



Wolkite University
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COLLEGE OF BUSINESS AND ECONOMICS
DEPARTMENT OF ACCOUNTING AND FINANCE

**THE ASSESSMENT OF CHALLENGES OF IFRS ADOPTION IN THE
CASE OF ETHIO TELECOM**

**A RESEARCH SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS
FOR THE AWARD OF BACHELOR DEGREE IN ACCOUNTING AND FINANCE**

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Declaration

I'm shilimat Tekalign here by declare that the thesis work entitled "The Assessments of Challenges of IFRS Adoption: The Case of EthioTelecom" submitted for the award of BA degree in accounting and Finance of Wolkite University Studies is genuine work done originally by me. Any literature materials or works done by other researchers and used for this study cited within this dissertation has been duly acknowledge and listed in the reference section.

Name

Signature

Shilimat Tekalign

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ACRONYM

ASC Audit Service Corporation

EPAAA Ethiopian Professional Association of Accountants and Auditors

EU European Union

GAAP Generally Accepted Accounting Principle

IAS International Accounting Standard

IASB International Accounting Standard Board

IASC International Accounting Standard Committee

IFRIC International Financial Reporting Interpretation Committee

IFRS International Financial Reporting Standard

SIC Standard Interpretation Committee

SME Small and Medium Enterprise

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ABSTRACT

This study focuses on the adoption of international financial reporting standard(IFRS). Key challenges of in ethio telecom. The study uses both primary and secondary data. Primary data were collected through questionnaire and secondary data were collected from reference books and internet source. IFRS adopted officially in December 2014 & the main objective of IFRS is to coverage the diverse business language being used by business communities all over the world. Finally, the study displayed practical implication for government of Ethiopia & Ethio telecom to use proper application of all adopted standard also the study suggests that rigorous IFRS capacity building program should be embarked by the government &company also for training institution in order to provide the needed man power for IFRS implementation.

Finding of the study High Implementation Cost 60% strongly agreed and 40% agreed that IFRS adoption is costly. Expensive consulting fees,Lack of qualified personnel for IFRS implementation ,Absence of a structured market for fair value measurements. High training costs .Complexity of Financial Reporting 80% agreed and 20% strongly agreed that IFRS increases reporting complexity. Reasons: Continuous updates to IFRS standards. Principle-based nature (vs. rule-based GAAP). Extensive disclosure requirements. Lack of familiarity with IFRS among professionals. Lack of Implementation Guidance 80% agreed and 20% strongly agreed that insufficient guidance hinders adoption. Challenges include: Absence of clear instructions from regulatory bodies. Risk of inconsistent interpretations. Volatility in Earnings :40% agreed, 20% strongly agreed, and 20% disagreed that IFRS increases earnings volatility. Reasons: Fair value accounting (vs. historical cost).Economic instability in Ethiopia (e.g., fluctuating interest rates. Fair Value Accounting Issues :80% strongly agreed that fair value measurement is problematic

Lack of observable market data :No reliable valuation experts in Ethiopia.

IT System Limitations :60% agreed that existing IT systems struggle with IFRS transition.

KEYWORDS:- IFRS, ETHIO TELECOM

Chapter one

1. INTRODUCTION

The study assessed the key challenges of international financial reporting standards (IFRS) in Ethiopian Telecommunication Corporation. The first chapter deals with introductory topics that include background of the study, statement of the problem, research question, objective of the study, significance of the study, scope of the study, organization of the study, and limitation of the study. The introductory topics place the study under context.

1.1 BACKGROUND OF THE STUDY

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

International Financial Reporting Standards (IFRS), a single set of high quality, understandable and globally accepted reporting standards, have been adopted by more than 100 countries across the globe (IASB, 2016). The main rationale behind the evolvement of IFRS is the harmonization and convergence of the diverse business languages used by the business communities all over the world. IFRS offer a single set of principle-based reporting standards, which offer high-quality, transparent, and comparable financial information for users.

The adoption of IFRS has plenty of value propositions that have to be assessed through empirical studies including access to capital, minimized data integration costs, transparent information, improved decision quality, and reduced cost of capital. However, its adoption poses challenges to the adopter(s) that shadow the value proposition of such reporting standards. Despite the fact that IFRS

has an SME version, such challenges are claimed to be of paramount importance to developing countries like ours. This mainly is due to IFRS's orientation towards fair value and structured market data, which is non-existent in such economic contexts as sub-Saharan Africa. Accordingly, the benefits of such initiatives have to be studied in detail before the scarce resources of such poor economies are invested in its adoption to duly assess whether such value propositions are realizable. Further, the key challenges that may curtail the value realization have to be identified ex-ante and appropriate checking measures have to be forethought before they begin to be actual problems that waste the limited financial resources of poor countries like Ethiopia in vain.

Ethiopia is one of the sub-Saharan African countries which have adopted IFRS. In Ethiopia, IFRS adoption initiatives exist as early as 2008 as evidenced in the banking business proclamation no. 592/2008 that permits banks to prepare their reports using International Financial Statement Standards. Accordingly, there were handfuls of companies that have started using IFRS voluntarily for the preparation of their financial statements since then. The IFRS adoption of such companies was marred by poor preparation, lack of knowledge, and devotion of resources, and resulted in an impotent adoption.

However, nationally IFRS is adopted officially in December 2014 through an act of law via the financial reporting proclamation no. 847/2014 (Ethiopian proclamation). The objective of the proclamation is to ensure public interest as envisaged by the International Accounting Standard Board (IASB) by using a single set of high quality, understandable, enforceable, and globally accepted financial reporting standards that bring transparency, accountability, and efficiency to financial markets around the world. Those standards serve the public interest by fostering trust, growth, and long-term financial stability in the global economy (IFRS Foundation, 2015).

Worldwide convergence of the fragmented accounting standards is seen as an attempt to reduce accounting diversity across countries. Such initiatives of reducing accounting standards may seem a timely effort to integrate the reporting languages as evidenced with the recent increased globalization in international market, international trade, cross-border financial transactions, and investment opportunities. Therefore, this had led to the adoption of IFRS as a basis for preparing and presenting accounting reports across several national borders.

However, the adoption of IFRS is now becoming a trend across countries given either the enormous value propositions it promises to provide countries and multinational companies or it is the accounting fashion of the day (Tesfu, 2012). Hali, Leuz and Wysocki (2010) argue supporting the adoption of IFRS. They state that IFRS is in recognition of the need to have quality financial reports and other benefits such as its ability to significantly improve the comparability of entities, giving better access to global capital markets, and reduced cost of capital (Apostlos et al, 2010, internet).

According to (Fantahun, AAU, 2012), different set of studies have been conducted in relation to the importance and the challenges of adopting IFRS. Data from member countries of the EU until now, as per the knowledge of the researcher, very little empirical research on the adoption of IFRS has been conducted in Ethiopia. This study will make an attempt to bridge the gap and tries to study and assess the challenges faced by the Ethiopian Telecommunication Corporation in the process of adoption of IFRS.

By utilizing an analytical framework from the extent literature and empirical evidence, the research has elaborated in more detail the challenges of the adoption of IFRS in the case of Ethiopian Telecommunication Corporation. It also draws inferences regarding the adoption of IFRS in Ethiopian Telecommunication Corporation by distributing questionnaires to the participants in preparing the reports, interview, and review of some documents.

1.2 STATEMENT OF THE PROBLEM

In recent years, the development of international accounting standards and adoption by such industrialized countries as Britain, Germany, United States of America, and Canada have been a major concern among accounting professionals. Less attention has been given to developing countries.

IFRS are sets of standards or requirements that dictate the measurement, recognition, presentation, and disclosures to be used in the preparation of financial statements by business entities. IFRS are accounting standards that are principle-based, market-oriented, globally accepted, and published to require more extensive disclosure in comparison with prior standards, for example, US Generally Accepted Accounting Principles (GAAP).

Because of globalization, the world's financial markets are becoming borderless from time to time, and as a result, companies, regardless of their size, seek capital at the best price wherever it is available. Investors and lenders seek investment opportunities wherever they can get the best returns commensurate with the risks involved. To assess the risks and returns of their various investment opportunities, investors and lenders need financial information (Pacter, 2015).

According to the IFRS Foundation (2013), adopting IFRS is like starting a family as it requires careful planning, commitment, and complete understanding of its implications. There are three steps that new adopters of IFRS should pass through before adopting it.

According to this guide, the first step is making a policy decision through building consensus among concerned stakeholders. The second step is preparing a plan by building in targets and deadlines, making them public and helping to identify obstacles that must be overcome.

The third step is identifying the resources that are on hand and what the researcher needs to implement the new standards (such as availability of local professionals at company and national level, finance for capacity building and source of finance, material and technical supports). These milestones ensure to maximize key benefits and to minimize the challenges of IFRS adoption.

Most of the challenges are not inherent in the above steps, however, instead, it emanates from the basic principle that these standards require market data, fair value, professional judgments, which are non-existent in poor economic contexts like the sub-Saharan Africa.

Various survey studies have been conducted to assess the challenges, effect, and benefits of adopting International Financial Reporting Standards in the world. When we come to our country Ethiopia, there are different survey studies focused on the assessment of the adoption of International Financial Reporting Standards in the whole, but there are not much more studies focused on the assessment of adopting IFRS in Ethiopian large company level.

This study makes an attempt to bridge this gap and tries to study and assess the specific challenges in the process of adoption of International Financial Reporting Standards in case of Ethiopian Telecommunication Corporation.

Also, different accountants and IFRS trainers who have participated in the preparation of IFRS reports said that IFRS conversion has many challenges such as increased volatility of earnings, high cost of implementation, complex nature of IFRS, and problems related to the shortage of well-trained professionals, absence of valuation experts in ascertaining fair value, and absence of structured market.

So, this study is therefore motivated because the study tries to examine the key challenges faced by the company in the first-time adoption and tries to give a direction to examine and to minimize their challenges in preparing their financial report again for the foreseen fiscal year.

Lack of previous standard-setting institutional vehicles, lack of organized physical and financial exchanges, and lack of regulated accounting professionals and lack of financial resources characterize the existing Ethiopian economy. Ethiopia as a developing country does not have both organized local financial reporting standards and IFRS. From these, it follows the researcher needs to study the challenges that should be overcome to benefit from the adoption of IFRS.

In spite of the numerous studies about the adoption of International Accounting Standards by developed and industrialized countries around the world, less attention has been given to developing countries. There are scant articles about the adoption of accounting standards by developing countries in general and Ethiopia in particular. Hence, this study aims to fill the unavailability of a study that addressed adoption of IFRS benefit and challenge in the country.

To this end, the study aims to identify the benefits and challenges of adopting IFRS in Ethiopia in the case of Ethio Telecom.

1.3 RESEARCH QUESTION

My study objective is to investigate the key challenges in adopting International Financial Reporting Standard in Ethio Telecom. In order to achieve the above intended objective, this study tried to answer the following specific research questions:

Q1: What are the practical challenges of IFRS adoption for your company level?

Q2: What is the reason behind IFRS's high cost of implementation?

Q3: How IFRS increase the complexity of financial reporting?

Q4: How IFRS increase volatility of earning?

1.4 OBJECTIVE OF THE STUDY

1.4.1 GENERAL OBJECTIVE

The general objective of the study is investigating the key challenges of IFRS adoption in case of Ethio Telecom.

1.4.2 SPECIFIC OBJECTIVE

The specific objective of this thesis statement is:

- To assess the practical challenges of IFRS adoption in Ethio Telecom
- To assess the reason behind IFRS's high cost of implementation
- To assess how IFRS offset the complexity of financial reporting
- To assess how IFRS offset the volatility of earning

1.5 SIGNIFICANCE OF THE STUDY

The study has many advantages for all practitioners by providing useful information about IFRS. It will also be useful for organization's management by providing information about the theoretical and actual challenges of adopting IFRS. It is also very important for academic purposes by providing information in regard to the statement of the problem.

The study has also been used as an initiation for those who are interested to conduct detailed and comprehensive study regarding to adoption of International Financial Reporting Standard in different sector areas. And it enables the governing body, especially the higher responsible body and the management of the enterprise, to be aware of the perceived and actual challenges of IFRS and give insight to reduce those challenges when they prepare their report by using the standard in the foreseen period.

1.6 SCOPE (DELIMITATION) OF THE STUDY

The general aim of the study is to assess the adoption of IFRS in Ethiopia limiting its scope to companies adopting this standard significantly related with the Ethiopian Telecommunication Corporation. Owing to the broad and the complex nature of IFRS, this study focused on the assessment of IFRS adoption in Ethio Telecom. In light of the limiting research that exists on IFRS and its adoption within the Ethiopian context, the study was built on the current body of knowledge.

1.7 ORGANIZATION OF THE PAPER

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

1.8 LIMITATION OF THE STUDY

In the process of conducting this study, there are certain constraints which limit the scope of the study. Some of these constraints are the following:

- Because of the restricted supply of data, the researcher was unable to get all the needed data from the enterprise.
- Shortage of time.
- Shortage of sufficient reference materials.

CHAPTER TWO

LITERATURE REVIEW

2. INTRODUCTION

This section presents a review of related literature on International Financial Reporting Standards (IFRS) and their adoption. It consists of a general overview of IFRS, the benefits and challenges of adopting IFRS, and the development of accounting in Ethiopia. In general, this chapter synthesizes existing empirical research in the area of international accounting standards and ends by summarizing the review and identifying the gaps in the existing literature.

2.1 THEORETICAL LITERATURE

2.1.1 IFRS FOUNDATION

The International Financial Reporting Standards (IFRS) Foundation reports directly to the Monitoring Board and is responsible for complete oversight of the International Accounting Standards Board (IASB). Over and above responsibilities related to standards, the foundation is also responsible for fundraising, approving the IASB budget, and any constitutional changes (IFRS: 2011).

The IFRS Foundation is first and foremost a non-profit organization that raises funds for the operations of the IASB. It was stated in a journal article (Background information on the IASB: 2002) that the fund is obtained from various global sources, such as market participants from across the world's capital market, relevant regulatory bodies, and levies introduced for listed and non-listed companies in many countries across the world.

A geographically and professionally diverse body of trustees who madamadam publicly accountable to a monitoring board oversees the IFRS Foundation. The foundation is supported by an external IFRS Advisory Council and an IFRS Interpretation Committee to offer guidance where divergence in practice occurs, and a thorough, open, participatory, and transparent due process that includes engagement with investors, regulatory officials, business leaders, and the global accounting profession at every stage of the due process (Ibid).

The foundation is headed up by trustees, who are appointed for a renewable term of three years. The trustees are not involved in any technical matters, as these are the responsibility of the IASB. However, they are required to be sensitive to any international issues that are relevant to the success of the IFRS Foundation (Ibid).

"Selection of the trustees is done per the foundation's constitution, which stipulates that six of the trustees must be selected from Europe, Asia, or the Oceania region, six from Europe, six from North America, one from Africa, one from South America, and two from the rest of the world. Jeff van Rooney of South Africa is currently the representative from Africa. The sole objective of the IFRS Foundation is to guide the IASB to develop a single set of high-quality, understandable, enforceable, and globally accepted financial reporting standards based upon clearly articulated principles" (IFRS: 2011).

In developing these standards, the IASB makes use of the expertise of various committees, such as the IFRS Interpretation Committee and the IFRS Advisory Council.

2.1.2 THE IFRS CONCEPT

IFRS stands for "International Financial Reporting Standards," and they are standards for reporting financial results and apply to general-purpose financial statements and other financial reporting of all profit-oriented entities. The term "IFRS" comprises IFRS issued by the IASB, IAS issued by the IASC, and interpretations issued by the Standing Interpretations Committee (SIC) and the International Financial Reporting Interpretation Committee (IFRIC) of the IASB (Larson et al., 2008).

According to Alistar (2010, as cited by Mukoro, internet), the International Financial Reporting Standard (IFRS) is a series of accounting pronouncements published by the International Accounting Standards Board (IASB) to help prepare financial statements around the world and to produce and present high-quality, transparent, and comparable financial information.

Since 2001, IFRS has been developed and approved by the IASB, a stand-alone, privately funded accounting standard-setting body established to develop global standards for financial reporting. It is the successor to the International Accounting Standards Committee (IASC) (Larsen et al., 2008).

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

judgment by the preparer and the auditor in applying the principles of accounting based on the economic substance of economic transactions rather than only their legal form. Many IFRS explicitly state this principle. The IASB does not intend to allow accounting treatment choices because its goal is to require transactions and events to be accounted for and reported similarly, and unlike transactions and events to be accounted for differently.

According to IASB (2009), the IASB achieves its objective primarily by developing and publishing IFRS and promoting the use of those standards in general-purpose financial statements and other financial reporting.

Another component of financial reporting is information provided outside financial statements that assists in the interpretation of a complete set of financial statements or improves the ability of the user to make efficient economic decisions. The term "financial report" encompasses general-purpose financial statements plus other financial reporting.

IFRS set out recognition, measurement, presentation, and disclosure requirements dealing with transactions and other events and conditions that are important for general-purpose financial statements. They may also set out such requirements for transactions, events, and conditions that arise mainly in specific industries.

The IFRS are based on a framework that addresses general-purpose disclosures underlying the information presented in general-purpose financial statements. The objective of the framework is to facilitate the consistent and logical formulation of IFRS. It also provides a basis for the use of judgment in resolving accounting issues (IASB 2009).

2.1.3 INTERNATIONAL ACCOUNTING STANDARDS

Attempts to reduce accounting differences across countries have been ongoing for more than three decades because of the problems associated with worldwide accounting diversity. The ultimate goal of reducing accounting diversity is to have all companies around the world follow one set of accounting standards (Baker E. et al., 2009).

With growing international markets and international investment opportunities, the advantage of uniform worldwide accounting standards as a global language of financial information has become more and more apparent (Appostolos et al., 2010).

The adoption of IFRS is becoming a trend among countries because of the wide array of advantages it provides for countries and multinational companies. As of February 2012, approximately 120 nations and reporting jurisdictions permitted or required IFRS for domestic listed companies, of which 90 countries have fully conformed to IFRS as promulgated by the IASB and included a statement acknowledging such conformity (AICPA, 2012).

According to the proponents of accounting harmonization, worldwide comparability of financial statements is necessary for the globalization of capital markets. It would be easy for investors to evaluate potential investments in foreign securities, and it would also simplify multinational companies' evaluation of possible foreign takeover targets.

IFRS would reduce the cost of preparing worldwide consolidated financial statements. Multinational companies would also find it easier to transfer accounting staff to other countries (William et al., 2010).

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

"If markets are to function properly and capital is to be allocated efficiently, investors require transparency and must have confidence that financial information accurately reflects economic performance. Investors should be able to make comparisons among companies to make rational investment decisions in a rapidly globalizing world."

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

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

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

Opponents of accounting harmonization also argue that because of different environmental influences, differences in accounting might be appropriate and necessary. Accounting systems should be oriented differently in countries at different stages of economic development, for example.

Another argument against using IFRS is that the magnitude of the differences between countries and the political cost of eliminating those differences could be quite high (Richard, 1991).

Recently, several academics have questioned the quality of financial reporting using IFRS. Earnings management did not decline after the introduction of IFRS (Stolowy, 2008).

The adoption of IFRS will increase the comparability of consolidated accounts as well as the level of transparency for many companies, e.g., through expanding segment disclosures, reporting unfunded pension obligations, and the recognition of derivatives on balance sheets at fair value.

Even though IFRS has the aforementioned benefits, the preparation of the financial statements becomes time-consuming due to the amount of information that is required, which in turn leads to an increase in accounting activities (Apostolos et al., 2010).

2.1.4 ADVANCED APPROACHES TO IFRS ADOPTION

A country can change its existing accounting system to a globally recognized accounting standard called IFRS either by replacing it or customizing it with IFRS over time. The first approach is known as adoption or the "big bang" approach, while the latter is called the convergence approach. The "big bang" approach is a strategic decision to adopt IFRS on a single date or, perhaps, a series of dates applied to companies of different sizes. Once IFRS is adopted, all IFRS standards must be followed when preparing financial statements, and the existing accounting standard must be replaced with IFRS, whereas in the convergence approach, a gradual transition to IFRS is made by customizing the existing accounting standards, and IFRS is applied gradually. Converging a few local standards to IFRS 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 IFRS, and the convergence approach can also allow time for necessary changes in local legal frameworks (IFRS Foundation Guide, 2013).

2.1.5 FACTORS AFFECTING IFRS ADOPTION

According to Iyoha and Fabolouse (2011), the adoption of international financial reporting standards is largely driven by several factors, including professional support with IFRS experience and company self-enforcement. Similarly, Mir and Rahman (2005) examined the factors that influenced the recent decision of the Bangladeshi government and accounting profession to adopt IASs. According to the findings of their study, institutional legitimacy is the most important factor influencing the decision to adopt IAS. They argued that this was due to pressure on the Bangladeshi government exerted by key international institutions, professional institutions, and accounting bodies.

Chamisa (2000) evaluated the contradictory relevance of IASs to developing countries and used the particular case of Zimbabwe. The study reported that there has been a significant increase in the number of professional bodies in developing countries. These professional bodies have supported the adoption of IASs, which suggests that these standards are relevant and not harmful to developing countries.

The results showed that the adoption of IASs and their impact on the reporting practices of the listed Zimbabwe companies appeared to be significant and relevant to the country as well as similar developing countries where shareholder value is important. Factors such as government policy, professional bodies, company size, capital market, and educational level were considered responsible for a radical, paradigmatic shift in the accounting practice.

2.1.6 IFRS ADOPTION DIFFICULTIES

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

As evidenced by the global experience, convergence with IFRS would have significant challenges common to all countries and companies. Additionally, certain specific challenges are unique to

particular countries (Robyn and Graham, 2009). Many challenges have arisen as a result of the adoption of the IAS regulation, which requires all EU publicly traded companies to consider fair value measurements to a greater extent (Jermakowicz, 2004; Alexander, 2003). IFRS would also present a challenge by way of more complex financial reporting requirements, a resultant increase in costs, and the availability of resources with expertise in IFRS. Similarly, from an overall perspective, amendments to regulatory requirements and tax laws would be required, and the impact on IT systems and compensation structures would need to be evaluated (Apostolos et al., 2010; Alexander, 2010).

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

2.1.7 THE HISTORY OF ACCOUNTING IN ETHIOPIA

The evolution of accounting can be seen from an international perspective and a national point of view.

While the development of accounting internationally has generally been well documented, studies that examine this process in developing countries appear relatively limited (Mihret 2009). Accounting development in Ethiopia could be better understood if examined across several decades, from the pre-1970s to the present.

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

According to Kinfu (1990), the establishment of the commercial school in 1943 provided an important venue for the training of office clerical in commercial subjects such as banking, secretarial, and

finance. They attempted to form some sort of association to establish a link between them. Another development in the 1940s was the start of public accounting in Ethiopia. This can be traced to events when British accounting firms, like Price Waterhouse and Peat, opened branches in the country (Mihret 2009).

Two significant developments in the history of accounting in Ethiopia took place in the 1960s. In 1960, the commercial code of Ethiopia was proclaimed (Gov. of Ethiopia, 1960), which was followed by the formation of the office of the auditor general (GAO) in 1961 by the proclamation of 1961. The commercial code contains accounting and auditing provisions, which serve as the legal basis for financial reporting and external audits of companies (Argaw, 2000; Kinfu, 1990).

The early seventies saw the creation of many professional associations in Ethiopia (Mengistu, 2008). An effort to establish indigenous professional accounting associations in Ethiopia occurred in 1973 when the Ethiopian Professional Association of Accountants and Auditors (EPAAA) was established (Argaw, 2000).

In 1974, a military government came into power in Ethiopia and declared a communist ideology. Most people agree that this period up to 1991 was a time when the development of accounting appeared to have been held back (Argaw, 2000). Nonetheless, an important landmark in the history of accounting and auditing in this period was the formation of the audit service corporation (ASC) by proclamation 126/1977 (Mihret, 2009).

After 1991, when the country shifted back to a free-market economic order, several public enterprises were privatized, which resulted in a new corporate governance structure that would be expected to enhance the importance of financial reports. Changes in government and the type of government are important influences on the development of the accounting profession. The People's Democratic Republic of Ethiopia (PDRE) was established during this time. The functions of the auditor general were reformulated and revised by Proclamation 13/1988. In addition to this, the EPAAA has been reactivated, and three other professional organizations, i.e., the Ethiopian Accounting and Finance Association (EAFA), the Ethiopian chapter of the Institute of Internal Auditors (IIA), and the Accounting Society of Ethiopia (ASE), have been established (Mihret 2002).

Though there have been several developments in accounting since the PDRE came into power, there is no specific set of accounting regulations in Ethiopia. Though IFRS was developed in 1973 by

professional accountants in different countries, its transition to Europe came in 2005. It has been evolving over the years. Currently, Ethiopia has fully adopted it.

Adopting IFRS as a national standard will have significant benefits for countries, improving corporate transparency that is required by investors and the public. This creates an opportunity for Ethiopia, which does not have national accounting standards and has relatively weak financial reporting practices. However, it may also pose many challenges that must be overcome over time.

2.1.8 ADOPTION AND IMPLEMENTATION OF IFRS IN ETHIOPIA

According to the IFRS Foundation (2013, p.5), adopting IFRS is like starting a family, as it requires careful planning, commitment, and a complete understanding of its implications. There are three steps that new adopters of IFRS should pass through before adopting it. According to this guide, the first step is making policy decisions through building consensus among concerned stakeholders.

The second step is preparing a plan by building in targets and deadlines, making them public, and using them to identify obstacles that must be overcome. The third step is to identify the resources have and what the researcher needs to implement the new standard (for example, the availability of local professionals at the company and national levels, funding for capacity building, and the source of funding, materials, and technical support). Ethiopia started using IFRS in its financial reporting for the first time in 2002/2003. The first organizations that used IFRS were government-owned entities such as the Commercial Bank of Ethiopia, Ethiopia Insurance, and Ethiopian Airlines. Even though IFRS is not officially adopted at the national level, auditors indirectly enforce it on the management of organizations with little or no knowledge of accounting standards. This fact was succinctly explained as follows by one of the higher-level CEOs of an audit firm in Ethiopia:

"IFRS is not officially adopted or customized at the national level, but auditors are using IFRS by referring to IFRS materials from websites and enforcing organizations to prepare financial statements as per the requirements of IFRS." No standard exists in the country, and each organization prepares based on its interests. To minimize this, some auditors are using IFRS.

Prepares a draft balance sheet and income statement only, and the remaining parts (statement of cash flows, statement of owners' equity, and notes to the financial statements) are prepared by auditors, as companies lack professionals who prepare the whole set of financial statements. Using this as an opportunity, auditors prepare the financial statement by IFRS, let the management of the

company make necessary adjustments to comply with IFRS, and sign the financial statement prepared after the adjustments.

Ethiopia is among the fastest-growing countries in sub-Saharan Africa, and this growth needs to be supported by high-quality financial reporting. So IFRS offers that successfully implementing the adopted IFRS will enhance foreign direct investment (FDI) and easy access to finance, which is both key contributors to a sound business environment and necessary to attract investment.

2.2 EMPIRICAL EVIDENCE

According to visits to the internet, Ojeka and Mukoro (2011) conducted research entitled "International Financial Reporting Standards and SMEs in Nigeria: Perceptions of Academic." The paper has three objectives. The first objective was to identify whether the academics believe that the proposed IFRS for SMEs (statement of GAAP for SMEs) will ease or alleviate the burden of financial reporting and preparation by SMEs in Nigeria. The second objective was to find out if the Nigerian government should support the adoption or adaptation of IFRS. Finally, the study aims to find out how supportive the academic community has been toward the adoption of IFRS in Nigeria. The result of the study revealed doubt among academics about whether this would be so. This was despite the good and sincere intention of establishing IFRS for SMEs. Following a review of the literature and empirical findings, the Nigerian government determined that all necessary steps should be taken to accelerate the adoption of IFRSs for SMEs in Nigeria. The findings also revealed that academics in Nigeria have been relatively quiet in the past since IFRS for SMEs was proposed.

Nadia et al. (2011), in their paper about IAS/IFRS implementation in Romania, tried to see the implementation of IFRS in Romania. The purpose of the study was to investigate in depth and explain the issues related to the implementation of IAS and IFRS in an emerging country that recently adhered to the European Union, namely Romania. An institutional and structuration theory perspective is used to discuss two stages of IAS/IFRS implementation in Romania, both primary (11 in-depth, semi-structured interviews conducted with key actors involved in financial reporting). According to the findings of the study, the two stages of IAS/IFRS implementation had different outcomes, with the second having a more profound and qualitative impact. The first step was a result of coercive external forces, i.e., the influence of the World Bank. Given the lack of other factors to favor the change process, one could argue that the actual implementation of IAS in that period was very limited. Even though the second step meant a reduction in scope to only listed companies in consolidated accounts

and financial institutions, it is argued that it was accompanied by a change process more significant than in the previous period.

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

2.3 SUMMARY AND KNOWLEDGE GAP IN THE EXISTING LITERATURE

Because of the problems associated with worldwide accounting diversity, attempts to reduce accounting differences across countries have been ongoing for decades (Nobes 2004). Because of the advantages it provides for countries and multinational companies, many countries adopt the international financial reporting standard. Adoption of IFRS has several important benefits for a wide range of stakeholder groups, such as increased comparability of consolidated accounts, an increased level of transparency, better access to the global capital market, and other benefits from overall better reporting and information (Iyoha 2011).

Despite the numerous benefits of IFRS adoption, it is also a difficult task with numerous challenges. As evidenced by the global experience, convergence with IFRS has significant challenges common to all countries and companies, but certain specific challenges are unique to particular countries and companies. More complex financial reporting requirements, the resulting increase in costs, the availability of resources with IFRS expertise, the ethical environment, the ability to protect qualified and competent employees from being poached by other companies, and, overall, amendments to regulatory requirements and tax laws and their impact on IT systems and compensation structures are the main challenges of IFRS (Apostolos 2010, internet).

Although various survey studies have been conducted to assess the adoption of IFRS in various countries around the world, the majority of the studies have focused on IFRS by analyzing data from EU member countries. Comparatively fewer studies have been carried out on data from other countries. Though IFRS seems to be equally important for all countries, there is a dearth of empirical studies that examine the data from developing countries, in particular Ethiopia. As a result, this study attempts to bridge this gap and elaborate on the challenges by using the Ethiopian Telecommunication Corporation as a case study.

CHAPTER THREE

RESEARCH METHODOLOGY

3. INTRODUCTIONS

This chapter describes the methodology used in order to conduct the research. It describes the types of methods selected for data collection and analysis and the reason for why these methods were chosen in comparison to the other alternative methods.

3.1 RESEARCH DESIGN

According to Cooper and Schindler (2014), descriptive study is used to describe phenomena related with a subject. The major purpose of descriptive research is describing, recording, analyzing, and reporting condition that exists (Kothari, 2004). According to Yin (2003), there are three types of case studies, depending upon the purpose. They are explanatory case studies, exploratory case studies, and descriptive case studies. Exploratory case studies are often used to define frameworks of a future study. Explanatory case studies, on the other hand, seek to define how and/or why an experience took place. Descriptive case study is used to present answers to a series of questions based on theoretical constructs. The aim of all types of case study research is to develop an understanding of the system. The objective of this study is to take a critical assessment of challenges of international financial reporting standard by taking Ethiopian Telecommunication Corporation as a case study and to give some recommendations that enable to minimize those challenges for the future. Therefore, descriptive research type is appropriate for my survey, because it clarifies the current plus real situation.

3.1.1 RESEARCH APPROACH

Descriptive research design involved both quantitative and qualitative data. The quantitative approach involved numerical data subjected to quantitative analysis, whereas the qualitative approach involved data in textual form that was concerned with subjective valuation of attitude, thoughts, and behavior (Kothari, 2004). According to Schweitzer (2009), the quantitative approach was used for its appropriateness in the development of research questions and its suitability for the type of numerical data required in the study. In this study, both qualitative and quantitative data were used. In analyzing the case study using descriptive research, both qualitative and quantitative research approaches were needed (Yin, 2003). As a result, the researcher used both research methods in the study.

3.2 DATA TYPE, SOURCE AND METHODS OF DATA COLLECTION

TYPES OF DATA

In this research, both primary and secondary data was used.

Primary data

In this study, the primary data was collected through questionnaire and the survey questionnaire is prepared based on the literature. So as to properly address the research questions and archive its objective and as well to draw valid conclusions in accordance with previous studies. The source of the survey instruments for this study will be partially adopted from previous studies including (Fikiru, AAU, 2012) and (Alemgena, SMU, 2016). The other portion was developed by the researcher and pretested in a pilot study to test its validity. The questionnaire items were carefully developed to address the research objectives and mostly used Likert-like measurement scales. The survey instruments developed in such rigor was distributed to survey participants and captured their perceptions of key challenges of IFRS adoption in the enterprise.

Secondary data

The secondary data collected from various secondary data sources. These sources include books, reports, and internet sources. These sources provide the researcher with knowledge in developing survey instruments, in analyzing the results of survey measurement, in separating the research constructs, and in offering concluding remark.

3.2.1 METHOD OF DATA COLLECTION

This study used both primary and secondary data. Primary source of data includes questionnaire, whereas secondary source of data is generated through a review of relevant documents.

QUESTIONNAIRE

Questionnaires are distributed to IFRS project team members of Ethio-telecom. Those team members were selected as respondents because they are deemed to be knowledgeable about IFRS and could provide important perspective on its adoption. The response is expected to help understand the perceived and actual challenges of international financial reporting standard (IFRS). The research evidence was gathered by using both close-ended and open-ended questionnaires. With regard to the close-ended questions, the respondents were asked to indicate their level of agreement on a five-point Likert scale with the following ratings:

- Strongly agree (SA; or 5)
- Agree (A; or 4)
- Neutral (N; or 3)
- Disagree (D; or 2)
- Strongly disagree (SD; or 1)

On the above scale, a score of 5 or 4 indicates that the item is perceived to be essential, while a score of 3 or 2 indicates that the item is perceived to be fairly important, but not essential. A score of 1 indicates that the item could be disregarded for being unimportant. With respect to open-ended questionnaires that require opinion, and if they have opinions, they feel the researcher has found useful.

In the process of preparing, testing and using the instrument, the following procedures have been followed:

- The questionnaires were developed based on literature review relevant to the issue and the specific objective.
- The questionnaires were judged for validity or sensitivity using professionals in the area.
- In the final study, the questionnaires were administered by the researcher and the assistant.

3.3 POPULATION OF THE STUDY

3.3.1 TARGET POPULATION

Ethio Telecom has established IFRS implementing professionals as a project level. Due to this, the target population is scoped down to those project team members. In such effort, the data was collected from Ethio Telecom IFRS implementing professionals. The main reason for choosing those were to be the only target population is due to their relevance, experience, and knowledge to IFRS and local reporting practices since they are preparers of the financial statement.

3.3.2 POPULATION SIZE

The total number of professionals in the IFRS project team members is five (5). Their number is convenient to take all of them as respondents. Because of this, the researcher uses a census survey.

3.4 METHOD OF DATA ANALYSIS

Data analysis is the application of reasoning to understand the data that have been gathered. In its simplest form, analysis may involve determining consistent patterns and summarizing the relevant details revealed in the investigation. The appropriate analytical technique for data analysis is determined by management's information requirements, the characteristics of the research design,

and the nature of the data gathered (Zikmund et al., 2009). After gathering all required qualitative and quantitative information, data analysis has been performed and presented through tools like frequency tables, pie charts, and percentages. Then the data has been analyzed using descriptive analysis methods.

3.5 VALIDITY OF THE STUDY

Validity refers to the degree to which a study accurately reflects the specific concept that the researcher is attempting to measure or describe. In order to keep the validity of the study, researchers should be concerned with both external and internal validity. Internal validity refers to the extent to which the researcher can demonstrate that he/she has reliable and adequate evidence for the statement. External validity, on the other hand, stands for the extent to which the conclusion is generalized to the population. Using multiple sources of evidence is the way to ensure construct validity. This study has used a variety of data sources, such as document reviews and questionnaires, to help cross-validate the data. Since questions are tested upon their clarity and understandability and significant conclusions have been drawn using questions, it adds both to the internal and external validity of the study

CHAPTER FOUR

4. DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.1 INTRODUCTIONS

The objective of this study was analysing the challenges of IFRS adoption in Ethio Telecom. This chapter explains and discusses the results of findings based on the analysis done on the data collected to address its objective. The results of the study are presented by triangulating the analysis of the study, which are presented by triangulating the analysis of the response on the survey questionnaire. The survey questionnaire was administered in Ethio Telecom to IFRS project team members. Five questionnaires were distributed and all the items were duly filled and replied. These provide a total response rate of 100%, adding to the validity and rigor of the study.

4.1.1 DEMOGRAPHIC CHARACTERISTICS OF THE RESPONDENT

It is important to analyse the background of the respondents to put the study in context, as these factors are cross-cutting determinants of responses given by respondents.

4.1.1.1 GENDER DISTRIBUTION OF THE RESPONDENT

One of the demographic characteristics of the respondents to be analysed was their gender distribution. According to the researcher, the demographic characteristics of the respondents, covering their gender distribution, are presented in Table 4.1 below.

Table 4.1: Demographic Characteristics of the Respondent

<i>Gender Distributio n</i>	<i>Frequency</i>	
	<i>Cou nt</i>	<i>%</i>
<i>Female</i>	<i>1</i>	<i>20</i>
<i>Male</i>	<i>4</i>	<i>80</i>
<i>Total</i>	<i>5</i>	<i>100</i>

Source: own survey, April 2023

As it is shown in the above table, majority of the respondent's (80%) are male and the remains' 20% are female. The dominance in the developing economy professional work context is well- settled fact.

1.2.4.1 ACADEMIC LEVEL OF RESPONDENT

The impact of international financial reporting standard's (IFRS) in terms of perceived challenged are better articulated by professional's who have attended high level education and professional training. In this respect the researcher gathered and presented the data in Table 4.2 below

Table 4.2 Academic level of respondent

Academic Level	Frequency	
	Count	%
Master's	4	80
Bachelor	1	20
Total	5	100

Source: own survey, April 2023

It is clear from the above table that majority(80%) of the respondent's or Master's degree holder and the remaining(20%) are Bachelor degree holder. This academic cocktail should have assisted the company in mitigating the challenges of IFRS.

4.2.4.1 WORK EXPERIENCE OF RESPONDENT

In studying the challenges of IFRS, the experiences of the respondents play a significant role. The participants' exposure to both previous GAAP and to IFRS enables them to easily indicate the key challenges faced and techniques of overcoming them from their experience. Accordingly, the researcher gathered the data summarized in Table 4.3 below:

Table 4.3: Professional Experiences of the Respondent

<i>Experience</i>	<i>Frequency</i>	
	<i>Count</i>	<i>%</i>
<i>6to10 year</i>	<i>2</i>	<i>40</i>
<i>11to15 year</i>	<i>1</i>	<i>20</i>
<i>16to20 year</i>	<i>2</i>	<i>40</i>
<i>Total</i>	<i>5</i>	<i>100</i>

As it is shown in table 4.3 above 40% of the respondents have a work experience of 6 to 10 year, followed the other 20 % of the respondents have a work experience of 11 to 15 years and the other remaining 40 % have a work experience of 16 to 20 year. This indicates, overall, that the project team members are well experienced and exposed both with previous GAAP and IFRS. In addition, due to the nature of all account ally profession the more experienced professionals have the more they refine their proficiency. This could yield them the new standard as they could build on what they profess the new requirements.

4.3 YEAR OF ADOPTION OF IFRS BY ETHIO TELECOM

All respondents said that ethio telecom has adopted IFRS in 2018G.C/2010E.C

4.3 APPLICABLE ACCOUNTING STANDARD

The applicable accounting standards that were in use are of paramount importance in analysing IFRS adoption and its key challenges. In this regard, the following data was collected, as summarized in Table 4.4 below:

Table4.4 Applicable Accounting Standard

<i>PreviousGAAP</i>	<i>Frequenc</i>	
	<i>Count</i>	<i>%</i>
<i>USGAAP</i>	<i>5</i>	<i>100</i>
<i>UKGAAP</i>	<i>-</i>	<i>-</i>
<i>Total</i>	<i>5</i>	<i>100</i>

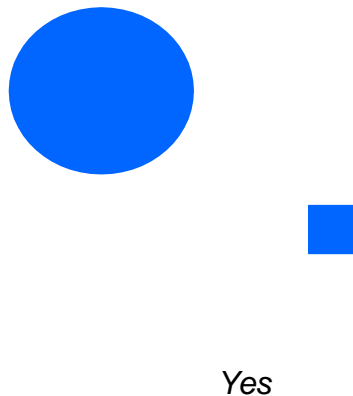
Source: own survey, April 2023

As shown in the above table, all professionals (100%) agreed that before the adoption of IFRS, Ethio Telecom was using US GAAP.

4.4 PREFERENCES OF IFRS OVER GAAP

In an attempt to capture the challenges of IFRS adoption, the participants were asked whether they preferred IFRS over GAAP. Accordingly, the following data were collected regarding the preference for IFRS over GAAP, as summarized in Chart 4.1 below.

Chart4.1 IFRS preference



Source: own survey, April 2023

It is apparent from the above chart that all the respondents stated that they perceived IFRS as preferable over US GAAP. This implies that the attitude towards the implementation of IFRS is positive.

4.5 PRACTICAL CHALLENGES OF IFRS

There are numerous inhibitors encountered in adopting IFRS. The most prominent ones may include adoption costs, complex financial reporting frameworks, lack of implementation guidance, and lack of awareness. Accordingly, the researcher gathered the data presented to identify and analyse the

challenges encountered in IFRS adoption in Tables 4.6 and 4.6.1 below.

Challenge	IFRS is costly		Financial reporting complexity		Lack of implementation guidance		IFRS increase volatility of earnings	
	Frequency		Frequency		Frequency		Frequency	
Response	Count	%	Count	%	Count	%	Count	%
Strongly agree	3	60	1	20	1	20	1	20
Agree	2	40	4	80	4	80	1	20
Neutral	-	-	-	-	-	-	2	40
Disagree	-	-	-	-	-	-	1	20
Strongly disagree	-	-	-	-	-	-	-	-
Total	5	100	5	100	5	100	5	100

Source: own survey, April 2023

As it can be seen from the above table, 60% of the respondents strongly agreed that the adoption of IFRS is costly, and 40% of the respondents also agreed that IFRS adoption is costly. This indicates that one of the significant challenges that could explain poor adoption is its implementation cost.

Also, 80% of the respondents agree on the proposition that the complexity of IFRS-based financial reporting, and the remaining 20% were strongly agreed upon IFRS complexity of financial reporting. From this, the researcher can say that IFRS increases the complexity of financial reporting.

The above table shows that 80% of the respondents agreed on the proposition that there is a lack of IFRS implementation guidance, and the remaining 20% of the respondents strongly agreed upon this issue. This shows that there is a lack of IFRS implementation guidance.

On the issue that IFRS increases volatility of earnings, 40% of the respondents were neutral, 20% strongly agreed, 20% agreed, and again 20% were disagreed. This implies IFRS increases the volatility of earnings in some proportion.

There is a lack of IFRS implementation guidance and IFRS brings about an increase in the volatility of earnings. The tax-driven nature of previous standards is a challenge for IFRS adoption. In the survey of Cara Mains and Papadakis (2008), the respondents indicate a number of difficulties that relate to the application of IFRS. In particular, they have the opinion that a major source of the difficulties regarding the technical aspect of the application of IFRS is the lack of comprehensive training and lack of adequate IFRS implementation guidance. This lack of guidance creates risk for different local or national interpretations of IFRS and increases the risk for interpretation of financial statements.

Table 4.5.1 Practical challenge of IFRS adoption

Table 4.5.1 Practical challenge of IFRS adoption

Challenges	Tax driven nature of previous standard		Lack of availability of competent specialist		Need of training		Lack of proper instruction from regulatory body		Problem with IT system		Problem with fair value accounting	
	Frequency		Frequency		Frequency		Frequency		Frequency		Frequency	
	Count	%	Count	%	Count	%	Count	%	Count	%	Count	%
Strongly agree	-	-	3	60	1	20	2	40	1	20	4	80
Agree	2	40	2	40	3	60	3	60	3	60	1	20
Neutral	3	60	-	-	-	-	-	-	-	-	-	-
Disagree	-	-	-	-	1	20	-	-	1	20	-	-
Strongly disagree	-	-	-	-	-	-	-	-	-	-	-	-
Total	5	100	5	100	5	100	5	100	5	100	5	100

Source: own survey, April 2023

In the table, it shows that 60% of respondents were neutral on the proposition that the tax-driven nature of previous standards. This indicates that the tax-driven nature of previous standards were taken as a challenge relatively.

The above table shows that 60% of respondents strongly agree on the proposition that lack of availability of competent specialists, and 40% of respondents also agree on the proposition. The respondents also believe that the lack of availability of competent specialists is the most significant challenge.

The respondents stated there are challenges in need of training in this regard, 60% of respondents agree and 20% strongly agree, while the remaining 20% were disagreed. From this, the researcher understands that the need for training is a challenge to adopt IFRS.

Also, 60% of respondents agreed on the lack of proper instruction from the regulatory body, and 40% of the respondents strongly agreed with the idea. So, lack of proper instruction is another challenge.

The respondents stated there are challenges in their IT system in handling the transition to IFRS. In this regard, 60% of the respondents agreed, 20% strongly agreed, and the remaining 20% stated disagreed. The researcher understands that problems with the IT system are a challenge to adopt IFRS.

It can also be seen from the table above that 80% of the respondents strongly agreed and the remaining 20% stated they agree on problems with IFRS using fair value accounting. Most of the respondents believe that the adoption of IFRS, which uses a fair value financial reporting approach, introduces significant volatility in the statement of financial position and more importantly earnings.

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

4.6 IFRS COST OF IMPLEMENTATION

One of the most practical challenges of IFRS adoption was its cost of implementation.

So, all respondents (100%) agree and provide the following reasons for IFRS's high cost of implementation:

- Lack of qualified personnel in the enterprise to do such
- Expensive cost of consulting companies
- There is no market for valuation purposes
- There is no data availability, such as employee benefit actuarial valuator.

4.7 COMPLEXITY OF FINANCIAL REPORTING WITH IFRS

Complexity of financial reporting is taken as a practical challenge of adopting international financial reporting standards (IFRS). Due to this, the researcher asked the reason for IFRS's increasing complexity of financial reporting and all the respondents (100%) gave the following reasons:

- Continuous update of IFRS standards
- Lack of understanding of IFRS standards
- Its requirement for much disclosure statements
- Its principle-based characteristics
- There is a big gap between the previous standards.

4.8 IFRS INCREASE VOLATILITY OF EARNING

Among the respondents, 40% disagreed with the idea that IFRS increases the volatility of earnings, while 60% agreed and provided the following reasons for how it increases:

- IFRS requires fair value accounting
- Lack of stable economy
- There is fluctuation of interest

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 INTRODUCTION

The objective of the study was to analyze the challenges of IFRS adoption in Ethiopian Telecommunication Corporation. This chapter presents the summary and conclusions of the major findings in achieving the research's objective and the recommendation of the study.

It has three parts: the first part presents the summary of the study, the second part presents the conclusion, and the third part presents the recommendation. Finally, the study indicates the possible future research area.

5.2 SUMMARY

In this part of the study, the results of findings were explained and discussed based on the analysis done on the data collected as follows. The results of the study are discussed by triangulating the different sources' results: questionnaire results and document review results. The data collected using questionnaires were analyzed through descriptive analysis, tables, and pie charts. The discussion attempted to accomplish the objectives of the study and answer the research questions. The key challenges and their reasons that could influence the IFRS adoption of Ethio Telecom have been analyzed in the chapter.

5.3 CONCLUSIONS

This study examined the adoption of International Financial Reporting Standards (IFRS) and its key challenges that could influence its adoption in Ethio Telecom. Four research questions were developed and tested in this study.

The first question is to understand the practical challenges of adopting International Financial Reporting Standards (IFRS) for Ethio Telecom. According to the findings, the main practical challenges in adopting IFRS include significant cost of implementation, complexity of financial reporting, need for training, the complex nature of some of the IASB's standards, lack of implementation guidance, and the lack of proper instructions from the regulatory body. This lack of guidance creates risks for different local or national interpretations of IFRS and increases the risk of manipulation in the interpretation of financial statements.

Other key challenges include increased volatility of earnings, the tax-driven nature of the previous standard, and problems with IFRS's use of fair value accounting. IFRS's use of fair value accounting

instead of historical cost is considered a challenge because some conditions in developing countries like Ethiopia are not favorable for implementing fair value accounting, such as achieving observable market prices and accurate estimates of liquid market prices due to less perfect market liquidity. Based on the respondents' responses, the second research question concluded that expensive costs of consulting companies, lack of qualified personnel in the enterprise, limitation of asset valuers, and significant cost of training are listed under the reasons behind IFRS's high cost of implementation. Basically, IFRS is a principle-based and less detailed standard when compared to the previous GAAP. However, according to the respondents' responses, IFRS increases the complexity of financial reporting. Its principles-based characteristics, need for much more disclosure statements, lack of understanding of its standards, and the continuous update of its standards were listed under the reasons behind. Finally, the last research question focused on how IFRS increases the volatility of earnings. According to the responses of respondents, because of IFRS's need for fair value accounting, the lack of a stable economy in the country, and the fluctuation of interest rates, IFRS increases the volatility of earnings.

5.4 RECOMMENDATION

As the conclusions reveal, since the main challenges of IFRS adoption exist, enterprises' adoption of IFRS should be supported by the country. In other words, rigorous IFRS capacity-building programs should be embarked upon by all regulatory bodies, firms, and training institutions in order to provide the needed manpower for International Financial Reporting Standards (IFRS) implementation. Ethio Telecom should establish its own IFRS implementing board with its own personnel who continuously assess and understand the yearly updates of IFRS standards to decrease costs that will be paid to the financial statement preparers. As an enterprise, Ethio Telecom should try to find out professionals who can measure the fair value of its assets and liabilities that do so permanently with the enterprise.

5.5 FUTURE RESEARCH AREA

The International Financial Reporting Standard (IFRS) is a broader scope of accounting which cannot be dealt with in its entirety in one study alone. This study focused on the challenges that could explain the adoption of IFRS in Ethio Telecom. However, it would be highly appropriate for future research to

be conducted on the issue of how much Ethiopian companies would implement their financial statements based on the International Financial Reporting Standard (IFRS) successfully. How small and medium enterprises adopted and comply with IFRS tailored for them could also be considered as another area for future research. Finally, this study attempted to focus on the challenges of the adoption of IFRS by Ethio Telecom. Even though the research found some challenges in the adoption of the International Financial Reporting Standard (IFRS), the researcher advocates more studies to be conducted in the financial reporting domain.

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APPENDIX 1 QUESTIONNAIRES

WOLKITEUNIVERSITY

FACULTY OF BUSINESS DEPARTMENT OF ACCOUNTING AND FINANCE

Dear/sir/ madam

The aim of this questionnaire is to seek information regarding the adoption of International Financial Reporting Standards (IFRS) in Ethio Telecom. The questionnaire will be distributed to all managers and experts who have participated in any issues related to the standard within the enterprise. The information you provide in response to the items in the questionnaire will be used as part of the data needed for a study on the adoption of IFRS in Ethio Telecom and its associated challenges.

I would like to assure you that the information you provide will be accessible only for academic purposes. Your involvement is regarded as a significant contribution to the quality of the research results. Hence, I believe that you will extend your assistance by participating in this study.

Your honest and thoughtful response is invaluable.

Thank you for your participation

Shilimat Tekalign

Section1:Demographicbackground

Please kindly tick your answer in the appropriate boxes so respond by writing if required.

Gender

A. Female B. Male

Academic level

Technical (certificate) B. bachelor's degree
 Master's degree C. other (specify)

Working experience

< 5-year B. 6-10 year C. 11-15 year D. 16-20 year
 E. over 20 year

4. Current position in your organization

Section Two: Adoption and practice of international financial reporting standards (IFRS) in your enterprise.

When did your enterprise adopt IFRS? please state the year-----

2. Before the adoption of international financial reporting standard (IFRS), what reporting standard did your enterprise use? Please mention the previous standard-----

If you compare the previous standard to the IFRS, which one is more preferable?

Please underline your answer

Previous standard (B) IFRS

Does your enterprise face a challenge to adopt IFRS?

A. Yes B. No

Among the above, which of them are strongly taken as a challenge to answer this the research is seeking your specific perceptions toward the adoption of IFRS. Please kindly indicate the appropriate scale for your opinion by ticking a tick mark on the spaces that indicate your choice from the option that range from strongly disagree (SD), disagree (D), neutral (N), agree (A), strongly agree (SA).

challenges of IFRS adoption

	SD	D	N	A	SA
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<i>Adoption of IFRS is costly</i>					
<i>IFRS increase the complexity of financial reporting</i>					
<i>There is lack of IFRS implementation guidance</i>					
<i>IFRS brings about increased volatility of earning</i>					
<i>Tax driven nature of previous standards is a challenge for IFRS adoption</i>					
<i>Lack of availability of competent specialists</i>					
<i>Need for training</i>					
<i>Lack of proper instructions from regulatory bodies</i>					
<i>Problem with the IT system in handling the transition to IFRS</i>					
<i>Problem with IFRSs use of fair value accounting</i>					

6, What do you think about the practical challenges of IFRS?

- high cost of implementation*
- complexity of financial reporting*
- lack of implementation guidance*
- lack of proper instructions from regulation body*

problem with fair value expert's
problem of IT system for transition IFRS
increases the volatility of earnings Need of

Need of training

If any other

7 Does your enterprise implement IFRS costly? Yes

No

8 If your answer in question no.4 is Yes, what do you think about the reason? Consulting companies' cost is expensive

Lack of qualified personal in the enterprise to do such.

There is limitation of asset valuers in the country

Significant cost for training

Lack of implementation guidance.

If any other

9 IFRS increases the complexity of financial reporting

Agree

Disagree

10 If your answer in question no7 is agree what do you think about the reasons

principle-based characteristics

There is a big gap b/n the previous standard

Lack of knowledge of the previous standard to assure their d/n with IFRS

IFRS require a much more dishonesty of statement.

Lack of understanding there spective standard's Continuous update of

IFRS standards.

If any other

11 IFRS increases the volatility of earning?

Agree

Disagree

12 If your answer in question no.9 is agree what do you think about the reason.

IFRS require fair value accounting

Lack of stable economy

Lack of proper management

Fluctuation of interest rate

If any other

