Adoption of International Financial Reporting Standards (IFRS) in Ethiopia: Empirical Evidence

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Abstract
The purpose of this study is to assess the adoption of international financial reporting standards (IFRS) in Ethiopia: the benefits, challenges and critical factors affecting its adoption. The primary data was collected using questionnaire while the secondary data were collected from journal articles, manuals, books and websites then the collected data are analyzed using multiple linear regression analysis then presented using tables, graphs, charts and descriptive statistics. The study found that Adoption of IFRS by Ethiopia would improve the quality of accounting so as to make judgemented decision among users of accounting information. However, Lack of proper financial reporting guidance, Lack of proper instructions from regulatory bodies, additional training for professionals and modernized IT system in handling the transitions to IFRS are the main challenges of IFRS adoption. This study employed the mix of theory of planned behavior (TPB) and Choi and Meek’s (CM) frame work and found that 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 behavioural factors subjective norm and perceived control significantly and positively affect the intention to adopt IFRS while attitude has no significant impact. On the other hand, among environmental factors level of education and legal system significantly affect the intention to adopt IFRS however, economic development and capital market have no significant impact. Thus, since, the benefits of IFRS adoption out ways its challenges the regulatory body should 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.

Keywords: International Financial Reporting Standards (IFRS), Ethiopia, Theory of Planned Behaviour (TPB), Choi & Meek’s (CM’s) Framework

Introduction
1.1 Background of the study
International financial reporting standards (hereafter IFRSs) are set of international accounting standards stating how particular types of transactions and other events should be reported in financial statements which are issued by the International Accounting Standards Board (IASB). IFRS are sometimes confused with International Accounting Standards (IAS), which are the older standards that IFRS replaced. The goal with IFRS is to make international comparisons as easy as possible (www.investopedia.com). Diversity in accounting systems has significant economic consequences for the interpretation of financial reporting on an international level. As a result, international accounting and securities organizations initiated a process to promote the harmonization of accounting by standards as a means to improve financial transparency and comparability. Efforts the International Accounting Standards Committee (IASC, predecessor of the IASB), the International Organization of Securities Commissions (IOSCO), and other worldwide accounting bodies have led to the development of International Accounting Standards, now described as the International Financial Reporting Standards (IFRS). The adoption of IFRS has increased since the first set of core standards was completed in 1998, most notably by Australia and members of the European Union in 2005. However, there are some notable exceptions to this trend, such as the United States and Japan. It is not fully clear why there remain some prominent countries that have been reluctant to adopt (Shimaa & Young, 2012).
Accounting and its key concepts appear to have had a long history in Ethiopia. Kinfu (1990) as cited in (Mihret, James & Mula, 2012) provides an account of the development of accounting in the Country and argues that the keeping of records in various forms might have existed in ancient Ethiopia as early as the 3rd century A.D. during the Axumite Kingdom of the Nation. The start of modern accounting in the country, nevertheless, is traced to the beginning of the 20th century (Mihret, James & Mula, 2012). Two significant developments in the history of accounting in Ethiopia took place in the 1960s when the Commercial Code of Ethiopia was proclaimed which was followed by the formation of the Office of the Auditor General (OAG) in 1961 (Tesfu, 2012).

The code contains some requirements for financial accounting, reporting, and external auditing of companies that operate in Ethiopia. However, limitations that possibly constrained the code’s contribution to the development of accounting and auditing in the nation include that it does not: (a) specify the accounting standards to be followed in financial reporting; (b) define the qualifications of an auditor; or (c) require compliance with professional standards on auditing; or (d) impose an audit requirement upon private limited companies with less than 20 members. Though, there are a number of developments in accounting after the coming into power of Ethiopian People’s Revolutionary Democratic Front (EPRDF), there is no specific set of accounting regulations in Ethiopia (ROSC, 2007).

Problems related to accounting regulations and financial reporting are now being recognized and appreciated in Ethiopia. For instance, the recent proclamation on banking business has set a direction for banks to use international standards when reporting their results (Tesfu, 2012). But the problem still exists in relation to use of internationally accepted financial reporting standards in the country. To this end, this study mainly aimed to investigate the benefits and challenges IFRS adoption as well the critical factors that affect the adoption of IFRS in Ethiopia and suggest valuable recommendations after wards based on the findings.

1.2 Statement of the problem

Accounting systems develop geographically within countries in response to unique environmental conditions. As a result, standardization may not produce financial reports that are relevant for all nations because it may obscure those underlying differences in the environment. In the end, overall reporting practices may still differ due to the persistence of those differences and the interdependencies between reporting rules and institutional structures. Thus, the cost-benefit analysis for changing a reporting regime is tempered by environmental factors. (Shimaa & Young, 2012).

However, in Ethiopia, Currently there is no legal requirement for compliance with accounting and auditing standards, but some laws such as the financial reporting proclamation prepared by ministry of finance and economic development (MoFED) do require the acceptance of general accounting principles and auditing standards (Report on observance of Standards and Codes (ROSC, 2011). Hikmet Abdella, country manager of the Association of Chartered Certified Accountants (ACCA) is reported as saying that adopting IFRS will make it easier for investors and businesses to evaluate the financial performances of organisations with which they might do business or invest in: “The standardised auditing system will enable the Ethiopian Revenues and Customs Authority (ERCA) to rely on external auditor’s reports for their tax collection. It will also afford banks the confidence to grant loans based on the financial statements of a company.”Some experts stated that adopting IFRS would be expensive for small companies and generally challenging to implement (Minney, 2011).

However, there is no requirement for compliance with accounting and auditing standards both in the Commercial Code 1960, Public Enterprises Proclamation and other laws and regulations for financial service sector (banks, insurance companies), corporate sector, state-owned enterprises and nongovernmental organizations (NGOs). Some laws such as the financial reporting proclamation prepared by (MoFED) and Public Enterprises Proclamation no 25/1992 require compliance with generally accepted accounting principles and generally accepted auditing standards, but these provisions are not defined. The financial reporting requirements of nongovernmental organizations (NGOs) are contained in the General Guidelines for the Implementation of the National Policy on Disaster Prevention and Management. There is no guidance for NGOs on the standards to be used in
preparation and auditing of their financial statements in the General Guidelines (Report on observance of Standards and Codes (ROSC, 2011)).

From this it can be explained that, Ethiopia as a developing country do not have both organized local financial reporting standards and 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. Virtually, articles and books about the adoption of accounting standards by developing countries and in particular Ethiopia are limited. Hence, to the best of my knowledge there are only few research literatures available in case of Ethiopia to fill the unavailability of a study that addressed adoption of IFRS in the country. To this end the study aims to identify the pros and challenges of adopting IFRS and mainly intended to investigate the crucial factors influencing the adoption of IFRS. Thus, since there is no comprehensive study that is undertaken which uncover the factors that affect the adoption of IFRS in Ethiopia, this study seeks to fill this huge literature gap by specifically, addressing the following basic research questions:
1. What are the benefits and challenges of adopting IFRS in Ethiopia?
2. What are the behavioural factors that affect the adoption of IFRS in Ethiopia?
3. What are the environmental factors that affect the adoption of IFRS in Ethiopia?

1.3 Objectives of the study
1.3.1 General objective
The main objective of this study is to assess the adoption of international financial reporting standards (IFRS) in Ethiopia.

1.3.2 Specific objectives
1. To investigate the benefits and challenges of adopting IFRS in Ethiopia
2. To identify the behavioural factors those affect the adoption of IFRS
3. To examine the environmental factors affecting the adoption of IFRS

1.4 Delimitation of the study
This study is mainly concerned with assessing the adoption of IFRS in Ethiopia examining the benefits and key challenges and identifying factors that affect the adoption of IFRS in Ethiopia by taking accounting practitioners from different set of organizations which include private enterprises, public enterprises, nongovernmental organizations, other legally registered accounting firms and higher educational institutions. To properly address the benefits, challenges and identify the critical factors for the adoption of IFRS in Ethiopia and draw genuine results afterwards appropriate detail of investigation throughout the country should be done; but because of time and cost limitations that the researcher faced this study is delimited to Debre Markos town and Addis Ababa city by employing survey.

1.5 Significance of the study
The purpose of this study is principally to identify the benefits and challenges of IFRS adoption and investigate the critical factors that affect the adoption of IFRS in Ethiopia and then provide the possible recommendations. Hence, it will contribute an important input for policy makers to set standards and/or adopt IFRS. This study would also assist Ethiopian accounting practitioners and academicians to equip themselves with latest international financial reporting standards around the globe. Organizations participated in this study and other similar organizations would be benefited that this study would aware them the critical factors influencing IFRS adoption, the benefits and challenge of its adoption so as to minimize challenges and exploit opportunities and benefits that it has for them. To the best of the researcher’s knowledge published research or journal article is limited on this issue particularly in case of Ethiopia. Hence, this paper will intend to fill this huge literature gap and will be used as a reference material for future researchers who have an interest on the same issue.

1.6 Limitation of the study
In statement of the problem above it is stated that journal article related to the adoption of IFRS in Ethiopia are limited. This absence of adequate journals in the country was found a challenge for this
study that is why the study emphasizes its base on journal articles done in other countries. The data collection was found challenging that after distributing questionnaires for respondents it was requiring continuous follow up so as to reduce non return rate and it took a lengthy time in data collection than other research works. The other limitation that should be acknowledged is the low sample size due to homogeneity of samples limits the generalizability of the study to the population.

1.7 organization of the paper
This study is organized in to five chapters. The first chapter is about general introduction which includes the problem statement, the purpose and significance of the study among others. The second chapter presents the review of related literature in this chapter both theoretical review and empirical evidences are presented. In the third chapter methodology of the study specifically, methods of data collection, variables used and data analysis method are deeply stated. The fourth chapter discusses about the results of the study and the major findings. The last chapter draws the concluding remarks and recommendations and finally future research avenues are highlighted.

Literature review

2.1 Theoretical review

2.1.1 Definition of International Financial Reporting Standards - IFRS
IFRSs are a set of international accounting standards stating how particular types of transactions and other events should be reported in financial statements. IFRS are issued by the International Accounting Standards Board. IFRS are sometimes confused with International Accounting Standards (IAS), which are the older standards that IFRS replaced. The goal with IFRS is to make international comparisons as easy as possible. This is difficult because, to a large extent, each country has its own set of rules. For example, U.S. GAAPs are different from Canadian GAAP. Synchronizing accounting standards across the globe is an ongoing process in the international accounting community, (www.investopedia.com).

Obviously, there are major differences in financial reporting of companies in different countries. These differences result in complications for preparing, consolidating, auditing and interpreting published financial statements. There has been a greater need to bridge the gap between the differences in financial reporting standards among countries. To make this a reality, several organizations have been involved in trying to harmonize the financial reporting standards worldwide. The terms harmonization and standardization are used in most instances to describe the solution to solving the differences that pertain in national financial reporting standards. Harmonization is the process of increasing the compatibility of accounting practices by setting bounds to their degree of variation. In an effort to harmonize accounting measurements and reporting standards, almost sixteen (16) different governmental and non-governmental organizations have attempted various options. However, the IASC emerged as the most active and potent accounting standards setting body (Gyasi, 2009).

2.1.2 Reasons for Harmonizing International Accounting Standards
In recent years, countries are much interested and concerned with financial information from other countries due to the increasing rate of internationalization. International harmonization of accounting standards is of much concern to the regulators, preparers, and users of financial information. There are a whole host of professionals that need financial information from different countries for the sake of comparison and effective financial decision making. These include the following:

Firstly, financial analysts and investors need comparable and comprehensible financial information of foreign companies to be better help in their decision whether to buy a particular share or invest in other ventures. The key issues that investors and financial analyst look for are reliability and comparability of the financial information. Better still, even if there are differences in the accounting standards between countries, investors and financial analysts need to be clear about the nature and magnitude of the differences. More so, foreign companies that list their shares on the domestic stock exchange of another country would be required to provide sound and reliable financial information by the regulators of the stock exchange in the domestic country which meets the local standards. International grantors such as the World Bank would likewise, need harmonized accounting standards to facilitate the comparison of the performance of their borrower countries.
Secondly, multinational companies are required to prepare a consolidated financial statement so as to reflect the overall activities of the parent company and all the subsidiaries under its wings. It would be a great relief to accountants if accounting standards were harmonized since the same standards would be used in preparing financial statements by the subsidiaries in other countries. Moreover, it would be much easier to prepare financial information needed for appraisal in subsidiaries in other countries. Harmonizing accounting standards would also facilitate easy mobility of accountants from one subsidiary to another in different country. Finally, international accountancy firms are also much interested in harmonizing accounting standards in that it helps them in regulating their large client base. Tax authorities also would benefit from harmonization of international accounting standards because it would be beneficial in “dealing with foreign incomes by differences in the measurement of profit in different countries”, (Gyasi, 2009). Historically accounting standards evolved country by country. Set by government, or accounting profession, or independent board. National standards made sense when companies raised money in, and investors sought investment opportunities in, only their home country. Big change has occurred 1975-2000 through Globalisation of capital markets (pacter, 2010).

2.2 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. For example Iyoha and Faboyede (2011) as cited in (Tesfu, 2012) identified ethical environment and the ability to protect qualified and competent employees from being poached by other companies are main challenges facing Nigerian companies. (Tesfu, 2012) in his thesis entitled the adoption of IFRS in Ethiopia identified that, the main challenges in the process of adopting IFRS include significant cost of adoption of IFRS, need for training, the complex nature of some of the IASB’s standards and the lack of adequate implementation guidance. Other key challenges include increased volatility of earnings, tax driven nature of previous standards and problem with IFRS’s use of fair value accounting. Shimaa &Young, (2012) also found that, 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.

2.3 Theory of Reasoned Action (TRA)
The theory of reasoned action (TRA) (Fishbein & Ajzen, 1975) predicts behavioural intentions where behavioral intentions are a function of an attitude toward the behavior and subjective norms surrounding the performance of the behavior. Attitude toward the behavior is defined as the individual’s positive or negative feeling about performing a behavior. It is determined by assessing one’s belief regarding the consequences of performing the behavior. Subjective norm is defined as an individual’s perception of whether people important to the individual think the behavior should be performed. These people may include supervisors, co-workers, community leaders, family members, friends, and other significant persons. According to TRA, if a person has the positive attitude toward the behavior and if he/she thinks his/her significant others want him/her to perform the behavior, then he/she will have higher intention to do so, (Arsen et al., n.d). The theory of reasoned action posits that the strongest or most proximal predictor of volitional behavior is ones behavior intention. Behavioral intentions are thought to be the result of both an individual influence and normative influence. The individual influence on intention is person’s attitude toward performing the volitional behavior. The normative influence on intention is what Fishbein and Ajzen referred one’s subjective norm.

2.3.2 Theory of Planned Behavior (TPB)
While the TRA has been applied in many areas, it has limitation of assuming when people form an intention to act then they will be free to act. In practice, environmental constraints will limit the freedom to act. To overcome the limitation of TRA, the theory of planned behavior (TPB) was proposed (Ajzen, 1991). As an extension of TRA, TPB includes an additional variable perceived behavioral control, which is assessed by asking people how much control they have over performing a
particular behavior. Therefore, TPB posits that a given behavior is directly influenced by behavioral intentions, which are in turn can be predicted by 1) attitude toward the behavior, 2) subjective norm regarding the behavior, and 3) perceived behavioral control. The attitude toward the behavior is an individual’s belief of consequences of performing the behavior; the subjective norm refers to the perceived social pressures that an individual perceives regarding whether the behavior should or should not be performed; perceived behavior control refers to one’s perception of the ease or difficulty of performing the behavior of interest. Numerous studies demonstrated the applicability of TPB to various content domains (Ajzen, 2001), cited in, (Arsen et al., n.d). The theory of planned behaviour (TPB) was developed by Ajzen in 1988.

2.4 Historical Background of Accounting in Ethiopia

Accounting and its key concepts appear to have had a long history in Ethiopia, Kinfu, (1990) as cited in (Mihret, James & Mula, 2012) provides an account of the development of accounting in the Country and argues that the keeping of records in various forms might have existed in ancient Ethiopia as early as the 3rd century A.D. during the Axumite Kingdom of the Nation. The start of modern accounting in the country, nevertheless, is traced to the beginning of the 20th century. According to Kinfu, the keeping of formal records of government activities started in the 1900s when Emperor Menelik established Finance and Guada (meaning treasury) Ministry which was to keep records of the King’s treasury. Kinfu also indicates that modern financial accounting in the private sector started in Ethiopia in 1905 when the Bank of Abyssinia was established. The bank was established as a branch of the Bank of Egypt, which was in turn administered under the British financial system (Mihret et al., 2012).


2.4.1 Pre-1974


2.4.2 From 1974 to 1991

In 1974, a military government came into power in Ethiopia and declared a communist ideology. Most people agree that this period (up to 1991) was a time when the development of accounting appears to have been held back. Nonetheless, an important landmark in the history of accounting and auditing in this period was the formation of the Audit Service Corporation (ASC) by Proclamation 126/1977 Government of Ethiopia, 1977, (Tesfu, 2012).

Following a revolution, a military government with a communist ideology took power in Ethiopia in 1974. Subsequently, private companies were nationalized and the number of state owned enterprises in the country increased. As a result of these changes, international public accounting firms, i.e., Price Waterhouse Peat & Co. and Mann Judd & Co. closed their Ethiopian branches (Mihret et al., 2012).

2.4.3 Post 1991

After 1991, when the country shifted back to a free-market economic order, a number of public enterprises were privatized, which resulted in a new corporate governance structure that would be expected to enhance the importance of financial reports. Change of government and the type of government are important influences on the development of the accounting profession. During this period the establishment of People’s Democratic Republic of Ethiopia (PDRE) the power and functions of The Auditor General were reformulated and revised by proclamation 13/1988. In addition to this, the EPAAA has been re-activated and three other professional associations, i.e. the Ethiopian Accounting and Finance Association (EAFUA), the Ethiopian chapter of the Institute of Internal Auditors (IIA), and the Accounting Society of Ethiopia (ASE) have been established (Tesfu, 2012, Mihret et al., 2012).
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 is in the progress of adopting it. Even though IFRS is required for financial service sector (banks, insurance companies), corporate sector, state-owned enterprises and nongovernmental organizations (NGOs), Ethiopia lacks resources to implement IFRS properly and it also does not have an authoritative body for accounting which can guide and dictate the implementation of IFRS (Alemayehu, 2009; Minney, 2011) cited in (Tesfu, 2012).

2.5 Empirical Evidence

2.5.1 Factors Influencing adoption of International financial reporting standards (IFRS)

Arsen et al., (n.d) in their journal article entitled “Critical factors of IFRS adoption in the US” investigate the behavioural factors that affect early adoption of IFRS in the US. The objective of the paper was to employ Theory of Planned Behavior (TPB) (Ajzen, 1991) to empirically investigate the determinants of early adoption of IFRS in the United States. Specifically, the paper investigates whether attitude, subject norm, and perceived control of IFRS adoption significantly influences the intention of IFRS early adoption. They found that an accountant’s decision to adopt IFRS is a function of subjective norm and perceived behavioural control, which is consistent with theory of planed behaviour. However, attitude towards the IFRS adoption is not a significant factor.

Similarly, (Shimaa & Young 2012) conducted the same study entitled “Factors Affecting the Adoption of IFRS”. In 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. They proved that, CM’s model proved fairly descriptive, with all eight factors statistically significant in most of the models: source of finance (equity and foreign debt financing); taxation, legal system, political and economic ties (colonialism and trade alliances), inflation, economic development, education and culture.

Furthermore (Gyasi, 2009) conducted the same 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.

2.6 Theoretical frame work of the study

Different researchers used different theoretical frame works which is pertinent to their study. In this study the critical factors are categorized in to two groups the factors adapted from theory of planned behavior constitutes the behavioural aspect and the factors from CM framework contains the environmental aspects. The very reason to use this mixed research model in this study is to investigate the possible benefits and challenges of IFRS adoption and empirically test whether those factors are really influencing the adoption of IFRS in Ethiopia and to match with the Ethiopian environment. Hence, the research model can be specified as follows:

\[
\text{Adop. of IFRS} = \alpha + \beta_1 \text{AT}_i + \beta_2 \text{SN}_i + \beta_3 \text{PC}_i + \beta_4 \text{EDU}_i + \beta_5 \text{LS}_i + \beta_6 \text{ED}_i + \beta_7 \text{CM}_i + \epsilon_i
\]

Where: Adop. of IFRS: intent to adopt IFRS
AT: attitude
SN: subjective norm
PC: perceived control
EDU: education
LS: legal system
ED: economic development
CM: capital market
\( \alpha \): the intercept
\( \beta_1, \beta_2,\ldots, \beta_7 \): estimator coefficients of the explanatory variables
\( \epsilon \): the error term

Then this model can be graphically depicted as follows:
3.1 Research Design

This study follows the mixed research approach. It has used both qualitative and quantitative approaches. The qualitative approach of the research explores the results of the collected data using descriptive statistics. In this section, the benefits and challenges of IFRS adoption are presented. The quantitative approach is developed to empirically test the effect of the explanatory variables identified in the research model. In the process the theoretical framework was empirically tested its validity using the identified variables that is the dependent variable; intention to adopt IFRS was explained given the known values of the explanatory variables attitude, subjective norm, perceived control, level of education, legal system, economic development and capital market by employing multiple linear regression analysis.

3.2 Description of variables

3.2.1 Dependent variable

In this study the dependent variable is the adoption of international financial reporting standards (IFRS).

3.2.2 Independent variables

Arsen, et al. (n.d) in their journal article entitled “Critical factors of IFRS adoption in the US” investigate the behavioral factors that affect early adoption of IFRS in the US. Specifically, they investigated whether attitude, subject norm, and perceived control of IFRS adoption significantly influences the intention of IFRS early adoption. They found that subjective norm and perceived control significantly affect the intention of IFRS adoption, but attitude’s role is insignificant. On the other hand, (Shimaa & Young, 2012), 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. In line with these studies this study focused on investigating the mix of variables of both the above researches. In this study the critical factors are categorized in to two groups the factors adapted from theory of planned behavior constitutes the behavioural aspect and the factors from CM framework contains the environmental aspects. Both dependent and independent variables are measured by five
point likert scale ranging from 5=strongly agree to 1=strongly disagree. In doing so, the researcher try to match the variables with Ethiopia’s real environmental situation and the description of each variable presented here under.

A. **Attitude (AT)**
According to TPB, a person’s attitude toward a particular behavior is his/her positive or negative feeling about performing a behavior. IFRS is regarded as an international standard which is adopted or is being considered to be adopted by about 120 countries worldwide. Attitude will affect behavioural intention. Nevertheless, attitude toward IFRS ranges from a total opposition to broad acceptance and accelerated adoption (Arsen et al., n.d). Therefore, first the researcher wants to test whether there is a relationship between general attitude toward IFRS in Ethiopian accounting community and possible intent of adoption in Ethiopia.

B. **Subjective norm (SN )**
The second factor influencing intention is subjective norm. Subjective norm is defined as an individual’s perception of whether people important to the individual think the behavior should be performed. These people may include supervisors, co-workers, community leaders, family members, friends, and other significant persons. It is determined by a person’s belief of the significant others think the behavior of interest should or should not be performed. There is no consensus about the adoption of IFRS. Nevertheless, some firms may want to adopt IFRS earlier to gain the possible competitive advantages. The peer pressure will have an effect on the intention of adopting IFRS (Arsen et al., n.d). Therefore, the study attempts to identify a possible impact of subjective norm on intention of IFRS early adoption.

C. **Perceived control (PC)**
Perceived behavior control refers to someone’s perception of the ease or difficulty of performing the behavior of interest. It is assumed to reflect anticipated impediments and obstacles. Adopting IFRS needs significant investment. Environmental limitations, such as money, computer system, and people skill, affect the behavior intention of IFRS adoption. A move to IFRS “encompasses a company’s entire operations, including auditing and oversight, cash management, corporate taxes, technology and software.” Furthermore, there is a significant price tag in converting to IFRS for individual companies. While multinationals might be able to absorb the costs, serious questions remain about the ability of small and midsize businesses to afford the conversion especially during the times of economic downturn (Arsen et al., n.d). Thus, it is only prudent to investigate whether company’s perceived control over IFRS conversion has any impact on actual adoption of IFRSs.

D. **Education (EDU)**
Education is defined as the act or the process of imparting or acquiring general knowledge, developing the power of reasoning, judgement and generally of preparing oneself for others intellectually for mature life (www.limkokwing.net). A more highly educated population will require more sophisticated accounting systems to meet its information needs. As accounting standards and practices become more complex, the ability to apply and interpret those standards and practices will depend on the educational level of the population (Choi and Meek, 2008), cited in (Shimaa & Young, 2012). 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 & Young, 2012).

E. **Legal System(LS)**
There are two main types of legal systems namely code law and common law system. Code law system defines the instance whereby the government formulates all related regulations with regard to financial, accounting issues. On the other hand, the common law system describes the situation whereby independent professional bodies formulate and regulate the accounting practices in a country (Gyasi, 2012). More importantly, legal systems have been directly associated with disclosure practices and variations in reporting incentives and earnings properties. IFRS adoption may translate into market benefits only where there are greater incentives for better disclosure (Daske et al., 2008; Li, 2009), cited in (Shimaa & Young, 2012). In common law countries, information asymmetry is likely to be
resolved by timely and greater public disclosures to shareholders (“shareholder model”), whereas communication in code law countries is more likely to be conducted more privately between major political groups (“stakeholder model”). As a result, accounting standards in common law countries may be similar to IFRS, thus making adoption of IFRS easier and more enforceable (Shimaa & Young, 2012).

F. Economic Development (ED)
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). However, empirical evidence on the relation between accounting and economic development has been mixed. There is some evidence of a positive relation between disclosure requirements and GNP and GNP growth in developed countries (Rajan and Zingales, 1998) cited in (Shimaa & Young, 2012). On the other hand, a study by (Adhikari & Tondkar 1992) found no association between economic development and the disclosure requirements of international stock markets.

G. Capital market (CM)
Capital market is the market where long term bonds and stocks are being traded. Equity financing is an important element in the development of accounting systems. Strong equity systems are normally dominated by outsiders who do not have a privileged relationship with the company (Nobes, 1998) cited in (Shimaa & Young, 2012). In countries where equity financing is dominant, accounting takes on a more capital market orientation and higher levels of disclosure patterns are observed. Moreover, (Adhikari & Tondkar’s, 1992) study of international stock exchanges found capital market size to be singularly significant in explaining the extensiveness of disclosure requirements. An early study of developing countries found that both capital market development and economic growth were negatively related to IFRS adoption, and similarly in the Asian Pacific region. In contrast, other studies show a higher voluntary use of international standards, i.e. international accounting standards (IAS) or US GAAP, in exchange listed firms and in those with better access to capital markets (Shimaa & Young, 2012).

3.3 Research Hypothesis
The following testable research hypotheses were developed to be tested.

- **H₁**: Attitude towards the IFRS has no a significant effect on the intention of IFRS adoption.
- **H₂**: Subjective norm about the IFRS adoption has no a significant effect on the intention of IFRS adoption.
- **H₃**: Perceived control about the IFRS adoption doesn’t affect on the intention of IFRS adoption.
- **H₄**: The Country’s level of education has no impact on the adoption of IFRS.
- **H₅**: Ethiopia’s legal system as code law country has no impact on the adoption of IFRS.
- **H₆**: A country’s level of economic development has no influence on the decision to adopt IFRS.
- **H₇**: Absence of capital market in the country doesn’t affect the adoption of IFRS.

3.4 Types of data and data Collection instruments
This study has used both primary and secondary data.

3.4.1 Primary data
In this study, the primary data were collected though questionnaire methods. The survey questionnaires were prepared based on the literature, so as to properly address the research questions and achieve its objectives and as well to draw valid conclusions in accordance with previous studies. Accordingly, a five point likert scale questionnaires ranging from 1= strongly disagree to 5 = strongly agree, open and close ended questionnaires were prepared and distributed to participants those who are accounting professionals and practitioners from different organizations in Debre Markos town and Addis Ababa city. The source of the questionnaires for this study were adapted from previous studies including (Arsen et al., n.d), (Gyasi, 2009) and (Tesfu, 2012).
3.4.2 Secondary data
The secondary data were collected from various secondary data sources. These sources were including journal articles, manuals from MOFED, books, newsletters, reports, elibraries, eBooks and other internet sources.

3.5 Target population and sample size
The target population for this study are accounting professionals in different organizations in Debre Markos town and Addis Ababa city. Those organizations include public enterprises, private companies, and non government organizations, legally registered accounting firms and higher educational institutions. Therefore, from those organizations 70 accounting professionals and practitioners were participated who were available in the work place. Accounting professionals in this context include accountants, auditors, managers, cashers and instructors in higher educational institutions in accounting department. The very reason for accounting practitioners to be the only target population is due to their expertise, relevance and knowledge to IFRS and local reporting practices since they are preparers and auditors of the financial statements.

3.5.1 Sampling Technique
In this study the researcher used non random sampling technique specifically convenience sampling method. Convenience sampling method is used when the universe is not clearly defined, sampling unit is not clear or a complete source list is not available. The researcher believed that the selected samples have special relevance, proximity to the researcher, knowledge for IFRS and the universe is not clearly defined. Hence, 70 accounting professionals were selected from the total population in different organizations by employing convenience sampling method. Not only respondents but also organizations were selected on convenience basis on the process those respondents from different classes of organizations believed by the researcher to provide relevant information and easily accessible who were available in their work place were selected. The main reasons for the researcher in using convenience sampling method were the universe is not clearly defined, the respondents’ proxy to the researcher and knowledge to IFRS.

3.6 Data analysis method
To collect the data for this study, open and close ended and five point likert scale questionnaires ranging from strongly disagree to strongly agree were prepared and distributed to respondents based on previous studies, (Arsen et al., n.d), (Gyasi, 2009)and (Tesfu, 2012) . After the data were collected, descriptive statistics was used so as to present the qualitative aspect of the data. The actual benefits and challenges of IFRS adoption in Ethiopia were presented using descriptive statistics. The dependent variable; intention to adopt IFRS was explained given the known values of the explanatory variables attitude, subjective norm, perceived control, level of education, legal system, economic development and capital market by employing multiple linear regression analysis using SPSS software packages. Eviews multiple regressions was used to check the diagnostic test of classical linear regression assumptions then, the results are presented using charts graphs and tables. Lastly, analytical conclusions have drawn and the possible recommendations are forwarded.

Results and discussion
4.1 Respondents’ personal information
A total of 70 accounting professionals were participated in this study. They were accounting professionals in different organizations including public enterprises, private companies, nongovernmental organizations, accounting firms and higher educational institutions. The questionnaires were distributed for all accounting graduates of the selected organizations. For the purpose of this study the target population was mainly focused on financial institutions (both private and public), accounting firms, NGOs and academic institutions because of the representativeness of these selected organizations as believed by the researcher. Out of which 67 questionnaires were collected while the remaining 3 questionnaires were left uncollected. All the collected questionnaires are found usable which results in the response rate of 95.7%. Compared to other IFRS adoption studies and considering the difficulty of
collecting data in developing countries like Ethiopia, (for example (Tesfu, 2012) whose response rate was 71.4 %), a 95.7 % response rate was reasonably good. The survey respondents were located at Debre Markos town and Addis Ababa city.

4.2 Benefits of adopting IFRS
Accounting theory argues that financial reporting reduces information asymmetry by disclosing relevant and timely information. Because there is considerable variation in accounting quality and economic efficiency across countries, international accounting systems provide an interesting setting to examine the economic consequences of financial reporting, Bhattacharjee & Islam, 2009).

4.2.1 Benefits of Adoption of IFRS to Companies
To assess the benefit of IFRS adoption for Ethiopian companies’ seven questions were prepared and distributed for respondents. As per the respondents response, it can be concluded that adoption of IFRS by Ethiopian companies would improves the effectiveness and efficiency of financial reporting, provides reliable and comparable financial statements, provides greater reporting transparency, enables greater effectiveness of the internal audit, and reduces cost of capital.

4.2.2 Benefits for Investors
Questions related to benefits of IFRS adoption to investors were distributed and the result reveals the benefits of IFRS adoption for investors. From this result it can be concluded that, IFRS adoption by Ethiopia can purports numerous benefits for investors like providing better information for decision making, increase investors confidence on financial reports and enhances transparency of companies reports for investors. In relation to the findings of this study (Shima & Young, 2012) stated that, Arguments in support of IFRS emphasize the potential benefits such as increased investor confidence and reduced reporting costs for international cross-listed firms.

4.2.3 Benefits for Management
In relation to benefits of IFRS adoption for management of an organization questions were distributed and all the variables relating to the idea were supported by respondents which have the mean response of more than 3.00 and standard deviation of less than 1.00 for all variables. Thus, this study found that IFRS can minimize information asymmetry between employees and management and between the management and shareholders that it helps to reduce uncertainties and better risk management. IFRS adoption can further provides better information for decision making by the company’s management and promotes cross border investment for Ethiopian companies.

4.2.4 Benefits for Other Stakeholders
The other benefit that IFRS would provide includes benefits for regulatory agencies, accounting professionals and the business environment. Questions related to the issue were distributed and the survey result reveal that the respondents agreed that IFRS adoption improves regulation oversight and enforcement, provides greater credibility and improved economic prospects for the accounting profession and provide better reporting and information on new and different aspects of the business having mean response of greater than 4.00 for all constructs and standard deviation of less than 1.00 which implies respondents have almost the same perception on the questions.

4.3 Challenges of IFRS adoption
Besides the benefits that IFRS provides for different parties challenges would be faced during adoption. In relation to challenges of IFRS adoption 10 questions were distributed for respondents. This study found that various challenges are associated with IFRS adoption in Ethiopia. Respondents are agreed with all questions listed as challenges of IFRS adoption. They agreed that Ethiopia as a developing country would be costly to adopt IFRS. 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. IFRS presents financial statements based on current market price that it would bring about greater volatility of earnings. Another challenge found for IFRS adoption is the disparity between local reporting practices and international standards (IFRS). The tax driven nature of Ethiopian reporting
standards are far from the international standards that challenge the adoption of IFRS. Another challenge for the adoption is need for training for professionals. It would be costly to administer and monitor training programs that in turn challenges the adoption of IFRS. Lack of proper instructions from regulatory bodies and problems with the IT system in handling transactions to IFRS are additional challenges for its adoption. Problems with IFRS’s use of fair value accounting in comparison to historical cost method are also extra challenge for IFRS adoption particularly in Ethiopia.

4.4 Factors affecting the adoption of IFRS

4.4.1 Descriptive statistics

The dependent variable (i.e. adoption of IFRS) has a mean response of 3.5746 and std. of 0.97411 from this it can be argued that most of the respondents are agreed with the adoption of IFRS in Ethiopia. Similarly all the independent variables (i.e. Attitude, subjective norm, and perceived control, level of education, legal system, economic development and capital market) have a mean response from 3.1948(lowest) with std. of 0.53350 to 4.1754 (highest) with standard deviation of 0.66289 indicating that most respondents are agreed with the question designed for each variable.

4.4.2 Correlation analysis

The Pearson correlation analyses show that there is a significant positive relationship between three independent variables (subjective norm, perceived control and level of education) and the outcome variable. The bivariate correlation between subjective norm and IFRS adoption is 0.393 and that of perceived control and IFRS adoption id 0.497 both are significant at the 0.01 level of confidence. While the correlation between level of education and the outcome variable is 0.305 which is significant at 0.05 confidence level. However, the Pearson correlation result shows that there is a very weak positive and insignificant correlation between attitude and capital market with the dependent variable i.e. IFRS adoption. The variables legal system and economic development on the other hand have a very weak and insignificant negative correlation with IFRS adoption.

4.4.3 Inferential statistics

This particular section presents the diagnostic tests of basic classical regression assumptions, the goodness of fit through ANOVA and model summary tables and finally the results of multiple regressions. The results of multiple regressions then are presented using tables, charts and graphs.

4.4.3.1 Checking assumptions and diagnostics tests

Brooks, (2008) suggests five critical assumptions that must be met before utilizing OLS estimation in order to reasonably test the hypothesis and estimate the coefficient. Hence, the basic classical linear regression model assumptions and their diagnostic tests are discussed below.

1. Normality assumption. The histogram and normal probability plot in the regression output of SPSS and the residual statistics reveal a normal distribution or a bell shaped curve and residuals in the model have average value or mean of zero (see appendix-III). Hence, this assumption is checked by the graph and probability plot and looks normal.

2. The assumption of no heteroskedasticity.

For the test of the presence of heteroskedasticity, the researcher used white test and is based on the following null hypothesis and its respective alternative.

H0: There is no heteroskedasticity
H1: There is heteroskedasticity

The results show that $X^{2}$(chi square) values obtained through calculation is less than the value of Chi square value from the table at 5% significant level. According to white test if the value of chi square calculated is greater than the chi square tabulated at a given significant level, we have to reject the Ho of no heteroskedasticity otherwise we fail to reject it and accept the alternative that is there exists heteroskedasticity. The t-statistics value (chi square calculated) is 9.547 which is less than chi square tabulated at 5% significant level, 15.507. Hence 9.547 is less than 15.507 so that the researcher fails to reject the null hypothesis of no heteroskedasticity. In this case it is indicated that there is no evidence for the existence of heteroskedasticity.

3. No autocorrelation between the disturbances. It is assumed that the errors are not correlated with one another. A test of this assumption is therefore conducted. The Durbin-Watson statistics which is
shown in the regression output of the model is very close to 2 which is (2.062). Hence, this assumption is certainly met.

4. **No perfect multicollinearity among predictors:** this assumption assumed that there should be no explanatory variable that can be written as a linear function of other explanatory variables. For this study the VIF values are all well below 10, the average value of VIF is (1.320) and the tolerance statistics are all well above 0.2. Thus, it can be concluded that there is no Collinearity within the data and predictors.

5. **No model misspecification error.** With regard to model misspecification error the fit of the regression model can be assessed using the model summary and ANOVA tables from SPSS. R^2 tells the proportion of variance explained by the model. Look for the F statistics in the column labelled sig. the values less than 0.05 is significant and accepted. The ANOVA also tells us whether the model is a significant fit of the data overall (look for values less than 0.05 in the column labelled sig.). Therefore, this assumption is met that the model significantly improved the researcher’s ability to predict the outcome variable because the p value is less than .001 i.e. (sig. at .000).

### 4.4.2.2 Goodness of fit

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>23.570</td>
<td>7</td>
<td>3.367</td>
<td>5.087</td>
<td>.000</td>
</tr>
<tr>
<td>Residual</td>
<td>39.056</td>
<td>59</td>
<td>.662</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>62.627</td>
<td>66</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), capital market, level of education, economic development, legal system, subjective norm, perceived control, attitude  
b. Dependent Variable: IFRS adoption  
source :SPSS result

SPSS output in the above table shows analysis of variance (ANOVA) that tests whether the model is significantly better at predicting the outcome than using mean as a best guess. From the ANOVA table above it can be seen that the value of sum of squares of the model (SSM) which captured by the model is 23.570 and the residual sum of square (SSR) which is not explained by the model is 39.056 and the mean square of the model and the residual are 3.367 and 0.662 respectively. As a result of much greater the value of the mean square of the model than the residual the value of F for this model is 5.087 which is higher and highly significant at (P<0.0001). Hence, it can be concluded that this model can significantly be able to predict the outcome variable (adoption of IFRS) because the F ratio is significant.

<table>
<thead>
<tr>
<th>Model Summary</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
<th>Durbin-Watson</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.613</td>
<td>.376</td>
<td>.302</td>
<td>.81362</td>
<td>2.062</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), capital market, level of education, economic development, legal system, subjective norm, perceived control, attitude  
b. Dependent Variable: IFRS adoption  
Source: SPSS result

The table above shows that the value of R is 0.613 which implies that the multiple correlation coefficients between the outcome and the predictors is 61.3%. The other measure shown in the table is R^2 which already known is a measure of how much of the variability in the outcome is accounted by the predictors. The value of R^2 in the model is 0.376 or 37.6% which implies that 37.6% of the variability of the dependent variable (adoption of IFRS) is explained or accounted by the explanatory variables included in the model.
4.4.3.3 Results of multiple regressions

<table>
<thead>
<tr>
<th>Model(1)</th>
<th>Unstandardized coefficients</th>
<th>Standardized coefficients</th>
<th>t-value</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(constant)</td>
<td>.916</td>
<td>1.155</td>
<td>-0.118</td>
<td>0.793</td>
</tr>
<tr>
<td>Attitude</td>
<td>-0.174</td>
<td>0.195</td>
<td>0.327</td>
<td>-0.890</td>
</tr>
<tr>
<td>Subjective norm</td>
<td>0.483</td>
<td>0.201</td>
<td>0.352</td>
<td>2.406</td>
</tr>
<tr>
<td>Perceived control</td>
<td>0.438</td>
<td>0.148</td>
<td>0.209</td>
<td>2.951</td>
</tr>
<tr>
<td>Level of education</td>
<td>0.382</td>
<td>0.198</td>
<td>-0.187</td>
<td>1.929</td>
</tr>
<tr>
<td>Legal system</td>
<td>-0.401</td>
<td>0.232</td>
<td>-0.015</td>
<td>-0.733</td>
</tr>
<tr>
<td>Economic development</td>
<td>-0.025</td>
<td>0.181</td>
<td>0.029</td>
<td>-0.138</td>
</tr>
<tr>
<td>Capital market</td>
<td>0.045</td>
<td>0.176</td>
<td>-</td>
<td>0.176</td>
</tr>
</tbody>
</table>

Source: SPSS result

The SPSS output shows the model parameters using the β coefficients for each predictor variables. It is already known that in multiple linear regression models there are several unknown quantities (the β values). The above table shows the estimated β values for each predictor variables identified in the model and these values indicate the individual contribution of each predictor to the model. The regression result reveal that only four variables have significant contribution for the model and the actual model can be defined as follows:

Adop.of IFRS = 0.916 + 0.438PC + 0.483SN + 0.382EDU - 0.401LS + ϵ_i

For this study the four variables (subjective norm, perceived control, level of education and capital market) have a positive β values indicating positive relationships with IFRS adoption. Whereas, the remaining variables (attitude, legal system and economic development) have negative β values which implies there is a negative relationship with IFRS adoption. They tell us to what degree each predictor affects the outcome if the effects of all other predictors are held constant. In the next section the effect of each independent variable tested is discussed and analyzed based on the theoretical predictions, prior empirical studies and hypothesis formulated for this study.

Attitude (AT)

In this study as indicated in the above table the β coefficient of attitude is (-0.174) which shows there is a negative relationship between attitude and IFRS adoption but its level of significance is highly greater than 0.05 which has a value of 0.377 and it has lower value of ‘‘t’’ test (-0.890). Hence, in this study it is found that attitude has no a significant effect on the adoption of IFRS. Therefore, the null hypothesis (H_1) saying ‘‘Attitude towards the IFRS has no a significant effect on the intention of IFRS adoption” is accepted.

Subjective norm (SN)

The β coefficient for subjective norm is (0.483) and its level of significance is (0.019) similarly its ‘‘t’’ value is higher (2.406) which indicates that there is a significant positive relationship between subjective norm and IFRS adoption. Hence, this study found that Social or peer pressure significantly affect the intention of IFRS adoption since it has higher β coefficient and a significance level of less than 0.05. Then, the null hypothesis (H_2) Subjective norm about the IFRS adoption has no a significant effect on the intention of IFRS adoption is rejected. Therefore, it can be concluded that the subjective norm or peer pressure around the organization significantly affects the adoption of IFRS in Ethiopia.

Perceived control (PC)

Perceived control with β coefficient of (0.438) and level of significant (0.005) has a strong positive relationship with IFRS adoption as shown in the above table. This statement can be supported with higher value of ‘‘t’’ (2.951). Hence, it is possible to conclude that perceived control significantly positively affects the adoption of IFRS because its β coefficient is significantly different from zero and its level of significance is less than 0.05 with the value of (0.005) and having higher value of ‘‘t’’.

Therefore, the third hypothesis (H_3) “Perceived control about the IFRS adoption doesn’t affect IFRS adoption” is rejected. IFRS adoption is assumed to reflect anticipated impediments and obstacles.
Adopting IFRS needs significant investment. Environmental limitations, such as money, computer system, and people skill, affect the behavior intention of IFRS adoption. That is why, the result of this study shows that perceived behavioural control has a significant effect on the intention of IFRS adoption. Related to this study, (Arsen et al., n.d) found that perceived behavioural control has a significant effect on the intention of IFRS adoption.

**Level of education (EDU)**

This study with the β coefficient of (0.382), t statistics of (1.929) and p value (sig.) of (0.042) found that there is a strong positive relationship between level of education and IFRS adoption. This indicates that educational level significantly positively influences the adoption of IFRS. Therefore, the fourth hypothesis (H₄) the Country’s level of education has no impact on the adoption of IFRS is rejected. Accounting and financial reporting by nature have their own principles and standards. To easily adopt and apply IFRS it requires the preparers and auditors of financial statements to have adequate knowledge of accounting principles and standards. This may be the probable reason that level of education significantly and positively affects the intent to adopt IFRS. In support of this study (Shimaa & Young, 2012), (Sharif, Hazhar P, 2010) and (Tesfu, 2012) found that educational level significantly positively related with and affects the adoption of IFRS.

**Legal system (LS)**

Ethiopia is a country where code law system is being applied. To this end, this study found that there is a strong negative relationship between the country’s legal system and adoption of IFRS with the β coefficients of (-0.401), t- statistics of (-0.733) and p-value of (0.048) as indicated in the above table. This implies that it is found that Ethiopia’s legal system as code law country significantly negatively influences the adoption of IFRS. Hence, the hypothesis (H₅) Ethiopia’s legal system as code law country has no impact on the adoption of IFRS is rejected. On the contrary to this study (Gyasi, 2009) found that there is a weak positive relationship with IFRS adoption. On the other hand, (Shimaa & Young, 2012) confirmed that there is significant positive relationship between common law legal system and IFRS adoption. Furthermore, (Tesfu, 2012) found no significant relationship between government policy and IFRS adoption.

Hence, the possible reason may be the absence of independent professional organizations leads the country’s accounting system to be weak and communication in code law countries is more likely to be conducted more privately between major political groups which in turn creates information asymmetry that may be why legal system negatively affects the intent to adopt IFRS in Ethiopia.

**Economic development (ED)**

The SPSS result reveal that the β coefficient 0f (-0.025), the t statistics of (-0.138) and p- value (sig.) of (0.890) for economic development. Hence, this study found that there is a very weak negative relationship or almost no relationship between economic development and IFRS adoption. Its level of significance as indicated in the p value is highly greater than 0.05 which is (0.890) according to (Field, 2005) a predictor would be significant if its p value is less than 0.05. Therefore, economic development does not affect the adoption of IFRS in Ethiopia. As a result, the hypothesis (H₆) a country’s level of economic development has no influence on the decision to adopt IFRS is accepted. A possible explanation is that economies with limited internal resources may use IFRS adoption as a signalling mechanism to attract foreign capital to generate growth. Even though, Ethiopia is one of the fastest growing countries in sub Saharan Africa its level of export is still limited to few foreign countries using their own accounting system and this may not influence the intent to adopt IFRS.

**Capital market (CM)**

In this study the β coefficient of capital market is (0.045) which is nearest to zero. The t statistics and p values are (0.261) and (0.795) respectively which are also far from the standard. Therefore, the finding of this study reveal that the relationship between capital market and IFRS adoption is very weak almost none.

Hence, it can be concluded that capital market does not influence the adoption of IFRS in Ethiopia. Therefore, the hypothesis (H₇) absence of capital market in the country doesn’t affect the adoption of IFRS is accepted. The possible explanation may be in Ethiopia where the markets are not liquid absence or existence of capital market has nothing to do with the intention to adopt IFRS.
Conclusion and Recommendations

5.1 Conclusions

The study found that Adoption of IFRS purports numerous benefits for Ethiopian companies including, improves the efficiency and effectiveness of financial reporting, provides reliable and comparable Financial statements, makes external financing easier, provides greater reporting transparency, enables greater effectiveness of the internal audit and reduces cost of capital. It also provides benefits for investors like providing better information for decision making, increase investors’ confidence on financial reports and enhances transparency of companies’ reports for investors. IFRS can minimize information asymmetry between employees and management and between the management and shareholders that it helps to reduce uncertainties and better risk management, provides better information for decision making by the company’s management and promotes cross border investment. Similarly, 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.

Besides the benefits that IFRS provides for different parties this study found that various challenges are associated with IFRS adoption in Ethiopia. Lack of proper financial reporting guidance, Lack of proper instructions from regulatory bodies, needs additional training for professionals and modernized IT system in handling the transitions to IFRS are found the main challenges among others. The study employed theory of planned behaviour and CM’s frame work. While theory of planned behaviour employed to investigate the behavioural factors CM’s framework was used to investigate the environmental factors.

The Pearson correlation analyses show that there is a significant positive relationship between three independent variables (subjective norm, perceived control and level of education) and the outcome variable. However, the Pearson correlation result shows that there is a very weak positive and insignificant correlation between attitude and capital market with the dependent variable i.e. intent to adopt IFRS. The variables legal system and economic development conversely have a very weak and insignificant negative correlation with IFRS adoption.

The fit of the regression model was assessed using the model summary and ANOVA tables from SPSS and found that the model in this study can significantly be able to predict the outcome variable (adoption of IFRS) because the F ratio is significant.

The results in the classical linear regression output of SPSS show that there is significant relationship between the four independent variables subjective norm, perceived control, level of education and legal system with IFRS adoption. While, subjective norm, perceived control, level of education significantly positively influence IFRS adoption; legal system has significant negative influence. However, this study found that there is a weak and insignificant relationship between the remaining three variables attitude, economic development and capital market with IFRS adoption.

Hence, among the behavioural factors subjective norm and perceived control significantly and positively affect the intention to adopt IFRS while attitude has no significant impact. On the other hand, among environmental factors level of education and legal system significantly affect the intention to adopt IFRS however, economic development and capital market have no significant impact.

5.2 Recommendations

- The study found that various challenges are coupled with IFRS adoption besides its purported benefits. Although, there are challenge associated with IFRS adoption its benefits out ways the challenges and Ethiopia has neither well defined local reporting standard nor IFRS. Hence, taking into consideration the benefits of IFRS adoption the regulatory body should focus on reducing the possible challenges and 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.
- Even though IFRS is required, Ethiopia lacks resources to implement IFRS properly and it also does not have an authoritative body for accounting which can guide and dictate the
implementation of IFRS. However, National Bank of Ethiopia (NBE) has already developed a guideline for standard financial reporting and it has trained its staff in that regard. In 2011 Ministry of Finance and Economic Development (MoFED) issued a draft proclamation called Financial Reporting Proclamation of Ethiopia to provide for the financial reporting of Ethiopia. This proclamation requires reporting entities in Ethiopia to follow 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 whether their designation changes or they are replaced, from time to time. However, neither MoFED nor national bank of Ethiopia (NBE) set the deadline as to when should the reporting entities should prepare financial statements in accordance with IFRS. Hence, the regulatory body should set the cut-off date for reporting entities to prepare their financial statements in accordance with IFRS.

- The finding of this study reveal that one of the challenges of IFRS adoption is Lack of competent specialists and Most of the higher educational institutions in Ethiopia indicate that they are losing well qualified and experienced instructors because of more competitive pay from the private sector, NGOs, and other countries. Brain drain in universities has the long-term effect of eroding the quality in the education, training, and research capabilities of the country. Hence, to strengthen the capability of specialists in the field and preserve experienced staffs the regulatory agency should give a great emphasis so as to provide competitive pay with NGOs and other countries for accounting professionals.

- The Ethiopian Professional Association of Accountants and Auditors (EPAAA) is not a professional certification or regulatory body, does not have legal backing and is not a member of the International Federation of Accountants (IFAC). Therefore, this professional association should be strengthened and be a member of the International Federation of Accountants(IFAC) so as to take the financial reporting system of the country a step forward.

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