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants, at the measurement date (Shaffer, 2011). When the market works well, pricing of securities is correct, the allocation of capital in the economy is efficient, and everyone is better off (Palea, 2013).

Fair Value Accounting is a way to measure assets and liabilities that appear on a company's balance sheet. It is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (Laux, C & Luez, C. (2009) cited by (Nyor, 2012).

Optimally, fair value estimates would be obtained by observing transaction prices in active markets comprised of knowledgeable and informed participants. However, it is often the case that fair value must be estimated either by reference to transactions involving similar instruments or via valuation models (Shaffer, 2011).

The objective of using a valuation technique is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions.

A fair value measurement is the point within that range that is most representative of fair value in the circumstances (IFRS Foundation, 2011). (Demaria & Dufour, 2007) in their research titled First time adoption of IFRS, Fair value option, conservatism: Evidences from French listed companies by referring the work of (Cainrs, (2006) stated that the IASB introduces fair value method in several standards but, "the IFRS don' t require all assets and liabilities to be measured at fair value".

A three-level hierarchy framework is utilized in footnote disclosures to categorize these fair value measurement methods. Level 1 refers to observable prices for the same instrument in an active market. Level 2 includes estimates based on observable prices for similar instruments, or estimates derived from models using observable inputs. Level 3 represents estimates based on some form of valuation model that requires the use of unobservable inputs or management assumptions (Shaffer, 2011).

2.8 Factors Affecting the Adoption of IFRS

According to Iyoha and Faboyede, (2011), the adoption of International Financial Reporting Standards is largely driven by a number of factors which include among others professional support with IFRS experience and self-enforcement by companies.

Shimaa and Yangb, (2012) Study's findings reveal three themes influencing the decision for adoption of IFRS. First, the worldwide trend in "globalization" i.e. Memberships in certain international trade organizations, like the EU, and increased trade with IFRS countries promote adoption as a means to foster easier cross border information and capital flows. Second, the need for foreign investment and financing creates "signaling" incentives for countries to adopt IFRS.

Lastly, Environmental dimensions such as political environment and higher levels of inflation hinder adoption. Also larger capital markets are more hesitant to adopt IFRS, which may relate to concerns about replacing existing standards.

The principal impeding factors in the adoption process of IFRS in the developing country are technical, cultural issues, mental models, legal impediments, educational needs and political influences (Obazee, 2007). According to Duh (2006), the implementation challenges include: timely interpretation of standards, continuous amendment to IFRS, accounting knowledge and expertise possessed by financial statement users, preparers, auditors and regulators, and managerial incentive (Ball et.al, 2000). /

According to (Ramanna and Sletten, 2009) Countries with well-developed stock markets, such as the United States, generally have accounting standards considered to be more advanced and may be reluctant to adopt alternative ones if the proposed standards are not considered as rigorous as their own. Countries with less advanced capital markets may be more inclined to adopt internationally recognized standards in an effort to signal their intentions to attract foreign capital. (Shimaa and Yangb, 2012)

Similarly Mir and Rahman, (2005), examined the factors that influence the recent decision of the Bangladeshi government and accounting profession to adopt IASs. The results of their study revealed that institutional legitimization is found to be the main factor that influences the decision of adoption of IASs. They argued that this was due to pressure on the Bangladeshi government exerted by key international institutions and professional accounting bodies.

Factors relating to political and economic ties, reliance on foreign-sourced debt and common law legal systems create contracting incentives for adoption. Similarly, the need for capital investment evidenced by greater economic growth and capital formation, and higher literacy rates creates signaling incentives for adoption. However, other factors relating to size of capital markets, taxation, and inflation produce disincentives for adoption, which point to internal political and practical costs of converting current accounting systems to IFRS (Shimaa and Yangb, 2012).

2.9 Trends of IFRS Application In Ethiopia

The increased cross border integration of markets and politics with the rise of multinational companies demands the harmonization of accounting standards across the border. As is the for most professions, uniform accounting standards initially arose in a market setting, before governments became involved (Ray Ball, 2006). In fact, it is believed that accounting harmonization is necessary for the globalization of capital markets (Quigley, 2007).

The need for transparency, relevant, reliable and understandable accounting report of a company is very high so that investors, lenders and other users of the report can compare performance of one country to another for making a decision of buy, hold or sell their investment (Mihret, 2016). Compared to the historically known legalistic, political and tax influenced standards, IFRS are designed to reflect economic substance more than legal form (Ray Ball, 2006).

IFRS standards are considered to be a network-dependent product. Indeed, the benefits that a given emerging economy derives from IFRS adoption can be explained by the magnitude of its economic relations with other partner-countries that have already adopted IFRS.

Owing to the continued dependence on imported accounting expertise and shifting agendas of transnational stakeholders, Ethiopia continued trialing various policy responses largely driven by requirements of international funding agencies (Mihret, 2016). Ethiopia is moving to integrate its financial statements with IFRS within the next five years (Hailemichael, 2016).

In Ethiopia, Even though IFRS is not officially adopted at national level, auditors indirectly enforce the same upon management of the organizations who have little or no accounting knowhow about accounting standards (Alemi, 2016). Even without having adopted or locally developed accounting standard in Ethiopia, they/auditors were saying in accordance with GAAP but it was not clear to which GAAP they were referring and they repeated the same in IFRS case, too. Of course, Office of General Auditor was certifying professional accountants and auditors but was not regulating them and this was the basic gap (Hailemichael, 2016).

According to the analysis of the annual reports of corporates in Ethiopia, Corporates in Ethiopia has started to use IFRS in their financial reporting for the first time in 2002/03. The first organizations that used the term IFRS for the first time in their annual report in Ethiopia are government owned entities such as Commercial Bank of Ethiopia, Construction and Business Bank, Ethiopian Insurance Corporation and Ethiopian Airlines. But, The analysis of the proclamations, regulations and directives, however, indicated that there was no national or regional law that required companies to adopt and implement IFRS in Ethiopia (Alemi, 2016).

Adopting IFRS involves policy decision to adopt, planning and making all necessary resources required available to handle all the changes that will result in changes in system, procedures, and operation (Hailemichael, 2016). The government of Ethiopia by recognizing the importance of high quality financial reporting and its contribution to improved business which is necessary to attract investment issued the financial reporting proclamation in 2014 (AABE 2015).

Financial Reporting Proclamation number 847/2014 of the FDRE describe that "having a uniform reporting law enhance transparency and accountability by centralizing the hitherto decentralized financial reporting structures of Ethiopia." In order to meet and sustaining the economic growth potential of the country, implementing high quality financial reporting standard i.e. IFRS is fundamental (AABE 2015).

The accounting and auditing board of Ethiopia on its publication expressed that it will be in the best interest of the nation to adopt IFRS as issued by the IASB. As per Article 5(1) as read with Article 54(1) of the Financial Reporting Proclamation, the Board hereby adopt the International Financial Reporting Standards (IFRS)issued by the International Accounting Standard Board (IASB) (AABE, 2015).

Planned conversion to IFRS was by the end of 2016/17 but, due to some reason the plan failed. Even for the current fiscal year (for the year 2017/18) the readiness of companies to implement the System is in question mark. However necessary efforts are being exerted on companies especially those of financial institutions to implement the standard.

2.10 Empirical review

Prior studies on the challenges and prospects of IFRS have been undertaken by many researchers in Europe, Asia, Africa, among others.

Bhattacharjee & Islam, (2009) investigated the impact of adoption of IFRS on the financial reporting environment of Bangladesh considering the underlying institutional and economic factors. They argued about trade-off between the scale advantage of IFRSs and the local advantage of decentralized adaptation. Their study focused on the problems relating to adoption of IFRS in Bangladesh and on better applicability of accounting standards aimed at ensuring transparent information environment. Their study found that application of IFRSs reflects greater accountability of corporate management and transparency of published financial information as well as enhances the credibility of the statutory audit function of Bangladesh making the business environment more transparent.

According to the case studies conducted by the United Nations covering Brazil, Germany, India, Jamaica, Kenya, Pakistan, South Africa and Turkey, the factors that initially contributed to the introduction of IFRS in the countries covered vary (UNCTAD, 2008; cited by (Mihret, 2016)). According to these case studies, in Brazil, the Central Bank's intention of adopting IFRS was to bring financial reporting in line with international best practice to facilitate the comparability of financial reports and fostering investor confidence. In Germany, a number of large companies began to prepare their financial statements in accordance with IAS in order to be able to access financial markets outside Germany. In 1998, German lawmakers gave listed companies the option of preparing their consolidated financial statements in accordance with IAS. The implementation of IFRS for the preparation of consolidated financial statements of listed companies in Germany became mandatory following the decision of the European Union to implement the IAS regulation of 2002. Since the case study of Germany illustrates, a European Union wide approach of implementing IFRS, the implementation challenges extend beyond its domestic factors (UNCTAD, 2008).

A study by Soderstrom and Sun (2006) about the change in accounting quality following widespread IFRS adoption in the EU, argued that cross-country differences in accounting quality are likely to remain following IFRS adoption because accounting quality is a function of the firm's overall institutional setting, including the legal and political system of the country.

Madawaki, (2012) on his study about the adoption process of International Financial Reporting Standards (IFRS) on a developing economy, with particular reference to Nigeria, In implementing IFRS Nigeria will face challenges including the development of a legal and regulatory framework, awareness campaign, and training of personnel. Recommendations were made to forestall such challenges which include strengthening education and training, establishment of an independent body to monitor and enforce accounting and auditing standards.

Oghoma and Iyoha, (2011) "Compliance with accounting standards by quoted insurance companies in Nigeria: An empirical investigation, It is expected that the move towards IFRS convergence will enhance capital market performance and ginger global business expansion in Nigeria. In the view of this development all corporate organizations are expected to adopt and comply with IFRS in preparation and presentation of their financial statement.

Gyasi, (2009) conducted a study called adoption of IFRS in developing countries the case of Ghana with the sole purpose of examining how the accounting profession has evolved in developing countries over the years specifically Ghana Additionally, the processes and factors affecting the adoption of International Financial Reporting Standards by Ghana as well as the merits and the demerits of the adoption of IFRS in Ghana. The study was found that external environment, economic development and capital market strongly influenced the adoption of IFRS in Ghana whiles legal system averagely influenced the adoption of IFRS in Ghana and ineffective previous standards found no impact on the adoption of IFRS.

Tesfu, (2012)on his study which aims to examine the adoption of International Financial Reporting Standards (IFRS) in Ethiopia focusing on examining the benefits and challenges of IFRS including the factors that could influence its adoption show that IFRS adoption in Ethiopia will result in a number of important benefits to a wide range of stakeholder. In addition to suggesting the need for rigorous IFRS capacity building program by the government, all regulatory bodies, firms and training institutions he described Professional bodies, capital market, educational level and company size significantly influence the adoption of IFRS in Ethiopia.

Simegn, (2015) about Adoption of International Financial Reporting Standards (IFRS) in Ethiopia: Empirical investigation, the variables subjective norm, perceived control and level of education significantly and positively influence IFRS adoption while, legal system significantly and negatively affects its adoption. The variables attitude, economic development and capital market found have no significant contribution for the intent to adopt IFRS. Hence, among the behavioral factors subjective norm and perceived control significantly and positively affect the intention to adopt IFRS while attitude has no significant impact. He recommends the regulatory body to adopt IFRS as early as possible so as to strengthen the financial reporting system of the country and cop up with financial reporting standards used internationally.

Mihret, (2016), on his study to examine the IFRS adoption process in Ethiopia illustrates that the IFRS adoption in Ethiopia is the result of the translation processes involving the actor-networks of the state, accounting, professionals, the private sector and international financial institutions while the state, i.e., the Ethiopian government, played a management and mediating role of the translation processes in the context of promoting macro-economic management rationales of enhanced financial reporting supported by IFRS. The study suggests AABE to coordinate more resources and stakeholders in order to build the capacity of prepares in terms of IFRS reporting practices to achieve the IFRS implementation strategic objectives of the country and the need for establishing a self regulated independent and strong professional body as soon as possible.

Furthermore, Alemi, (2016), on his study about the adoption Progress of IFRS in Ethiopia found that some companies in Ethiopia have started using IFRS voluntarily for the preparation of their financial statements since 2002/03 without making necessary preparedness but nationally; And he suggests that, since IFRS is adopted officially in December, 2014 with a big bang approach through enactment of Proclamation the board should discharge its responsibility on the way to its establishment and provide continuous support to the institution even after its establishment, develop IFRS Accounting manual modifying charts of accounts and detailed instructions taking IFRS requirements into accounts and take action to integrate ISA and IFRS modules into Ethiopian higher institutions' accountancy education curricula.

2.12 Summary and Research Gap

Because of the problems associated with worldwide accounting diversity, attempts to reduce accounting differences across countries have been ongoing for decades (Nobes, 2004 cited by (Tesfu, 2012)). The rapidly growing adoption of IFRS by various jurisdictions around the world has attracted significant research attention. The review of the literature shows various deliberations and perspectives about the challenges and prospects of IFRS adoption and implementation practices based on other countries' experiences at large and our country in a little.

It reflects some of the issues relating to the debates, benefits and challenges of IFRS adoption by countries within various demographic conditions i.e. socio-economic contexts. Also it highlights the preconditions of IFRS adoption to be fulfilled by adopting jurisdictions in terms of technical, institutional and enforcement issues.

Because of the advantages it provides for countries and multinational companies, many countries adopt International Financial Reporting Standards. Regarding the Ethiopian IFRS adoption, Tesfu (2012) even before the issuance of the Ethiopian financial reporting proclamation which mandated IFRS adoption in Ethiopia in 2014, have tried to study some of the IFRS adoption process in Ethiopia referring to the financial sectors and ECX member organizations which have been declared to have adopted IFRS. In addition, (Simegn, 2015) and (Mihret, 2016) among others made a study concerning the standard. Furthermore, (Alemi, 2016), made a study about the adoption Progress of IFRS in Ethiopia.

Various research works about the challenges and prospects of adopting IFRS has been conducted throughout the world but most of them are mainly based on the data from developed countries i.e. the European Union (EU) member states.

Ethiopia has been undertaking various financial reforms and study projects to enhance its financial reporting environment in line with IFRS. As per the knowledge of the researcher, In the case of Ethiopia very few Research works are made on the issue. This implies that there is knowledge gap in the Ethiopian context about the IFRS adoption processes and its current status. In addition, as per the knowledge of the researcher, no studies were conducted to assess such issue from commercial banks perspective only by including both private and public institutions. And since IFRS is very recent reporting standard especially to Ethiopia, there is low level of awareness. Therefore, this study makes an attempt to bridge this gap and tries to study the Ethiopian data with reference to the need for adopting IFRS by Ethiopian commercial banks, benefits of adopting IFRS for Ethiopian commercial banks & challenges faced by the commercial banks in the process of adoption of IFRS.

CHAPTER THREE

RESEARCH METHODOLOGY

INTRODUCTION

This chapter deals with the methodology adopted for the study. The chapter consists of five sections. This chapter encompasses research design and approach, population of the study, sample size and sampling techniques of this study. The sources (primary and secondary) of data, procedures of data collection, as well as methods of data analysis for the study had also been outlined.

3.1. Research Design

Research design is a framework or blueprint for conducting a research. It details the procedures necessary for obtaining the information needed to structure the research problem. In other words, the function of research design is to provide for the collection of relevant evidence with minimal expenditure of effort, time and money mainly depending on the research purpose i.e. (i) Exploration, (ii) Description, (iii) Diagnosis, and (iv) Experimentation (Kothari, 2004).

For this study, the researcher employed a descriptive research design in which the researcher interacts with the participants to collect relevant data and then organize, summarize, describe and present the collected data.

Descriptive research defines the research type that takes into account the need for an accurate snapshot of some aspects of an issue at hand. In other words, this type of research aims at describing an already existing phenomenon whether in the market, company, institution among others (Kumar, 2000 cited in (Gyasi, 2009).

3.2. Research Approach

To conduct the study, the researcher used mixed research approach. Since there is a high interdependency between data and methodology, the methodology to be used for a particular research problem must always take into consideration the nature of data that is collected to resolve the research problem.

In order to attain the objective of the study and answer the research questions; researcher was adopting both quantitative and qualitative (Mixed) research approach. And here the rationale of using such a mixed approach is to gather data that could not be obtained by adopting a single method and for triangulation. When we use the word quantitative to describe quantitative dissertations, we do not simply mean that the study will draw on quantitative research methods or statistical analysis techniques. Quantitative research takes a particular approach to theory, answering research questions and/or hypotheses, setting up a research strategy, making conclusions from results, and so forth (Creswell, 2003).

3.3. Population and Sampling Techniques

3.3.1. Population of the Study

The Study was about the challenges and prospects of adopting the international financial reporting standards (IFRS) by commercial banks in Ethiopia. Covers the total of 17 commercial banks registered under National Bank of Ethiopia. From the total, 16 commercial banks are privately owned and the remaining one is public property.

The study population/participants were all private and public commercial banks in Ethiopia. According to NBE report there is one public commercial bank i.e commercial bank of Ethiopia and sixteen private banks such as; Dashen Bank S.C (DB), Zemen Bank S.C (ZB), Awash International Bank S.C (AIB), United Bank S.C (UB), Enat Bank S.C (EB), Wegagen Bank S.C (WB), Bank of Abyssinia S.C (BOA), Nib International Bank S.C (NIB), Lion International Bank S.C (LIB), Oromia International Bank S.C (OIB), Cooperative Bank of Oromia S.C (CBO), Berehan International Bank S.C (BIB), Buna International Bank S.C (BUIB), Addis International Bank S.C (AIB), Abay Bank S.C (AB) and Debub Global Bank S.C (DGB).

3.3.2. Sampling Technique

A sample design is a definite plan determined before any data are actually collected for obtaining a sample from a given population (Kothari, 2004). The total population of the study was the existed seventeen commercial banks. But, for the study purpose the selected sample size was seven. Among the non-probability sampling techniques deliberate sampling also known purposive sampling was used to select the samples from the total population. Non-probability sampling technique was selected because of the desire to address banks that were in operation for long time. Year of their establishment was used as a basis to select sample. All the sampled commercial banks i.e CBE, Awash, Dashen, Abyssinia, Wegagen, United, and NIB have been established prior to the year 2000.

From a total of 64 employees in the targeted areas of the sampled institutions, using a deliberate sampling also known purposive sampling technique, 45 employees have been selected. The selected employees have special relevance, proximity to the research area and expected to have knowledge about IFRS, are more responsible for the preparation and fair presentation of the financial statements in the manner required by the commercial code of Ethiopia and/or NBE, they have a broad knowledge about their organization's over all accounting practices and with an assumption that they have a direct participation in the IFRS adoption process in their organization since they are working in the finance areas at the center of the institutions.

3.4. Types of Data and Tools / Instruments of Data Collection

This study used both primary and secondary data sources to collect the required qualitative and quantitative. The main instrument used for the collection of data in this study was the questionnaire, which was designed in five response options of likert-scale, open ended and close ended questionnaires have been prepared and distributed.

Likert scale, which is a pattern devised by likert is the most frequently used summated scale in social science studies. In a Likert scale, the respondent is asked to respond to each of the statements in terms of several degrees, usually five degrees (but at times 3 or 7 may also be used) of agreement or disagreement. The respondents may respond in any one of the following ways:- (i) strongly agree, (ii) agree, (iii) undecided/neutral, (iv).disagree, (v) strongly disagree. At one extreme of the scale there is strong agreement with the given statement and at the other, strong disagreement, and between them lie intermediate points. For example Response indicating the least favorable degree of job satisfaction is given the least score (say 1) and the most favorable is given the highest score (say 5) (Kothari, 2004).

The questionnaires were distributed to the concerned bodies at bank's head offices i.e. finance department heads and other related officials of those selected financial institutions. These individuals were selected since they are more responsible for the preparation and fair presentation of the financial statements in the manner required by the commercial code of

Ethiopia and/or NBE, they have a broad knowledge about their organization's over all accounting practices and with an assumption that they have a direct participation in the IFRS adoption process in their organization.

Whereas secondary sources of data were generated through a review of relevant documents. Due acknowledgements has been given to all the cited materials where necessary.

3.5. Procedures of Data Collection

Applying appropriate data gathering instruments help researchers to combine the strengths and amend some of the inadequacies of any source of data to minimize risk of irrelevant conclusion (Kebede, 2014).

In this research, the required data were collected from the concerned bodies at head office of those selected financial institutions using questionnaires designed by the researcher in English and from secondary data sources. To keep the confidentiality of the respondents of the questionnaires, their identity and the name of institution where they work did not be listed.

3.6. Methods of Data Analysis

The data analysis process helps to transform the collected data into meaningful descriptive interpretations. Data analysis helps the researcher to synchronize the data collected against the meaning or implication of the study being conducted. Data analysis involves reducing the data, presentation of the data, verifying and drawing conclusions (GYASI, 2009).

After collecting the necessary data, which explicitly contained the expressed opinion of the respondents involved in the study, and from secondary sources (inscriptions) the mixed approach of the research explored the results of the collected data using descriptive statistics.

The collected primary data was coded, edited and cleaned for processing using Statistical Package for Social Sciences (SPSS) – version 20.0. SPSS was preferred because it is very systematic and covers a wide range of the most common statistical and graphical data analysis. Descriptive statistics such as means, standard deviations and frequency distributions were used to analyses the data. Data presentation was done by use of, percentages and frequency tables. The researcher conducted a critical analysis and interpretation of the questionnaire data and review document evidences to explain the challenges and benefits of IFRS adoption by Ethiopian commercial banks.

CHAPTER FOUR

RESULTS AND DISCUSSION

Introduction

This chapter explains and discusses the results of findings based on the analysis done on the data collected. The analysis of the data collected from the commercial banks along-side the review of the selected secondary documents that were used for the study are presented in this chapter. The data analysis is done considering the purposes of the study. The discussion attempts to accomplish the objectives of the study and answer the research questions.

4.1. Response Rate

A total of 45 questionnaires which dealt with the challenges and prospects of Adoption of International Financial Reporting Standards were distributed to the sample selected companies. However, only 42 questionnaires were collected. All the collected questionnaires had usable responses which is about 93.33% response rate. Compared to other IFRS adoption studies (i.e. (Tesfu, 2012) = 71.4%,) and considering the difficulty of collecting data in developing countries such as Ethiopia, a 93.33% response rate can be considered as reasonably good.

Table 4.1: Summary of Response Rate

Rate	Number of Questionnaires	Percent
Collected	42	93.33%
Not-collected	3	6.67%
Total	**45**	**100%**

(Source; Questioner data)

4.2. Description of Demographic factors of Respondents

The respondents' demographic features included six key features which were: the respondents gender, educational Background, working experience, current position in the organization, any training participated and any seminar attended concerning IFRS.

4.2.1. Gender Distribution of Respondents

The study also wanted to discover the Gender of the respondents and the results is shown in the diagram below.

Table 4.2; Gender of Respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Female	12	28.57	28.57	28.57
	Male	30	71.43	71.43	100.0
	Total	42	100.0	100.0	

(Source; Questionnaire data)

Table 4.2 shows that out of the 42 respondents, 30 representing 71.43% were males and 12 representing 27.57% of respondents were females. This shows that males dominate the finance areas of the sampled companies. This implies the gender distribution of officials in those financial institutions is not balanced.

4.2.2. Educational Background of the respondents

Another demographic measure used in this study is the education background of the respondents. The response on the educational level of respondents is summarized in the table below;

Table 4.3 Educational Background of the respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Diploma	0	0	0	0
	BA/BSC	29	69.05	69.05	69.05
	Msc/MA	13	30.95	30.95	100.0
	Total	42	100.0	100.0	

(Source; Questionnaire data)

The education level of the participants as presented in the table, formal educational levels of the respondents were typically at the middle level, as more of the respondents 29 (69.05%) had bachelor's degree. Those who had master's degree were 13 representing 30.95% of the respondents. Non of the respondents had education level qualification of below bachelor's degree or above master's degree.

4.2.3. Working Experience

The next table shows the distribution of number of years a respondent has worked within the industry, it helped the researcher to know the respondents level of work experience. The study showed that greater part of the respondents have worked in their various industries between 6 to 10 years making 50.00%, followed by those who had worked for the years between 11 to 15 consisting 33.33%. In addition, 11.91% of respondents have an experience of between 16 to 20 years. Also, 4.76% of the respondents have working experience which is more than 20 years. This implies the information gathered for this study was collected from experienced staffs in those financial institutions and this could indicate that the information collected from those personals can be used as a basis to make a conclusion and appropriate for the study.

Table 4.4 Respondents work experience

		Frequency	Percent	Valid Percent	Cumulative %
	6 to 10 yrs	21	50.00	50.00	50.00
	11 to 15 yrs	14	33.33	33.33	83.33
Valid	16 to 20 yrs	5	11.91	11.91	95.23
	Over 20 yrs	2	4.76	4.76	100.00
	Total	42	100.0	100.0	

(Source – questionnaire data)

4.2.4. Respondent's Current position in the organization

Table 4.5 Respondent's Current position in the organization

	Frequency	Percent	Valid Percent	Cumulative Percent
Deputy Fin. Man.	2	4.76	4.76	4.76
Finance Man.	5	11.91	11.91	16.67
Senior Accountants.	35	83.33	83.33	100.00
Total	**42**	100.00	100.00	

(Source – questionnaire data)

The descriptive statistics summarizing the responses as given in Table 4.5, Result of the collected data shows that majority of respondents are Senior Accountants, they accounted for 83.33% of the total respondents, and this was followed by Finance Managers having 11.91%. From the total of 42 respondents 2 or 4.76% of respondents were Deputy Finance Manager of the sample selected commercial banks. This implies the information gathered for this study was collected from the concerned bodies in those financial institutions thus the information that is obtained from those staffs can be considered as reliable and are appropriate for the study.

4.2.5. Does your company now reporting based on IFRS?

Table 4.6 your company now reporting based on IFRS?

		Frequency	Percent	Valid Percent	Cumulative Percent
	No	41	97.62	97.62	97.62
Valid	Yes	1	2.38	2.38	100.0
	Total	42	100.0	100.0	

(Source – questioner data)

This question was a yes or no answer question. From Table 4.6, the result proves that from the total of 42 respondent staffs of the financial institutions, 41 or 97.62% of respondents say that IFRS were not adopted by institution where they work.

Only 1 or 2.38% of the respondent says the institution that s/he is working adopted or use IFRS. But, the other respondents from similar organization and reports prepared by the institution confirmed that the institution is not preparing financial statements based on IFRS.

4.2.6. Formal training get concerning IFRS

Table 4.7 formal training get concerning IFRS

		Frequency	Percent	Valid Percent	Cumulative Percent
	No	15	35.71	35.71	35.71
Valid	Yes	27	64.29	64.29	100.0
	Total	42	100.0	100.0	

(Source – questionnaire data)

Table 4.6 summarizes whether the respondents were involved in training activity or not. From the table the distribution of number of respondents that get formal training concerning IFRS accounted about 27 or 64.29% from the total 42 respondents. The remaining 35.71% of respondents never get a formal training concerning IFRS.

Since the concepts and principles of IFRS are not included in the curriculum of higher learning institutions of the country, lack of adequate training widens the knowledge gap and affect competency of the staffs and finally the adoption process will be affected. Which means, Even though the country's financial institutions has a plan to fully adopt the standard by the year 2019 and almost all banks are doing some works of the converging process, but still there is a need for training (Mihret, 2016).

4.2.7. Attended any seminar concerning IFRS?

Table 4.8 Seminar respondents attended concerning IFRS

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	14	33.33	33.33	33.33
	Yes	28	66.67	66.67	100.0
	Total	42	100.0	100.0	

(Source – questionnaire data)

On the last demographic question the respondents were asked if they have ever attended a seminar concerning to IFRS. The choices provided were either "Yes" or "No". The descriptive statistics summarizing the responses as given in Table 4.8, from the total of 42 respondents about 28 or 66.67% of respondents stated that they have attended a seminar concerning IFRS. Also from the table it can be seen that the remaining 14 or 33.33% of respondents did not attend any seminar concerning IFRS. Seminars helps to increases the knowledge and understanding of participants. Absence of seminars or other forms of knowledge creation activities will affect the competency of the staffs and then the adoption process.

4.3. IFRS Adoption

Financial reports are prepared by banks management for the use of many interested groups. These groups include shareholders, government departments (i.e. Revenue Authority), the Central Bank among others. All these users may have different perspectives on the quality of the repots arising from the adoption of IFRS.

This chapter explains and discusses the results of findings based on the analysis done on the data collected. In this section, the questionnaire results related to the benefits of IFRS adoption were analyzed. The data related to benefits of IFRS to companies, investors, management, and other stakeholders such as regulatory bodies and to accounting professionals were presented and discussed separately.

For this study the researcher prepared statements with a 5 point Likert scale and indicate the extent they agree with the statements that is: 5-Strongly agree, 4-Agree, 3-Neutral, 2-Disagree, 1-Strongly disagree.

Likert scale, which is a pattern devised by likert is the most frequently used summated scale in social science studies. In a Likert scale, the respondent is asked to respond to each of the statements in terms of several degrees, usually five degrees (but at times 3 or 7 may also be used) of agreement or disagreement. At one extreme of the scale there is strong agreement with the given statement and at the other, strong disagreement, and between them lie intermediate points. For example Response indicating the least favorable degree of job satisfaction is given the least score (say 1) and the most favorable is given the highest score (say 5) (Kothari, 2004). And for this study similar with (Hailemichael, 2016) A mean (M) score of 0-1.5 means that the respondents are strongly disagree, between 1.50 to 2.50 means they disagree, 2.50 to 3.50 means the respondents were Neutral, 3.50-4.50 means they agreed, and a mean above 4.50 indicates a strong agreement of respondents.

4.3.1. Benefits of Adopting IFRS to Companies

Table 4.9 Benefits of Adopting IFRS for the Companies

	N	Mean	S.D
The previous statement of accounting standards your company used partly outdated?	42	4.10	.726
Statement of accounting standards used in your company is not sufficiently comprehensive enough to become a basis for preparation of high quality financial statements.	42	4.05	.825
In practice IFRS has really improved the reporting practice in your company compare to the GAAP.	42	3.48	1.042
Adoption of IFRS will improve usefulness of Accounting information.	42	4.62	.492
Adoption of IFRS improves the efficiency of financial reporting.	42	4.43	.501
Financial statements based on IFRS are more reliable and comparable.	42	4.55	.504
Adoption of IFRS improves effectiveness of financial reporting.	42	4.52	.505
Use of Fair value Measurement in preparation of statements under IFRS helps to provide useful and accurate information for economic decision making.	42	4.12	.739
It provides greater reporting transparency.	42	4.69	.468
It enables greater effectiveness of the internal audit.	42	4.00	.663
There is a greater efficiency and decrease in cost of finance under IFRS than in GAAP.	42	4.21	.565

(Source, Researcher's computation.)

The Questionnaire sought to establish the respondents' perceptions on the case under study. Based on the findings on Table 4.9, the respondents with a Mean 4.10 and Standard Deviation= 0.726 have agreed on the statement of accounting standards their company used was partly outdated. In addition, with a mean of 4.05 and S.D of 0.825, the respondents could agree on the question about Statement of accounting standards used in their companies is not sufficiently comprehensive enough to become a basis for preparation of high quality financial statements. These two findings inform that the financial statements prepared by the previous standards were of low quality, not comprehensive enough and unreliable for decision making.

For the question about the IFRS's practical implications on improvement of usefulness of reporting in there company compared to GAAP, most of the respondents were indifferent between agree and disagree with a mean of 3.48 and a S.D of 1.042 this can be clearly supported by the answer of the previous question under demographic section stating, does your company now reporting based on IFRS? The respondents answer was "No". This was because the standards were not implemented by the institutions. However, for the question Adoption of IFRS will improve usefulness of Accounting Information respondents strongly agree (M=4.62; S.D=0.492). These demonstrate the positive perception respondents have on the adoption outcome.

Question 5 sought to establish the respondents' perceptions on the impact of IFRS adoption on the improvement of efficiency of financial reporting. The descriptive statistics summarizing the responses given on Table 4.8 shows that the respondents have agreed (M=4.43; S.D=0.501). With a mean & standard deviation of 4.55 and 0.504 respectively, respondents strongly agree on the more reliability and comparability of financial statements prepared based on IFRS. Companies which provide potential investors with reliable and comparable financial statements are more likely to attract domestic and international investment (Mihret, 2016). Adoption of IFRS improves effectiveness of financial reporting was strongly agreed by respondents of (M= 4.52; S.D=0.505). (Hailemichael, 2016) on his study about challenges and prospects of adopting IFRS stated that the implementation of IFRS in financial institutions leads to improved comparability & reliability of financial statements, reduce cost of capital of firms through lower cost of information, greater marketability of shares, and reduced information asymmetry and others.

According to IASB (2010), the two primary qualitative characteristics of information in financial statements are relevance and faithful representation. An agreement with a mean of 4.12 & a standard deviation of 0.739 is the output of the collected data for Use of Fair value Measurement in preparation of statements under IFRS helps to provide useful and accurate information for economic decision making. Fair value measurement brings more value relevant values of a product than historical costs. The inclusion of more up-to-date information and relevant valuation in the financial reports will enhance value of the information for decision making by investors, creditors, government or other interested parties.

(M=4.69; SD=0.468) respondents could strongly agree the adoption of IFRS has provides greater reporting transparency and the increased transparency result from implementation of the standard reduces organization problem between management and shareholders and stakeholders. (Bahadıra et. Al, 2016) on there study about IFRS implementation in Turkey: benefits and challenges revealed that, the change in accounting and reporting under IFRS is deemed to improve comparability among companies and result in better greater transparency.

From Table 4.8 it can be seen that the mean of 4.00 with a standard deviation of 0.663 respondents agree that IFRS enables greater effectiveness of the internal audit. Effective internal audit practice enables the organization to control and easily mitigate incorrect activities and to take corrective actions when required. In addition, one set of universally accepted accounting standards would make it easier for multinational companies and international auditing firms to transfer accounting and auditing staff to other countries. Also, the respondents were asked with a five likert scale question to express their perception and (M=4.21; S.D= 0.565) agree on there is a greater efficiency and decrease in cost of finance under IFRS than in GAAP due to the more reliability of financial statements prepared by IFRS. This implies that a company that prepared its financial statements can have a better access to capital. This is because IFRS has the potentials to facilitate cross-border comparability, increase reporting transparency, reduce cost of capital of firms through lower cost of information, reduce information asymmetry and thereby increase the liquidity, competition and efficiency markets.

4.3.2. Benefits of IFRS for the Investors

The study was also designed to capture the perception of the respondents about benefits of adopting IFRS for the investors. Financial information influences investors' behavior with respect to portfolio selection, which in turn affects security prices and, therefore, the terms on which a firm obtains additional financing. The summery of analysis of the collected data using the distributed questionnaires is presented in table 4.9 bellow.

Table 4.10 Benefits of IFRS for the Investors

	N	Mean	S.D.
IFRS can help the local investors to make better investment decisions compare to the GAAP.	42	4.38	.582
Use of Fair value Measurement in preparation of statements under IFRS helps to provide useful and accurate information for economic decision making.	42	4.43	.630
Investors will have more confidence in the information presented using IFRS.	42	4.64	.485
Adoption of IFRS enhances transparency of companies through better reporting.	42	4.67	.526

(Source, Researcher's computation.)

From table 4.9, it can be seen that with a mean of 4.38 and a standard deviation of 0.582 the respondents believe that IFRS can help the local investors to make better investment decisions compared to the GAAP. For the question Use of Fair value Measurement in preparation of statements under IFRS helps to provide useful and accurate information for economic decision making, most of the respondents agreed with a mean score of 4.43 and standard deviation of 0.630. The perception of respondents about the more confidence Investors will have on the information presented using IFRS was a strong agreement with a mean score of 4.64 and standard deviation of 0.485. For the last question under benefits for the management, Adoption of IFRS enhances transparency of companies through better reporting is also strongly agreed by respondents (M= 4.67 & S.D 0.526). The results indicate that IFRS presents more useful, accurate and reliable financial information which will influences investors' behavior with respect to portfolio selection, which in turn affects security prices and, therefore, the terms on which a firm obtains additional financing.

4.3.3. Benefits of IFRS for the Management

Table 4.11 enabled the researcher to understand the perception of respondents on the benefits of IFRS for the management.

Table 4.11 Benefits of IFRS for the Management

	N	Mean	S.D.
Enables better risk management.	42	4.57	.501
IFRS improves management information for decision making	42	4.62	.492
IFRS promotes cross border investment	42	4.52	.671

(Source, Researcher's computation.)

Objective of financial statements is to be responsible for information in relation to the financial position, performance and changes in financial position of an organization that is essential to a wide variety of users in making economic decisions (Acquaye, 2015). As it is shown in the table, three questions sought to ascertain the benefits of IFRS adoption to the management. The mean responses of all questions were above 4.50. This indicates that in the view of respondents, adoption of IFRS provides management of a company with better risk management (M=4.57; S.D=0.501), improved management information for decision making (M=4.62; S.D=0.492) and IFRS promotes cross border investment (M=4.52; S.D=0.671).

The study results are in line with that management will benefit, amongst others, improved management information presented in the financial statements which they can use for decision making. Managers will also be at ease to manage risk and international comparability of the financial reports provides a chance of cross boarder investment. The inherent complexity and volatility with increased financial risks of the environment in which banks operate, resulting in the risk of both the preparers and auditors of financial reports. Which intern will affect the decision making of the management and other users. And this has necessitated dedicated institutions supported by a dedicated law for regulation of accountancy. IFRS balance sheet will be closer to economic value because historical cost will be substituted by fair values for several balance sheet items, which enable a corporate to know its true worth (Ailemen & Akande, 2012). IFRS compliant financial statements have a positive impact on proactive risk management and focus on maximizing shareholder value (Hailemichael, 2016).

4.3.4. Benefits of IFRS for other stakeholders

Creating awareness on stakeholders about the reasons and benefits they will derive from working with the new standard can be the most important step to achieve success. The adoption of IFRS must involve the strengthening of the various institutions which will enhance its effective implementation such as: preparers (managers) and enforcers (auditors (status, independence, training, compensation, and tough judgment), legal systems and courts, regulators, accounting boards, ownership structure/block shareholders, politicians, law-makers, analysts, rating agencies, accounting professional bodies, tax authorities and capital market regulators),corporate governance structure, the press, public, educational institutions and business schools, financial market (structure, depth and intermediation) etc (Ball; 2006).

The last section of the questionnaire under benefits of IFRS probed the perception of respondents with regard to the importance of the adoption of IFRS for other stakeholders.

Table 4.12 Benefits of IFRS for other stakeholders

	N	Mean	S.D.
IFRS adoption improves regulation oversight and enforcement	42	4.71	.457
IFRS provides greater credibility and improved economic prospects for the accounting profession	42	4.79	.470
It provides better reporting and information on new and different aspects of the business than GAAP.	42	4.69	.468

(Source, Researcher's computation.)

Under this section three questions were distributed and all of them had a mean response of greater than 4.50 and standard deviation of less than 0.50. This indicates that in view of the respondents, adoption of IFRS is highly beneficial to other stakeholders. Improved regulation oversight and enforcement will give large benefit for regulatory bodies and financial analysts. In line with this (Bhattacharjee & Islam, 2009) found that application of IFRSs reflects greater accountability of corporate management.

In addition, IFRS provides greater credibility and improved economic prospects for the accounting profession since the employment of one set of universally accepted accounting standards globally would make it easier for multinational companies and international auditing firms to transfer accounting and auditing staff to other countries. The respondents also strongly agree on IFRS provides better reporting and information on new and different aspects of the business better than GAAP. In line with the results obtained from the study, other stakeholders such as regulatory bodies and financial analysts would benefit from improved regulation oversight and enforcement, overall better reporting and information on new and different aspects of the business. In addition IFRS would provide professional opportunities for accountants and auditors to serve international clients and it would increase their mobility to work in different parts of the world.

In general, the results of the study show that the implementation of IFRS yields benefits for a wide range of concerned bodies. The adoption of IFRS will avoid the disharmonized reporting practices in the country existed due to lack of a national accounting standard and serve as a single reporting standard. The increased transparency result from implementation of the standard reduces organization problem between management and shareholders. The more reliable, comparable and quality financial reports obtained from IFRSs are expected to lower the cost of information processing and decision making by the concerned bodies. In addition prepares and auditors of financial reports will become familiar with one common set of international accounting standards and serve international clients.

4.4. Challenges Faced In the Adoption of IFRS

Accounting Professionals across the world have listed various benefits of adopting IFRS. But, the adoption of IFRS is not only full of benefits and a very simple task. There are many problems that hinder the process of the full implementation of the standards. IFRS is more complex to adopt because it is a principle-based standard requiring interpretation "the devil is in the detail" & IFRS is more than an accounting issue and can have a major impact on an entire organization (not just the finance function) (AKPAKA, 2015). (Shimaa & Young, 2012) cited in (Simegn, 2015), conducted a research on Factors Affecting the Adoption of IFRS'' their study was focused on multiple countries around the globe. They found that Choi and Meek's (CM's) framework, eight factors in a country's environment are believed to have a significant influence on the differences found in accounting systems: major source of finance; legal systems; taxation; political and economic ties; inflation; economic development; education; and culture. By this research, the researcher tries to look some of the major challenges that Ethiopian commercial banks are facing in the adoption process.

There were 21 questions under five different groups distributed to the respondents to identify some of the challenges they faced on the adoption process. Like the previously discussed adoption benefits, the questions were organized into a five likert scale answer options and indicate the extent they agree with the statements that is: 5-Strongly agree, 4-Agree, 3-Neutral, 2-Disagree, 1-Strongly disagree based on (Kothari, 2004) measurement scale to the close ended questions.

A mean (M) score of 0-1.5 means that the respondents are strongly disagree, between 1.50 to 2.50 means they disagree, 2.50 to 3.50 means the respondents were neutral, 3.50-4.50 means they agree, and a mean above 4.50 means the respondents strongly agreed with the question/s.

4.4.1. Legal and Regulatory Requirements

IFRSs 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. In fact embracing globalization and adopting IFRS has challenges as it makes necessary reforms to a country's regulatory, legal and economic structures and adaption of its culture to the West (Oghogho et. Al, 2016).

Table 4.13 Legal and Regulatory Requirements

	N	Mean	S.D.
The existing proclamation requires the organization to provide financial statement in compliance with GAAP.	42	2.43	1.063
The existing accounting provision in commercial code and the NBE amend in order to implement IFRS in the banks.	42	4.17	.786
The existing regulatory law & NBE directives for preparation of financial statement for banks need to be updated per international practices in order to establish sound financial reporting standard.	42	4.06	.747

(Source, Researcher's computation.)

Regulation is defined as the public administrative policing of private activities based on a set of rules that are developed in the public interest. The oversight and regulation function of central banks became increasingly formalized and direct, pushed also by shifting attitudes towards the role of government in intervening to regulate and guide economic activity. As it is shown in the table, the researcher prepared four questions sought to ascertain the challenges related with the legal and regulatory requirements.

A mean of 2.43 & standard deviation of 1.063 indicates the disagreement of respondents for the question stating the existing proclamation requires the organization to provide financial statement in compliance with GAAP. During the process of translating the Ethiopian financial reporting system into a new IFRS based regulatory and reporting environment, NBE can be regarded as one of the main actors representing the financial sector in the actor networks. It was following the approval of the House of Representatives, the Ethiopian Financial Reporting Proclamation was issued with Proclamation No.847/2014 in the Federal Negarit Gazette of the Federal Democratic Republic of Ethiopia dated Dec 5, 2014. Which means the current Financial Reporting Proclamation issued in 2014, allow banks to prepare financial statements in compliance with IFRS And the National Bank of Ethiopia has already required the banks to prepare their financial statements in accordance with IFRS. According to article 23 sub article 1 of the proclamation, the National Bank of Ethiopia directs banks to prepare financial statements in accordance with the International Financial Statements Standards.

The respondents agree by the question related with a need to amend the existing accounting provision in commercial code and NBE in order to implement IFRS (M=4.17; S.D=0.786). Also the respondents agree on updating existing regulatory laws & NBE directives by international practices for preparation of financial statement for banks to establish sound financial reporting standard (M=4.06; S.D=0.747). IFRS has its own problems as it gives way to essential alterations to a country's regulatory, legal and economic structure. IFRS will lead to inconsistencies with existing laws. To integrate the Ethiopian accounting system in the context of the international financial reporting standards and in turn to integrate Ethiopia to the globalized economic environment the work of translating the previous standards were carried out by responsible organs or main actors before the financial reporting proclamation was approved by the House of the People Representatives of the Federal Democratic Republic of Ethiopia.

As it was stated on the first chapter of this paper, the accounting and auditing board of Ethiopia by understanding the benefits and worldwide acceptance of IFRSs, consider the adoption of IFRS as issued by IASB as the best interest of the nation (AABE, 2015). However, since the standards of IFRS are in continues update and progress, the need for an amendment of the financial rules and regulation will be obligatory to integrate the new standards with the country's regulatory laws and directives of reporting practices.

Due to the application of laws and tax issues, the IFRS must be conformed to meet the legal system of every country (Acquaye, 2015). The issuing of amendments in order to harmonize the banking framework with the IFRS platform is required. It was accepted that Accounting Directives would be amended to eliminate conflicts -if any- with IFRS http://www.spi-albania.eu/en/2008-program/the-impact-on-the-bankingregulation-of-the-ifrs-implementation/.

4.4.2. Professional Bodies

Table 4.14 Professional Bodies

	N	Mean	S.D.
For successful implementation of IFRS in the country the support of professional bodies is very great.	42	4.62	.492
The adoption and implementation of IFRS in a country with having limited professional bodies is very challenging.	42	4.62	.492
The existence of strong professional bodies play important roles in implementation of IFRS.	42	4.60	.497
The engagement & consultation of professional bodies facilitate implementation of IFRS.	42	4.67	.477
The existence of strong professional bodies enables members to provide and practice good international standard and provide expected quality assurance.	42	4.57	.501

(Source, Researcher's computation.)

Gyasi, (2009) define Professional bodies as a group of individuals with common interest and aspirations. Mir and Rahman (2005) as cited by (Tesfu, 2012) explain the existence of professional accounting bodies is a major factor that drives the decision to adopt IFRS.

The responses collected through the questionnaires as presented in the above table, have a mean result of more than 4.50 for all the five listed questions. The idea of the support of professional bodies for successful implementation and the difficulty of implementing the standards in a country having limited professional bodies is strongly agreed by the respondents and the result shows a mean of 4.62 & a standard deviation of 0.492 for both. Also, a mean of 4.60 & S.D of 0.497 is the result which shows the strong agreement of respondents on the important roles that existence of strong professional bodies plays in implementation of IFRS. The results suggest that, the role of professional bodies for the successful implementation of the new standards by the banks is very essential on the other hand there inadequate and limited existence is among the impediments for the standard's successful implementation.

In addition the respondents strongly agreed on importance of the engagement & consultation of professional bodies to facilitate implementation of IFRS (M=4.67; S.D=0.477) and the contribution of existence of strong professional bodies to provide and practice good international standard and provide expected quality assurance (M=4.57; S.D=0.501). But, level of development of local accounting professional bodies in Ethiopia is still very law. Almost all professional bodies that provides consultation service in the country i.e KPMG, PWC, Earnest & Young, Deloitte, Grand Toronto, etc… are accounting professional associations owned by other countries professionals. (Mihret, 2016) noted that due to lack of commitment among members the contributions of the Ethiopian accounting professional associations to the development of the accountancy profession has been limited.

4.4.3. Measurement of business performance

Table 4.15 Measurement of business performance

	N	Mean	S.D.
The fair value measurement can bring a lot of volatility and subjectivity in a financial statements.	42	4.17	.696
Complying with IFRS standards requires a number of significant changes in the way that finance departments collect, classify and present financial data.	42	4.43	.703

(Source, Researcher's computation.)

The absence of national accounting standards in the country is among the most motivating factor for the adoption of IFRS (Alemi, 2016). Adoption of IFRS increases complexity of financial reporting because it brought with new financial reporting principles and accounting systems. Since there is no proper financial reporting guidance on the part of the regulatory agencies its adoption would create the disastrous problem (Simegn, 2015).

NYOR, (2012) by citing the works of (Laux, C & Luez, C. (2009) stated that Fair Value Accounting is a way to measure assets and liabilities that appear on a company's balance sheet. The above table summarizes the SPSS results output of the collected responses using the questionnaire. It shows, with a mean greater than 4.00 the respondents agree on questions concerning the impact of IFRS on Measurement of business performance.

A mean of 4.17 & S.D=0.690 is the SPSS output result of the respondents agreement about the volatility and subjectivity in financial statements resulted from fair value measurement. Fair value is used in measurement of most items of financial statements. The use of fair value accounting can bring a lot of volatility and subjectivity to the financial statements. It also involves a lot of hard work in arriving at the fair value and valuation experts have to be used. Empirical findings suggest that being aware of the higher volatility of accounting figures under IFRS and understanding the main categories of adjustments affecting accounting figures and ratios in IFRS may likewise be important. In addition the available empirical materials reflect the issue of earnings volatility, whereby reduced volatility is translated into lower risk.

In addition The respondents agree on the necessity of changes by finance department on collecting, classifying and presenting activities of financial data to Comply with IFRS standards (M=4.43 & S.D=0.703). Ethiopia's financial reporting practices are driven by its tax laws and fragmented accounting practices acquired from the country's institutions of higher learning (Tesfu, 2012). This means the financial reports in the country are manly prepared for tax purpose and on the basis of requirements to attain these objectives. Whereas, since IFRS is principle based international reporting standard its requirements on the activities related to the collection, classification and presentation of financial data differ widely from the previous standard. IFRS recognizes the same set of standard financial statements, including the income statement, balance sheet and statement of cash flows. However, IFRS implementation would bring about changes in many accounting processes and information systems responsible for financial reporting and the preparation of financial statements, which in turn would affect the organization's governance structure and internal control (Emekaponuzo et. al, 2017).

4.4.4. Information Technology

Table 4.16 Information Technology

	N	Mean	S.D.
Change or update of all current accounting software & information system to a new one which will have to satisfy preparing accounts based on IFRS.	42	4.62	.623
The update of the information technology and information system shall require an investment of huge amount.	42	4.17	.696
The existing software and information system of the bank can support or satisfy the requirement of IFRS.	42	2.86	.952

(Source, Researcher's computation.)

As business transactions become more numerous and complex, the process of recording and reporting these transactions will necessarily become more sophisticated as well (Choi and Meek, 2008) Cited by (Simegn, 2015). IFRS mandates more comprehensive and detailed disclosures in financial reports. To capture this level of detail, organizations require information technology systems that are capable of tracking more granular information across a range of new data fields (Emekaponuzo et. al, 2017). A developed accounting infrastructure can best facilitate these accounting practices and enhance the effective application of documents into the reality (Thanh, 2015).

Every system within an organization that uses financial information is bound to be affected by conversion to IFRS. The implementation of IFRS and its disclosure requirements impacts the information technology infrastructure of an organization, particularly source systems, general ledgers, sub-ledgers and reporting mechanisms. IFRS implementation would bring about changes in many accounting processes and information systems responsible for financial reporting and the preparation of financial statements, which in turn would affect the organization's governance structure and internal control. On conversion to IFRS, the pre-existing systems would definitely not be able to facilitate the financial information requirements of IFRS. Such development would lead to a reassessment and change of those pre-existing data models. The existing interfaces and underlying databases would need to be adjusted. The company's financial systems and reporting infrastructure would also be changed to suit the changes in accounting policies and financial reporting processes (Emekaponuzo et. al, 2017). Similar to the empirical findings, the result of this study also confirm strong agreement of respondents on the need for change or update of all current accounting software & information system to a new one in order to satisfy preparing accounts based on IFRS (M=4.62 & S.D=0.623).

Adopting IFRS needs significant investment. Environmental limitations, such as money, computer system, and people skill, affect the behavior intention of IFRS adoption (Simegn, 2015). And the result of this study shows the respondents agreement on the requirement of huge investment for the update of information technology and information system (M=4.17 & S.D=0.696). The SPSS output (M=2.86 & S.D=0.952) shows respondents are remained neutral on the ability of existing software and information system of the banks to support or satisfy the requirement of IFRS. But, the age old electronic devices and the outdated software existing in most of the organizations compatibility with the new standard needs to be in evaluate critically.

4.4.5. Training and Education

Training and education are significant elements for successful transition to IFRS and to ensure the potential benefits from the adoption. A more highly educated population will require more sophisticated accounting systems to meet its information needs. Countries with less sophisticated educational systems may find the transition to IFRS more costly to implement compared to other countries with better education systems (Shimaa & Yangb, 2012).

Table 4.17 Training and Education

	N	Mean	S.D.
Lack of training facilities and academic course on IFRS will also pose challenge in the implementation process.	42	4.57	0.597
Implementation of IFRS requires high level of education, competency and expertise to be able to understand, interpret and the make use of the			

standards	42	4.52	0.505
The existence of institution that facilitate & provide training on IFRS and also certified members of professional body shall facilitate the practice of international standards.	42	4.38	.697
The bank finance officers and project team membership requires to take adequate training.	42	4.62	0.492

(Source, Researcher's computation.)

Thanh, (2015) stated, the factor called *educational level* also affects the utilization of accounting standards in developing countries as this factor exerts a direct influence on managers' cognition, accountants' skills as well as the awareness of information users. Furthermore, accounting infrastructure is the fundamental systems and services needed for proper and successful accounting practices including professional organization, accounting training system, etc. A developed accounting infrastructure can best facilitate these accounting practices and enhance the effective application of documents into the reality.

Based on the collected questionnaire data the respondents strongly agree on the lack of training and academic course will pose a challenge (M=4.57 & S.D=0.597), the requirement of high level of education, competency & expertise to be able to understand, interpret and make use of the standards (M=4.52 & S.D=0.505) and the need to provide adequate training for finance officers and project team members (M=4.62 & S.D=0.492). Also the respondents agree about the Idea that the existence of institution that facilitate & provide training on IFRS and also certified members of professional body shall facilitate the practice of international standards (M=4.38 & S.D=0.697).

The Financial Reporting Proclamation 847/2014 and Regulation 332/2014 set out various powers and duties of the Board aimed at achieving the objectives of the Board. Section 7(2) of Regulation 332/2014 authorizes the board to establish various advisory committees to assist it in discharging its responsibilities. Professional Education and Training committee is one of the committees organized by AABE. The role of this Committee is to develop, implement and manage the policies and practical requirements of the body for education, admission, re-admission, and continuing professional development (AABE 2014).

4.4.6. Capital Market

Table 4.18 Capital Market

	N	Mean	S.D.
The absence of capital market in Ethiopia has negative impact on the adoption of IFRS.	42	3.26	1.037
Non-existence of capital market makes the market value determination of financial instrument challenging.	42	4.07	.838

(Source, Researcher's computation.)

IFRS would tend to reduce earnings manipulation and enhance stock market efficiency (Punda, 2011). The above table summarizes the two questions distributed using the questionnaire to grasp information about respondents awareness & understanding on IFRS and capital market relationship. Based on the table the mean response of 3.26 & S.D of 1.037 indicates that the respondents remained neutral on the idea of whether the absence of capital market in Ethiopia has a negative impact on the adoption of the standard or not. But, previous studies indicate that the absence of capital market in a country will not have a significant negative impact on the implementation of the standard. Even absence of capital market will lower the time and complexity of adoption process.

Shimaa & Yangb, (2012), on there research titled Factors Affecting the Adoption of IFRS, stated that there are some environmental dimensions that hinder adoption. Factors that concern more domestic issues, such as the greater importance of taxation, may increase the political costs and transitional costs of adoption. Similarly, countries with higher levels of inflation and larger capital markets are more hesitant to adopt IFRS, which may relate to concerns about replacing existing standards.

However, the respondents expressed their agreement on the challenging effect of non-existence of capital market in the fair value determination process (M=4.07 & S.D=0.838).

Fair values are more value relevant than historical costs. A significant technical implementation challenge is the Fair-value measurement requirements of IFRS. With the absence of capital market, significant proportion of the assets shown at fair value will be valued not on the basis of market prices but on the basis either of management estimates or third party valuations. In determining the cost of the acquisition, marketable securities issued by the acquirer are measured at their fair value which is their market price as at the date of the exchange transaction, provided that undue fluctuations or the narrowness of the market do not make the market price an unreliable indicator (Shrivastava et. al, 2015).

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATION

INTRODUCTION

This chapter 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. Therefore this chapter gives the conclusions of the research finding, recommendations and suggestions for further research based on the results in chapter four.

5.1. SUMMARY AND CONCLUSIONS

The aim of this research paper was to investigate the prospects and challenges of adoption of International Financial Reporting Standards (IFRS) by Ethiopian Commercial banks. To achieve the intended objective, the study used both primary and secondary data sources. Hence, the primary data was gathered through questionnaires using purposive sampling technique. Regarding the secondary sources, data were generated through a review of relevant documents and various published articles and research papers. SPSS 20 software was used to analyze the primary data and the results were presented using descriptive statistical techniques.

The main questions of the questionnaire focused on the points that can serve to identify Ethiopian commercial banks adoption of IFRS, to understand the expected benefits of implementing IFRS and to understand the challenges faced by the institutions.

Ethiopia has officially mandated IFRS adoption in 2014 and subsequently established the Accounting and Audit Board of Ethiopia (AABE), which has taken its office as a new accounting regulatory organ of the country under the umbrella of the MoFED. The board has already designed and approved five years IFRS implementation strategic plan for which the effects are expected to be realized within the years to come and that the reporting entities are expected to be compliant with IFRS based financial reporting until 2019 deadline (Mihret, 2016).

The result of this study confirmed that the adoption of IFRS give broader benefits for both internal and external parties i.e. for the companies, management, investors, and stakeholders.

The results show that the implementation of IFRS will result in a number of important benefits for a wide range of concerned bodies. The adoption of IFRS will avoid the disharmonized reporting practices in the country existed due to lack of a national accounting standard and serve as a single reporting standard. The increased transparency result from implementation of the standard reduces organization problem between management and shareholders. The more reliable, comparable and quality financial reports obtained from IFRSs are expected to lower the cost of information processing and decision making by the concerned bodies. In addition prepares and auditors of financial reports will become familiar with one common set of international accounting standards and serve international clients.

The findings of the study also revealed some of the major problems that are challenging commercial banks in there adoption process. These challenges could be either country specific challenges or challenges that are common to all countries around the globe.

IFRS which is principle based standard is more complex than the previous rule based accounting and financial reporting standards to Implement. Another challenge of adopting IFRS can arise due to its emphasis on fair value accounting.

The legal and regulatory requirements, the inadequacy of professional bodies, poor technological advancements of the institutions, the absence of capital markets which helps to facilitate the market value determination of instruments, low accounting/IFRS knowledge and expertise possessed by financial statement users, preparers, auditors and regulators are among the challenges.

Finally, Now IFRS is in use throughout the world and being adopted increasingly by countries around the globe. Currently it is serving in the accounting environment more than any other accounting standard.

Along with, the results of the study suggest that, IFRS should have been implemented earlier by Ethiopia commercial banks due to the greater benefits it has compared to the associated problems. The benefits of IFRS seem to outweigh the costs and challenges associated with it, but only if it is effectively and efficiently implemented. It can be concluded that adoption of IFRS will have notable influence on performance of commercial banks in Ethiopia.

5.2. RECOMMENDATIONS

Abstracting from the above discussions, the study provides the following recommendations:

- IFRS should be adopted and implemented as soon as possible in order to give credibility to the financial reporting of the country and to obtain benefits that were discussed in the previous sections.
- IFRS mandates more comprehensive and detailed disclosures in financial reports. To capture this level of detail, organizations require information technology systems that are capable of tracking enormous and varied information across a range of new data fields.
- To avoid material misstatements because of management bias in the fair value determination of financial instruments due to the absence of capital market in the country, banks should employ/use fair value determining experts.
- Ethiopian Banks should search a means to equip and periodically update their staff in the education, expertise, technical capacities and IT challenges in connection with IFRS.
- To have adequate human resources for effective implementation of the new standards and made available for companies, auditing firms, and regulatory bodies; training of professionals, building the structure at a higher learning institutions level concerning the new standards, establishing peer review and advisory services actions should be taken by the AABE and other concerned bodies.
- Members of the accounting profession and others who are involved in the accounting and auditing practices need to have more commitment to organize and coordinate resources in collaboration with all concerned stakeholders to contribute their level best to the development of the profession and in turn to the accounting and auditing practices in the country.
- Since the adoption strategy of the country is using a forceful approach, in order to encourage the implementation progress of institutions and achieving the result

within the targeted timeline, continues follow-up and incentive programs need to be put in practice.

- The previous IAS statements are in an amendment process. And IFRS is a new and developing standard; there will be unseen difficulties in the preparation but observed during the process of implementing the standards in the real world. Therefore effective communication with standard setters and sending feedback gives a way to improve the standards further.

5.3. Recommendations for further studies

This study assessed the challenges and prospects of adopting IFRS from the perspective of the preparers of the financial reports i.e. commercial banks in Ethiopia. It is recommended that similar studies be carried out to find out the perspective of the users of the reports. Such a study should target shareholders, stakeholders, and regulatory agencies.

Another study also recommended on the economic consequences of forcing commercial banks in the country to change an entire set of financial reporting standards be as well carried out.

Further studies can also be undertaken to assess the state of readiness of Ethiopian commercial banks and relevant accounting organizations of a country.

Bibliography

AABE. (2015, November). AABE Five Year Strategic Plan (Fiscal years 2016-2021). Addis Ababa, Addis Ababa, Ethiopia.

Acquaye, S. (2015, November). The Adoption of International Financial Reporting Standard (IFRS) by Ghanaian companies the level of compliance with reference to the preparation of financial statement. Kwame Nkrumah University of Science and Technology.

AKPAKA, N. C. (2015, March). International Financial Reporting Standards (Ifrs) Adoption And Value Relevance of Financial Information of Listeddeposit Moneybanks In Nigeria. Ahmadu Bello University.

Alemi, T. D. (2016). IFRS Adoption Progress in Ethiopia. *Vol.7(ISSN 2222-1697 (Paper) ISSN 2222-2847 (Online))*. Research Journal of Finance and Accounting.

ATU, Oghogho Gina; RAPHAEL, Igbinosa Adeghe & ATU, Omimi- Ejoor Osaretin Kingsley. (2016, February). Challenges Othe Implementation of IFRS In Less Developed And Developing Countries. *Igbinedion University Journal of Accounting, 1* . Igededion University, Okada.

Ball, R. (2006). International Financial Reporting Standards (IFRS): pros and cons for investors. International Accounting Policy Forum.

C. J. Mgbame, P. A. Donwa And O. R. Agbonkpolor. (2015, October). International financial reporting standards (IFRS) and financial reporting implications. *International Journal of Multidisciplinary Research and Development, Volume: 2 (Issue: 10, 50-55)*. Nigeria : University of Benin.

CA. Mohammad Firoz (Corresponding author); Prof. A. Aziz Ansari And Kahkashan Akhtar. (2011, March). IFRS – Impact on Indian Banking Industry. New Delhi, India: Canadian Center of Science and Education.

Daferighe Emmanuel Emekaponuzo, Ofonime Okon Jeremiah & Emah Joseph Alfred. (2017). Information Technology Implications of IFRS Implementation in Nigeria:

Challenges to Auditors. *Journal of Investment and Management., 6*. (22-27, Ed.) Uyo , Awka, Nigeria: University of Uyo & Nnamdi Aizikwe University.

Dimos, A. A. (2011, July). IFRS and European Commercial Banks: Value Relevance And Economic Consequences. United Kingdom : UNIVERSITY OF BIRMINGHAM.

Dr.P.FareedMastan, ZINABU GEBRU, A.Anuradha And FISSA KASSA (MSC). (2015, July). Implementation of Ifrs in Ethiopian Banks: an Assessement of Banks' Reluctance to Implement It,. *4(7)*. International Journal of Scientific Research.

Financial Report Proclamation No 847/2014. (2014, December 5). Financial Report Proclamation No 847/2014. Addis Ababa, Ethiopia: FDRE -FEDERAL NEGARIT GAZETTE.

Gideon Tayo Akinleye (Ph.D). (2016). Effect Of International Financial Reporting Standards (Ifrs) Adoption On The Performance of Money Deposit Banks In Nigeria. *Vol. 4, No. 4,*. Ado-Ekiti, NIGERIA: European Journal of Business, Economics and Accountancy.

GYASI, A. K. (2009). Adoption of International Financial Reporting Standards in Developing Countries - The Case of Ghana. 74+8 Appendices. Ghana: Vaasa Ammatikorkeakoulu University Of Applied Sciences.

Hailemichael, M. (2016, May 20). Adoption, Challenges and perception of International Financial Reporting Standards (IFRS) on the Quality of Financial Reporting of Financial Institution in Addis Ababa, Ethiopia. Addis Ababa, Ethiopia: Addis Ababa University.

Harvey, C. (Not stated year). BANKING REFORM IN ETHIOPIA. 13-14.

http://www.spi-albania.eu/en/2008-program/the-impact-on-the-bankingregulation-of-the-ifrs-implementation/. (n.d.).

IFRS Foundation. (2010, September). The Conceptual Framework for Financial. IFRS Foundation.

IFRS Foundation. (2011, May). International Financial Reporting Standard 13 Fair Value Measurement. IFRS Foundation.

Ikpefan, Ochei Ailemen & Akande, A.O. (2012). International Financial Reporting Standard (Ifrs): Benefits, Obstacles And Intrigues For Implementation In Nigeria. Ota, Ogun Stat, Nigeria: Covenant Universitye.

International GAAP . (2016). John Wiley & Sons Ltd.

Karthik Ramanna and Ewa Sletten. (2009, March 24). Why do countries adopt International Financial Reporting Standards? Harvard Unirsity .

Karthik Ramanna and Ewa Sletten. (2013, August 22). Network Effects in Countries' Adoption of IFRS. *(10-092)*. Masachuset, United States: Harvard Businnes School.

Kebede, E. (2014, June). The Impact of National Bank Regulation on Banks Performance: Evidence from the Private Banks of Ethiopia. Addis Ababa, Ethiopia: Addis Ababa University.

Kenneth Duru and Alexandros Tsitinidis. (2013, MAY). Managerial Incentives and Earnings Management: An Empirical Examination of the Income Smoothing in the Nordic Banking Industry. Uppsala University.

Kim M. Shimaa and David C. Yangb. (2012, March). Factors Affecting the Adoption of IFRS. *International Journal Of Business, 17(3), 2012(ISSN: 1083-4346)*.

Kothari, C. (2004). *Research Methodology, Methods andTechniques* (Second Revised Edition ed.). New Delhi: New Age International (P) Limited, Publishers.

Kulikov, M. (2007, May). IFRS adoption in one Norwegian and one Russian Bank; A Comparative Study.

Lelissa, T. B. (2014). The Determinants of Ethiopian Commercial Banks Performance. European Journal of Business and Management.

Mansulu, A. (2015, July). Corporate Compliance With International Financial Reporting Standard Of Listed Banking Financial Institutions In Ghana. Kumasi, Ghana: Kwame Nkrumah University Of Science And Technology.

Mary E . Barth, Wayn E R. Land Sman And Mark H. Lang. (2008, June). International Accounting Standards and Accounting Quality. USA: University of Chicago on behalf of the Institute of Professional Accounting.

Mihret, Y. (2016, March). IFRS Adoption in Ethiopia: A Critical Analysis of the Process, Issues and Implications. Addis Ababa, Ethiopia: Addis Ababa University.

NBE. (2008, August 25). Banking Business Proclamation No. 592/2008. Addis Ababa: FDRE.

NYOR, T. (2012, June). Challenges of Converging to IFRS in Nigeria. *Vol-2* . Nigrria: Nigerian Defence Academy, Kaduna.

Odia,.J.O. (Ph.D) And Ogiedu, K.O. (PhD). (2013, September). IFRS Adoption : Issues, Challenges and Lessons for Nigeria and other Adopters. *Vol 4* . Rome, Italy: Mediterranean Journal of Social Sciences.

Oğuzhan Bahadıra; Volkan Demira & Aslı Gül Öncel. (2016). IFRS implementation in Turkey: benefits and challenges. *Accounting and Management Information Systems, 15,*, 5-26. Turkey: Galatasaray University.

Palea, V. (2013, October 7). IAS/IFRS and financial reporting quality: Lessons from the European experience. *China Journal of Accounting Research*. Italy: University of Torino.

Preeti shrivastava, D.S Rawat & Deepti Maheswari. (2015, July). A Study on Challenges and Prospects of IFRS in Indian Accounting System. *2(4)*. International Journal Of Core Engineering & Management (IJCEM).

Punda, P. (2011, June). The Impact Of International Financial Reporting Standard (IFRS) Adoption On Key Financial Ratios – Evidence From The UK. Aarhus School of Business.

Report On The Observance Of Standards And Codes (Rosc) Ethiopia. (2007, November). Report On The Observance Of Standards And Codes (Rosc) Ethiopia.

Samira Demaria & Dominique Dufour. (2007, Apr). First time adoption of IFRS, Fair value option, conservatism: Evidences from French listed companies. Lisbon, Portugal.

Shaffer, S. (2011, December 31). Evaluating the Impact of Fair Value Accounting on Financial Institutions: Implications for Accounting Standards Setting and Bank Supervision. *Federal Reserve Bank of Boston*. Retrieved from http://www.bostonfed.org/bankinfo/qau/wp/index.htm

Simegn, Y. (2015, January). Adoption of International Financial Reporting Standards (IFRS) in Ethiopia: Empirical Evidence. *04(2251 1555)*. Debre Markos, Ethiopia: Debre Markos University.

Sumon Bhattacharjee And Muhammad Zahirul Islam. (2009, December). Problems of Adoption and Application of International Financial Reporting Standards (IFRS) in Bangladesh. *4*. International Journal of Business and Management.

Sumon, Bhattacharjee., & Muhammad, Zahirul, Islam. (2009). *International journal of business and management, 4* . East West University.

Tesfaye, T. (2012, June). Determinants of Banks Liquidity and their Impact on Financial Performance: empirical study on commercial banks in Ethiopia. Addis Ababa, Ethiopia: Addis Ababa University.

Tesfu, F. F. (2012, May). *The Adoption of International Financial Reporting Standards (IFRS) in Ethiopia: Benefits and Key Challenges*. Addis Ababa, Ethiopia: Addis Ababa University.

Thanh, T. T. (2015, January 20). An Analysis of the Factors Affecting the Adoption of Accounting Legislation by Small and Medium-Sized Enterprises (SMES) in Vietnam. *10(1833-3850)*. Hochiminh, Vietnam: Canadian Center of Science and Education.

www.accaglobal.com accesed on21.05.2017. (n.d.). IFRS 13, Fair value measurement.

www.ifrs.com/ifrs-faqs.htm . (2017).

Zakari, M. A. (2014). Challenges of International Financial Reporting Standards (IFRS) Adoption in Libya. *4 (2162-3082)*. Tripoli, Libya: International Journal of Accounting and Financial Reporting.

APPENDIXES

Appendix 1. Questionnaire Data

St, Marry University

Department of Accounting and Finance

MBA in Accounting and Finance

This questionnaire is designed to collect data for research work (thesis) on IFRS adoption process of Ethiopian commercial banks. This study is conducted in partial fulfillment of the requirements for the Master's degree in Accounting and Finance at St. Marry University. Its main objective is to explore level of adoption, challenges and prospects of international financial reporting standards (IFRS) by commercial banks in Ethiopia.

Please answer all the questions completely and objectively. Your objective and genuine responses are very valuable for the successful completion of this study. And 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.

I would promise that all information you provide would be strictly confidential.

Thank you very much in advance for your cooperation and sacrificing your valuable time!!!

With Kind Regards,

Addisu Tibebu

PART1. General Information

1. Gender

O Male O Female

2. Educational Background: O Diploma O BA/BSC Degree

O MSc/ MA O Other Specify ________________

3. Working Experience:

O Less than 5 years O 6 to 10 years O 11 to 15 years

O 16 to 20 years O Over 20 years

4. Your current Position in the organization

O Finance Manager O Deputy Finance Manager

O Other please specify ________________________

5. Does your company now reporting based on IFRS?

O Yes O No

If your answer for question number 5 is "Yes" When did your company start using IFRS? Please

state the year____.

6. Did you get through formal training when IFRS was introduced?

O Yes O No

7. Have you ever attended any seminar concerning IFRS?

O Yes O No

PART 2: IFRS Adoption

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

1. Benefits of adopting IFRS to companies	**SA**	**A**	**N**	**D**	**SD**
1. Do you think the previous statement of accounting standards your company used partly outdated?					
2. Statement of accounting standards used in your company is not sufficiently comprehensive enough to become a basis for preparation of high quality financial statements.					
3. In practice IFRS has really improved the reporting practice in your company compare to the GAAP.					
4. Adoption of IFRS will improve usefulness of Accounting information.					
5. Adoption of IFRS improves the efficiency of financial reporting.					
6. Financial statements based on IFRS are more reliable and comparable.					
7.Adoption of IFRS improves effectiveness of financial reporting.					
8. Use of Fair value Measurement in preparation of statements under IFRS helps to provide useful and accurate information for economic decision making.					
9. It provides greater reporting transparency.					
10. It enables greater effectiveness of the internal audit.					
11. There is a greater efficiency and decrease in cost of finance under IFRS than in GAAP.					
2. Benefits for Investors	**SA**	**A**	**N**	**D**	**SD**
1. IFRS can help the local investors to make better investment decisions					

compare to the GAAP.					
1. Use of Fair value Measurement in preparation of statements under IFRS helps to provide useful and accurate information for economic decision making.					
2. Investors will have more confidence in the information presented using IFRS.					
3. Adoption of IFRS enhance transparency of companies through better reporting.					
3. Benefits of IFRS for management					
1. Enables better risk management.					
2. IFRS improves management information for decision making					
3. IFRS promotes cross border investment					
4. Benefits of IFRS for other stakeholders					
1. IFRS adoption improves regulation oversight and enforcement					
2. IFRS provides greater credibility and improved economic prospects for the accounting profession					
3. It provides better reporting and information on new and different aspects of the business than GAAP.					

NB:- **SA**: Strongly Agree **A**: Agree, **N**, Neutral **D**: Disagree, **SD**: Strongly Disagree

PART 3: Challenges Faced in the Adoption of IFRS

Challenges Faced in the Adoption of IFRS						
	1. Legal and regulatory requirement	**SA**	**A**	**N**	**D**	**SD**
1	NBE directives & regulatory laws require the bank to provide annual financial statement in compliance with requirement of commercial code.					
2	The existing proclamation requires the organization to provide financial statement in compliance with GAAP.					
3	The existing accounting provision in commercial in commercial code and the NBE amend in order to implement IFRS in the banks.					

4	The existing regulatory law & NBE directives for preparation of financial statement for banks need to be updated per international practices in order to establish sound financial reporting standard.					
	1. **Professional Bodies**					
1	For successful implementation of IFRS the support of professional bodies is very great.					
2	The adoption and implementation of IFRS in a country with having limited professional bodies is very challenging.					
3	The existence of strong professional bodies play important roles in implementation of IFRS.					
4	The engagement & consultation of professional bodies facilitate implementation of IFRS.					
5	The existence of strong professional bodies enables members to provide and practice good international standard and provide expected quality assurance.					
	1. Measurement of business performance					
1	The change in financial reporting standard have significant impact on financial position and financial performance of the financial institutions.					
2	The fair value measurement can bring a lot of volatility and subjectivity in a financial statements.					
3	Complying with IFRS standards requires a number of significant changes in the way that finance departments collect, classify and present financial data.					
	2. Information Technology					
1	Change or update of all current accounting software & information system to a new one which will have to satisfy preparing accounts based on IFRS.					
2	The update of the information technology and information system shall require an investment of huge amount.					
3	The existing software and information system of the bank can support or satisfy the requirement of IFRS.					
	3. Training and Education					

1	Lack of training facilities and academic course on IFRS will also pose challenge in the implementation process.					
2	Implementation of IFRS requires high level of education, competency and expertise to be able to understand, interpret and the make use of the standards					
3	The existence of institution that facilitate & provide training on IFRS and also certified members of professional body shall facilitate the practice of international standards.					
4	The bank finance officers and project team membership requires to take adequate training.					
4. Capital Market						
1	The absence of capital market in Ethiopia has negative impact on the adoption of IFRS.					
2	Non-existence of capital market makes the market value determination of financial instrument challenging.					

NB:- **SA**: Strongly Agree **A**: Agree, **N**, Neutral **D**: Disagree, **SD**: Strongly Disagree.

Again, thank you very much for your cooperation and sacrificing your valuable time!